

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

or

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

For the transaction period from to .

Commission file number: 000-28440

Endologix, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

68-0328265
(IRS Employer
Identification No.)

11 Studebaker, Irvine, California 92618
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (949) 595-7200

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

As of June 30, 2009, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$86,738,036 (based upon the closing price for shares of the Registrant's Common Stock as reported by the NASDAQ Global Market for June 30, 2009, the last trading date of the Registrant's most recently completed second fiscal quarter).

On February 10, 2010, approximately 48,680,513 shares of the Registrant's Common Stock, \$0.001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Part III of this Annual Report on Form 10-K are incorporated by reference into the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held on May 20, 2010.

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ANNUAL REPORT ON
Form 10-K
For the Fiscal Year Ended December 31, 2009

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This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify forward-looking statements generally by the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “intends,” “plans,” “should,” “could,” “seeks,” “pro forma,” “anticipates,” “estimates,” “continues,” or other variations thereof, including their use in the negative, 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. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions including, among other things:

- *market acceptance of our Powerlink® System;*
- *the level and availability of third party payor reimbursement for our products;*
- *our ability to effectively manage our anticipated growth;*
- *our ability to protect our intellectual property rights and proprietary technology;*
- *our ability to effectively develop new or complementary technologies;*
- *development and management of our business and anticipated trends of our business;*
- *our ability to attract, retain and motivate qualified personnel;*
- *our ability to attract and retain customers;*
- *our ability to manufacture product to meet demand;*
- *the market opportunity for our products and technology;*
- *the nature of regulatory requirements that apply to us, our suppliers and competitors and our ability to obtain and maintain any required regulatory approvals;*
- *our future capital expenditures and needs;*
- *our ability to effectively compete;*
- *general economic and business conditions; and*
- *other risks set forth under “Risk Factors” in Item 1A of this Annual Report on Form 10-K.*

The forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ in significant ways from any future results expressed or implied by the forward-looking statements. Unless otherwise required by law, we undertake no obligation to publicly update or revise any forward-looking statements, either as a result of new information, future events or otherwise after the date of this Annual Report on Form 10-K.

The industry and market data contained in this Annual Report on Form 10-K are based either on our management’s own estimates or on independent industry publications, reports by market research firms or other published independent sources. Although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy and completeness, as industry and market data are subject to change and cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey of market shares. Accordingly, you should be aware that the industry and market data contained in this Annual Report on Form 10-K, and estimates and beliefs based on such data, may not be reliable. Unless otherwise indicated, all information contained in this Annual Report on Form 10-K concerning our industry in general or any segment thereof, including information regarding our general expectations and market opportunity, is based on management’s estimates using internal data, data from industry related publications, consumer research and marketing studies and other externally obtained data.

Endologix® and Powerlink® are registered trademarks of Endologix, Inc. IntuiTrak and our logos are trademarks of Endologix, Inc.

PART I

Item 1. Business

Introduction

We develop, manufacture, market and sell innovative treatments for aortic disorders. Our principal product, the Powerlink System is a minimally invasive device for the treatment of abdominal aortic aneurysm, or AAA. AAA is a weakening of the wall of the aorta, the largest artery of the body. Once AAA develops, it continues to enlarge and if left untreated becomes increasingly susceptible to rupture. The overall patient mortality rate for ruptured AAAs is between 50% and 80%, making it a leading cause of death in the United States today.

The Powerlink System is a catheter and endoluminal stent graft, or ELG, system. The device consists of a self-expanding cobalt chromium alloy stent cage covered by high density ePTFE. The Powerlink ELG is implanted in the abdominal aorta, which is accessed through the femoral artery. Once the Powerlink ELG is deployed into its proper position, blood flow is shunted away from the weakened or “aneurysmal” section of the aorta, reducing pressure and the potential for the aorta to rupture. Our clinical trials demonstrated that implantation of our products reduces the mortality and morbidity rates associated with conventional AAA surgery, as well as provides a clinical alternative for many patients who could not undergo conventional surgery. Sales of our Powerlink System in the United States, Europe, Asia, and South America are the sole source of our reported revenue.

Industry Background

Atherosclerosis is the thickening and hardening of arteries. Some hardening of arteries occurs naturally as people grow older. Atherosclerosis involves deposits of fatty substances, cholesterol, cellular waste products, calcium and other substances on the inner lining of an artery. Atherosclerosis is a slow, complex disease that starts in childhood and often progresses with age.

Atherosclerosis also can reduce the integrity and strength of the blood vessel wall, causing the vessel to expand or balloon out, which is known as an aneurysm. Aneurysms are commonly diagnosed in the aorta, which is the body’s largest artery. The highest incidence of aortic aneurysms occurs in the segment below the opening of the arteries that feed the kidneys, the renal arteries, and the area where the aorta divides into the two iliac arteries that travel down the legs. Once diagnosed, patients with AAA require either a combination of medical therapy and non-invasive monitoring, or they must undergo a procedure to repair the aneurysm.

For years, physicians have been interested in less invasive methods to treat AAA disease as an alternative to open surgical repair. The high morbidity and mortality rates of this surgery are well documented, and medical pharmacological management for this condition carries the catastrophic risk of aneurysm rupture. Physicians and commercial interests alike began investigating catheter-based alternatives to repair an aneurysm from within, utilizing surgical grafts in combination with stents to exclude blood flow and pressure from the weakened segment of the aorta.

We believe the appeal of the Powerlink System for patients, physicians, and health-care payors is compelling. The conventional treatment is a highly invasive, open surgical procedure requiring a large incision in the patient’s abdomen, withdrawal of the patient’s intestines to provide access to the aneurysm, and the cross clamping of the aorta to stop blood flow. This procedure typically lasts two to four hours and is performed under general anesthesia. The complication rates for the open surgical procedure, as well as ELG systems, vary depending upon patient risk classification.

An article published in the New England Journal of Medicine on January 31, 2008 compared the results of open surgical procedure and the endovascular treatment of AAA on more than 45,000 patients over a three year period. Among the findings discussed in the article were:

- The mortality rate of all patients in the study undergoing endovascular repair was approximately 1.2% as compared to 4.8% for open surgical repair. Importantly, these findings are based on a patient population that typically has a significantly higher co-morbidity rate compared with those patients treated by open surgery.
- Patients treated by endovascular repair were three times as likely to be discharged to their homes rather than another rehabilitation facility as compared to patients treated with open repair. This results in substantial clinical and economic benefits for patients and payors alike.
- The average hospital stay for patients in the study undergoing endovascular repair was 3.4 days versus 9.3 days for patients undergoing open repair.

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- Open surgical repair entails risk of re-hospitalization due to problems associated with surgical incision. Patients had to be re-admitted over time for surgical complications associated with the laparotomy, such as adhesions and bowel resections, at a much higher rate than those undergoing endovascular repair.

Market Opportunity

In the United States alone, it is estimated that between 1.2 million and 2 million people have an AAA. Although AAA is one of the most serious cardiovascular diseases, many AAAs are never detected. Approximately 75% of AAA patients do not have symptoms at the time of their initial diagnosis, and AAAs generally are discovered inadvertently during procedures to diagnose unrelated medical conditions. Once an AAA develops, it continues to enlarge and if left untreated, becomes increasingly susceptible to rupture. The overall patient mortality rate for ruptured aneurysms is between 50% and 80%.

We estimate that in 2009 over 200,000 people were diagnosed with AAA in the United States and that approximately 70,000 of those diagnosed underwent aneurysm repair, either via an ELG or via open surgery.

AAAs are generally more prevalent in people over the age of 65 and are more common in men than in women. In addition to the current pool of potential patients, we expect that the number of persons seeking treatment for their condition will increase based on demographic factors. In 2009, the age 65 and over population in the United States numbered approximately 39 million, or 13% of the total population, and is expected to be 71 million by 2030. It is growing at a higher rate than the overall United States population.

Over the next several years, we forecast the United States ELG market to increase by at least 8% per year, and we estimate that up to 75% of AAA procedures will be performed using ELGs by 2013. We estimate that the current total worldwide AAA market is approximately \$965 million, with approximately \$650 million of the market to be in the United States, and is expected to grow to approximately \$1.3 billion by 2013. We expect that the total aortic stent graft market (including thoracic stents, for which we do not currently have an approved product) will grow to \$1.8 billion by 2013.

Our Strategy

Our objective is to become a leader in the development and commercialization of innovative and cost effective products for the treatment of aortic disorders. Key elements of our strategy to accomplish this objective are as follows:

- Focus exclusively on the aorta and become the industry expert in the treatment of aortic disorders;
- Provide innovative, less invasive devices for the treatment of aortic disorders with exceptional clinical results;
- Provide excellent clinical and technical support to physicians worldwide by building an experienced, knowledgeable and well-funded sales and marketing organization.

Our Products

Powerlink System

Our principal product is the Powerlink System for the treatment of AAA. The device consists of a self-expanding cobalt chromium alloy stent cage covered with high density ePTFE. The Powerlink ELG is implanted in the abdominal aorta, gaining access through a small incision into the femoral artery. Once the Powerlink ELG is deployed into its proper position, blood flow is shunted away from the weakened, or aneurysmal, section of the aorta, reducing pressure and the potential for the aorta to rupture.

We believe the Powerlink System is a superior design that overcomes the inherent limitations of early generation AAA devices and offers the following advantages:

- *One-Piece, Bifurcated ELG.* This eliminates many of the problems associated with early generation multi-piece systems. Our products eliminate much of the guide wire manipulation required during the procedure to assemble the component parts of a modular system, thereby simplifying the procedure. In addition, in the follow-up period, there can be no limb component separation with a one-piece system. We believe this should result in continued long-term exclusion of the aneurysm, and improved clinical results.

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- *Anatomical Fixation.* The Powerlink System is unique in that the placement of the stent graft on the aortoiliac bifurcation provides anatomical fixation of the long main body device with the aortic extension providing seal at the infrarenal neck.
- *Fully Supported.* The main body and limbs of the Powerlink System are fully supported by a cobalt chromium alloy stent. The cobalt chromium stent greatly reduces or eliminates the risk of kinking of the stent graft in even tortuous anatomies, eliminating the need for additional procedures or costly peripheral stents. Kinking may result in reduced blood flow and limb thrombosis.
- *Unique, Minimally Invasive Delivery Mechanism.* The Powerlink System requires only a small surgical incision in one leg. The other leg needs only placement of a non-surgical introducer sheath, three millimeters in diameter. Other ELGs typically need surgical exposure of the femoral artery in both legs to introduce the multiple components. Our unique delivery mechanism and downsizing of the catheter permits our technology to be used in patients having small or very tortuous access vessels.
- *Self-Expanding.* The stent is formed from cobalt chromium alloy in a proprietary configuration that is protected by our patent portfolio. This proprietary design expands to the proper size of the target aorta and eliminates the need for hooks or barbs for attachment. Based on our results to date, the Powerlink System has an excellent record of successful deployments.
- *Single Wire and Long Main Body Design.* The long main body of the stent cage is made of a continuous wire which provides longitudinal support and enables placement of the device on the aortic bifurcation, which minimizes the risk of migration.

Limitations of Earlier Technology

Our technology is dramatically different than other currently available AAA devices. Despite enthusiasm by physicians and patients alike for minimally invasive technology, we believe early generation devices have achieved a limited market penetration due to design limitations and related complications. The published clinical literature details many of the deficiencies of these approaches. In our opinion, early generation devices were limited because assembly was required by the surgeon. Multi-piece, or modular, systems require assembly by the mating of multiple components to form a bifurcated stent graft within the aneurysm sac. These systems can be more difficult to implant and lead to longer operative times. In addition, there are a number of reports of component detachment during the follow-up period. Component detachment can lead to a leak and a re-pressurization of the aneurysm sac. We believe this increases the risk of AAA rupture, often requiring a highly invasive, open surgical procedure to repair the detachment.

Powerlink System Products

Variations in patient anatomies require an adaptive technology. We designed our Powerlink System, with multiple proximal extensions, limb extensions, bifurcated main body lengths and diameters to simplify procedures, improve clinical results, and drive product adoption by offering physicians a full line of products that are adaptable for treatment of the majority of patients with AAA disease.

Powerlink Infrarenal Bifurcated Systems. The Powerlink Infrarenal Bifurcated System is available in multiple diameters and lengths and can treat patients that have an aortic neck up to 32 millimeters in diameter. The infrarenal device is made of a cobalt chromium alloy stent covered by high density ePTFE for placement below the renal arteries. The self-expanding stent permits the graft to be used in a wide range of neck diameters, which allows us to treat a wide variety of anatomies with a standard device. We obtained the CE mark for this product in Europe in August 1999, U.S. Food and Drug Administration, or FDA, pre-market approval, or PMA, in October 2004, and Shonin approval, which is equivalent to FDA approval of a PMA application in the United States, in Japan in February 2008. We commenced commercial sales in the United States in late 2004 and to Japan in February 2008 through Cosmotec, our exclusive distributor in that country.

Powerlink Aortic Cuffs and Limb Extensions. The Powerlink Proximal Extensions and Limb Extensions permit the physician to treat a greater number of patients. Proximal Extensions are available in 25, 28 and 34 millimeters in diameter and multiple lengths. They also are available in both infrarenal and suprarenal configurations. Limb extensions are available in 16, 20, and 25 millimeters in diameter with various lengths, allowing the physician to customize the technology to treat a wide range of patient anatomies. We have obtained the CE mark for these products in Europe in October 1999 (16/20 mm Limb Extensions), December 1999 (25/28 mm

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Proximal Extensions), May 2002 (34 mm Proximal Extensions) and November 2008 (25 mm Limb Extensions). We obtained FDA marketing approval in October 2004 (25 and 28 mm proximal infrarenal extensions and the 16 and 20 mm limb extensions), March 2008 (25 mm limb extensions), and October 2008 (34 mm proximal infrarenal and suprarenal extensions and 25 and 28 mm proximal suprarenal extensions). Our large diameter 34mm Proximal Extensions are marketed under the trademark Powerlink XL.

IntuiTrak. In October 2008, we received FDA approval for a new system to deliver and deploy the Powerlink System. The new system, called IntuiTrak, was designed to further simplify the implant procedure and provide a delivery profile advantage over many competitive devices. We had a full market introduction for the product in the second quarter of 2009.

IntuiTrak Express. In March 2009, we received FDA approval for a new system to deliver the Powerlink XL stent graft. This completes the application of IntuiTrak technology to the full range of sizes of the Powerlink System. IntuiTrak Express was introduced to the market at the Society for Vascular Surgery meeting in June 2009.

Clinical Trials

We continue to conduct clinical trials for other products related to the Powerlink System. In November 2009, we received an Investigational Device Exemption conditional approval from the FDA to begin a prospective, multicenter, randomized clinical trial for a bilateral percutaneous approach to AAA repair. We plan to initiate this trial in the first quarter of 2010. The total cost of the trial is expected to be approximately \$1.5 million, with the majority of costs incurred in 2010. We expect to enroll 150 patients at 20 domestic clinical sites.

Research and Development

We spent \$6.6 million in 2009, \$6.1 million in 2008, and \$6.4 million in 2007, on research and development, including clinical studies. Our focus is to continually develop innovative and cost effective medical device technology for the treatment of aortic disorders. We believe that our ability to develop new technologies is a key to our future growth and success. Our research and development activities have focused, or are expected to focus, on technology that makes our existing products easier to use, developing products to treat patients with AAA that are not able to be treated endovascularly due to limitations of currently marketed products and new technologies to address AAA and other aortic disorders, such as stent grafts for the thoracic region of the aorta. Historically, we have focused on developing the Powerlink System for infrarenal AAA, however, we believe that we will need to continue to devote more resources to new technologies for AAA and aortic disorders, such as juxtarenal and thoracic aneurysms, to continue to grow our business. Completing these new product development activities will likely require significant cash resources and could take many years to complete, if at all.

Marketing and Sales

We sell and market products both in the United States and internationally. We sell our products in the United States through a direct sales force and internationally through exclusive independent distributors. As of February 10, 2010, we marketed our products in 25 countries outside of the United States through 12 active independent distributors.

United States. We market the Powerlink System in the United States through a direct sales force consisting of just over 50 sales territories as of December 31, 2009 and we plan to add 30% more territories by the end of 2010. As of February 10, 2010, 50 of these territories were filled. The primary customer and decision maker for these devices in the United States is the vascular surgeon. Through our direct sales force, we provide clinical support and service to many of the approximately 1,600 hospitals in the United States which perform endovascular aneurysm repair. We devote significant resources to the training of our sales representatives, including educational programs on their interactions with physicians. Approximately 83% of our revenues for the year ended December 31, 2009 were generated from product sales in the United States.

Europe. The market for ELGs in Europe is influenced by vascular surgeons, interventional radiologists and, to a lesser extent, interventional cardiologists who perform catheter directed treatment of AAA. The European market is less concentrated than the U.S. market. We have obtained the right to affix a CE mark to our family of Powerlink System products. Europe represents a smaller market opportunity due to capitated hospital budgets and a selling price that is typically less than in the United States. Approximately 6% of our revenues for the year ended December 31, 2009 were generated from product sales in Europe. In addition, we have obtained regulatory approval but have not initiated the distribution process in several other countries, including Norway, Poland, Portugal, and Spain. We may or may not pursue these markets depending on the availability of a suitable distribution partner.

Asia. We commenced commercial sales in Japan in February 2008 after receipt of Shonin approval. We also commenced commercial sales in China in 2009 after receiving regulatory approval. Approximately 5% of our revenues for the year ended December 31, 2009 were generated from product sales in Asia.

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South America and Mexico. We have obtained regulatory approval and have active distribution partners in a number of countries, including Argentina, Brazil, Chile, Colombia, and Mexico. Approximately 6% of our revenues for the year ended December 31, 2009 were generated from product sales in South America.

Manufacturing and Supply

All of our products are manufactured, assembled, packaged and sterilized at our 30,200 square foot leased facility in Irvine, California. Our current manufacturing process is labor intensive and involves shaping and forming a cobalt chromium stent, producing the high density ePTFE graft material to form the outside of the device, suturing the graft material on to the stent, and loading the device into a delivery catheter.

In April 2007, we received FDA approval to manufacture high density ePTFE graft material used for the Powerlink System. Beginning in 2008, we manufactured all of our requirements for this graft material. Our cost to manufacture this graft material is significantly lower than our cost previously paid to a third party supplier of the graft material, which positively impacted our gross margins for sales of the Powerlink System.

We rely on third parties for the supply of certain components used in our products, such as wire used to form our cobalt chromium alloy stent cage. We outsource the manufacturing of these components as it allows us have relationships with suppliers who have appropriate competencies while minimizing our capital investment and costs. Our third party manufacturers are required to meet FDA and/or ISO 13485 and other quality standards. We do not have long term supply arrangements with our suppliers. While we obtain some of these components from single source suppliers, we believe there are alternative vendors for the supply of these components.

Patents and Proprietary Information

We believe that the protection of our intellectual property and proprietary information is a key to being able to effectively compete. We are building a portfolio of apparatus and method patents covering various aspects of our current and future technology. In the AAA area, we have 18 United States patents issued, including 393 claims, and 21 pending United States patent applications. Our current AAA related patents begin expiring in 2017 and the last patent expires in 2019. We intend to continue to file for patent protection to strengthen our intellectual property position as we continue to develop our technology.

In addition to our AAA intellectual property, we own or have the rights to 36 issued United States patents, one issued European patent, and one issued Japanese patent, and two pending United States patent applications relating to intravascular radiation, stents, and various catheter or intravascular technologies. The non-AAA patents begin expiring in 2012 and the last patent expires in 2018.

Our policy is to protect our proprietary position by, among other methods, filing United States and foreign patent applications to protect technology, inventions and improvements that are important to the development of our business. We also own trademarks to protect the names of our products. In addition to patents and trademarks, we rely on trade secrets and proprietary know-how. We seek protection of these trade secrets and proprietary know-how, in part, through confidentiality and proprietary information agreements. We make efforts to require our employees, directors, consultants and advisors, other advisors and other individuals and entities to execute confidentiality agreements upon the start of employment, consulting or other contractual relationships with us. These agreements provide that all confidential information developed or made known to the individual or entity during the course of the relationship is to be kept confidential and not be disclosed to third parties, except in specific circumstances. In the case of employees and some other parties, the agreements provide that all inventions conceived by the individual will be our exclusive property.

Competition

The medical device industry is marked by intense competition. Any product we develop that gains regulatory clearance or approval will have to compete for market acceptance and market share. We believe that the primary competitive factors in the market for AAA devices are:

- clinical effectiveness;

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- product safety, reliability and durability;
- ease of use;
- distribution capability; and
- price.

We experience significant competition in the endovascular graft market and we expect that the intensity of competition will increase over time. Three manufacturers, Medtronic Inc., W.L. Gore Inc., and Cook Medical Products, Inc. have obtained FDA marketing approval for their endovascular stent grafts. However, we believe that our technology offers clinical advantages over these other currently available technologies. The cardiovascular device industry is marked by rapid technological improvements and, as a result, physicians are open to improved designs. Significant market share and revenue can be captured by designs demonstrating superior clinical outcomes. We believe deliverability of the device, dependability of the clinical results and the durability of the product design are the most important product characteristics. The Powerlink System is the only available AAA device that provides anatomical fixation and gives physicians the choice of either infrarenal or suprarenal proximal extensions.

The following chart details the stent graft characteristics of the minimally-invasive AAA stent grafts being sold in the United States.

**FDA Approved
Stent Graft Characteristics**

<u>Manufacturer/Product Name</u>	<u>Design</u>	<u>Fixation</u>
Endologix/ Powerlink	Long main body, short limbs	Radial force and anatomical fixation
Medtronic/ Talent	Short main body, long modular limbs	Radial force and suprarenal stent
Cook/ Zenith	Short main body, long modular limbs	Radial force, suprarenal stent and barbs
WL Gore/ Excluder	Short main body, long modular limbs	Radial force and barbs

In addition to the competitors mentioned above, Terumo-Vascutek, Trivascular, Nellix, Aptus, Cordis and Lombard Medical are believed to have active development programs.

Most of our existing competitors have substantially greater capital resources than we do and also have greater resources and expertise in the areas of research and development, obtaining regulatory approvals, manufacturing, marketing, and sales. In addition, many of our competitors have multiple product offerings, which some physicians may find more convenient. We also compete with other medical device companies for clinical sites and for the hiring of qualified personnel, including sales representatives.

Third-Party Reimbursement

In the United States, hospitals are the primary purchasers of our products. Hospitals then bill various third-party payors, such as Medicare, Medicaid, and other government programs and private insurance plans, for the healthcare services and products provided to patients. Government agencies, private insurers and other payors determine whether to provide coverage for a particular procedure and reimburse hospitals for medical treatment at a fixed rate based on the diagnosis-related group established by the United States Centers for Medicare and Medicaid Services, or CMS. The fixed rate of reimbursement is based on the procedure performed, and is unrelated to the specific devices used in that procedure.

Reimbursement of interventional procedures utilizing our products currently is covered under a diagnosis-related group. Some payors may deny reimbursement if they determine that the device used in a treatment was unnecessary, inappropriate or not

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cost-effective, experimental or used for a non-approved indication. Therefore, we cannot assure you that reimbursement for any new product we develop will be available to hospitals and other users, or that future reimbursement policies of payors will not hamper our ability to sell current or new products on a profitable basis.

In October 2000, the CMS issued a guideline regarding the proper coding of our procedures for billing purposes. CMS instructed that code 39.71, for endovascular graft repair of aneurysm, be utilized. For purposes of hospital reimbursement, the majority of patients using the Powerlink System will be classified under DRG 237, Major Cardiovascular Procedures with Complication/ Co morbidity. In the latest data published by CMS, the national average reimbursement for DRG 237, which includes hospital costs, approximated \$27,250. In Europe, reimbursement for the procedure, including the device, typically comes from the hospital's general fund and is usually from about one-half to three-quarters of the reimbursement available in the United States.

Outside the United States, market acceptance of products depends partly upon the availability of reimbursement within the prevailing healthcare payment system. Reimbursement systems vary significantly by country, and by region within some countries, and reimbursement approvals must be obtained on a country-by-country basis. Reimbursement is obtained from a variety of sources, including government sponsored healthcare and private health insurance plans.

Some countries have centrally organized healthcare systems, but in most cases there is a degree of regional autonomy either in deciding whether to pay for a particular procedure or in setting the reimbursement level. The manner in which new devices enter the healthcare market depends on the system. There may be a national appraisal process leading to a new procedure or product coding, or it may be a local decision made by the relevant hospital department. The latter is particularly the case where a global payment is made that does not detail specific technologies used in the treatment of a patient. Most foreign countries also have private insurance plans that may reimburse patients for alternative therapies.

Government Regulation

United States

Our products are regulated in the United States as medical devices by the FDA under the Federal Food, Drug and Cosmetic Act. The FDA classifies medical devices into one of three classes based upon controls the FDA considers necessary to reasonably ensure their safety and effectiveness. Class I devices are subject to general controls such as labeling, adherence to good manufacturing practices and maintenance of product complaint records, but are usually exempt from premarket notification requirements. Class II devices are subject to the same general controls and also are subject to special controls such as performance standards, and FDA guidelines, and may also require clinical testing prior to approval. Class III devices are subject to the highest level of controls because they are used in life-sustaining or life-supporting implantable devices. Class III devices require rigorous clinical testing prior to their approval and generally require a PMA or PMA supplement approval prior to their sale.

If a medical device manufacturer can establish that a device is "substantially equivalent" to a legally marketed Class I or Class II device, or to an unclassified device, or to a Class III device for which the FDA has not called for PMAs, the manufacturer may seek clearance from the FDA to market the device by filing a 510(k) premarket notification. The 510(k) notification must be supported by appropriate data establishing the claim of substantial equivalence to the satisfaction of the FDA. Following submission of the 510(k) notification, the manufacturer may not place the device into commercial distribution in the United States until an order is issued by the FDA.

Manufacturers must file an investigational device exemption (IDE) application if human clinical studies of a device are required and if the FDA considers experimental use of the device to represent significant risk to the patient. The IDE application must be supported by data, typically including the results of animal and mechanical testing of the device. If the IDE application is approved by the FDA, human clinical studies may begin at a specific number of investigational sites with a maximum number of patients, as approved by the FDA. The clinical studies must be conducted under the review of an independent institutional review board to ensure the protection of the patients' rights.

Generally, upon completion of these human clinical studies, a manufacturer seeks approval of a Class III medical device from the FDA by submitting a PMA application. A PMA application must be supported by extensive data, including the results of the clinical studies, as well as literature to establish the safety and effectiveness of the device. The Powerlink System was approved through this PMA process.

FDA regulations require us to register as a medical device manufacturer with the FDA. Additionally, the California Department of Health Services, or CDHS, requires us to register as a medical device manufacturer within the state. Because of this, the FDA and the CDHS inspect us on a routine basis for compliance with Quality System Records, or QSR, regulations. These regulations require that we manufacture our products and maintain related documentation in a proscribed manner with respect to manufacturing, testing and control activities. We have undergone and expect to continue to undergo regular QSR inspections in connection with the manufacture of our products at our facility. Further, the FDA requires us to comply with various FDA regulations regarding labeling. The Medical Device Reporting laws and regulations require us to provide information to the FDA on deaths or serious injuries alleged to have been associated with the use of our devices, as well as product malfunctions that likely would cause or contribute to death or serious injury if the malfunction were to recur. In addition, the FDA prohibits an approved device from being marketed for "off-label" purposes.

We are subject to other federal, state and local laws, regulations and recommendations relating to safe working conditions, laboratory and manufacturing practices.

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International

Our international sales are subject to regulatory requirements in the countries in which our products are sold. The regulatory review process varies from country to country and may in some cases require the submission of clinical data. In addition, the FDA must approve the export to certain countries of devices that require a PMA but are not yet approved domestically.

In Europe, we need to comply with the requirements of the Medical Devices Directive, or MDD, and affix the CE mark on our products to attest to such compliance. To achieve compliance, our products must meet the “Essential Requirements” of the MDD relating to safety and performance and we must successfully undergo verification of our regulatory compliance, or conformity assessment, by a Notified Body selected by us. The level of scrutiny of such assessment depends on the regulatory class of the product.

In December 1998, we received ISO 9001:1994/ EN46001:1996 certification from our Notified Body with respect to the manufacturing of all of our products in our facilities. In September 2002, we received ISO 9001:1994/ EN46001:1996 and ISO 13485:1996 certification. In December 2005, we received ISO13485:2003 certification. We are subject to continued surveillance by our Notified Body and will be required to report any serious adverse incidents to the appropriate authorities. We also must comply with additional requirements of individual countries in which our products are marketed.

Fraud and Abuse

We may directly or indirectly be subject to various federal and state laws pertaining to healthcare fraud and abuse, including anti-kickback laws. In particular, the federal healthcare program anti-kickback statute prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing, arranging for or recommending a good or service, for which payment may be made in whole or part under federal healthcare programs, such as the Medicare and Medicaid programs. The anti-kickback statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. In implementing the statute, the Office of Inspector General, or OIG, has issued a series of regulations, known as the “safe harbors,” which began in July 1991. These safe harbors set forth provisions that, if all their applicable requirements are met, will assure healthcare providers and other parties that they will not be prosecuted under the anti-kickback statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy all requirements of an applicable safe harbor may result in increased scrutiny by government enforcement authorities such as the OIG. Penalties for violations of the federal anti-kickback statute include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs.

The federal False Claims Act prohibits persons from knowingly filing or causing to be filed a false claim to, or the knowing use of false statements to obtain payment from, the federal government. Suits filed under the False Claims Act, known as “qui tam” actions, can be brought by any individual on behalf of the government. These individuals, sometimes known as “relators” or, more commonly, as “whistleblowers”, may share in any amounts paid by the entity to the government in fines or settlement. The number of filings of qui tam actions has increased significantly in recent years, causing more healthcare companies to have to defend a False Claim action. If an entity is determined to have violated the federal False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties for each separate false claim. Various states have also enacted similar laws modeled after the federal False Claims Act which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor.

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, created two new federal crimes: healthcare fraud and false statements relating to healthcare matters. The healthcare fraud statute prohibits knowingly and willfully executing a scheme to defraud any healthcare benefit program, including private payors. A violation of this statute is a felony and may result in fines, imprisonment or exclusion from government sponsored programs. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items, or services. A violation of this statute is a felony and may result in fines or imprisonment.

Product Liability

The manufacture and marketing of medical devices carries the risk of financial exposure to product liability claims. Our products are used in situations in which there is a high risk of serious injury or death. Such risks will exist even with respect to those products that have received, or in the future may receive, regulatory approval for commercial sale. We are currently covered under a product liability insurance policy with coverage limits of \$10 million per occurrence and \$10 million per year in the aggregate subject to usual self insured retention amounts.

Employees

As of December 31, 2009, we had 197 employees, including 91 in manufacturing, 13 in research and development, nine in regulatory and clinical affairs, 70 in sales, marketing and customer service and 14 in administration. We believe that the success of our business will depend, in part, on our ability to attract and retain qualified personnel. Our employees are not subject to a collective bargaining agreement, and we believe we have good relations with our employees.

General Information

We were incorporated in California in March 1992 under the name Cardiovascular Dynamics, Inc. and reincorporated in Delaware in June 1993. In January 1999, we merged with privately held Radiance Medical Systems, Inc. and changed our name to Radiance Medical Systems, Inc. and in May 2002, we merged with privately held Endologix, Inc., and changed our name to Endologix, Inc. Our principal executive office is located at 11 Studebaker, Irvine, California and our telephone number is (949) 595-7200. Our website is located at www.endologix.com. The information on, or that can be accessed through, our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered to be a part hereof.

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports available on our website, at www.endologix.com, free of charge as soon as practicable after filing with the U.S. Securities and Exchange Commission, or SEC.

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All such reports are also available free of charge via EDGAR through the SEC website at www.sec.gov. In addition, the public may read and copy materials filed by us with the SEC at the SEC's public reference room located at 100 F St., NE, Washington, D.C., 20549. Information regarding operation of the SEC's public reference room can be obtained by calling the SEC at 1-800-SEC-0330.

Item 1A. Risk Factors

The following risks could affect our business, financial results and results of operations. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Annual Report on Form 10-K because these factors could cause actual results and conditions to differ materially from those projected in the forward-looking statements.

All of our revenue is generated from the Powerlink System, and any declines in the sale of this product will negatively impact our business.

We have focused heavily on the development and commercialization of a single technology, the Powerlink System, because of limited resources. If we are unable to continue to achieve market acceptance of the Powerlink System and do not achieve sustained positive cash flow from operations, we will be constrained in our ability to fund development and commercialization of improvements and other product lines. In addition, if we are unable to market the Powerlink System as a result of failure to maintain regulatory approvals, we would lose our only source of revenue and business would be negatively affected.

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

In the United States, over 200,000 new diagnoses of AAA are made each year. In 2009, approximately 70,000 AAA patients were treated by either endovascular repair or by open surgery. Our success with our Powerlink System will depend on an increasing percentage of patients with AAA being diagnosed, and an increasing percentage of those diagnosed receiving endovascular, as opposed to open surgical procedures. Initiatives to increase screening for AAA are underway but are out of our control and such general screening programs may never gain wide acceptance. The failure to diagnose more patients with AAA, could negatively impact sales of the Powerlink System.

Our success depends on convincing physicians to use the Powerlink System in more endovascular AAA procedures.

We believe that physicians may have chosen to use our Powerlink System for AAA procedures that involved abnormal vasculatures, such as those with difficult neck anatomies, while using competitive products for more normal vasculatures. We believe physicians did not choose the Powerlink System for these more common endovascular AAA procedures primarily as result of the perception of the ease of use of competitive products versus the Powerlink System. However, with the introduction of our IntuiTrak delivery system, we believe that physicians will be more willing to use the Powerlink System in a wider variety of endovascular AAA procedures. However, if we are unable to convince physicians of the ease of use of the Powerlink System and IntuiTrak compared to competitive products, we may not be able to achieve our anticipated growth and our business could be negatively impacted.

Our international operations subject us to certain operating risks, which could adversely impact our net sales, results of operations and financial condition.

Sales of our products outside the United States represented approximately 17% of our revenue in 2009. During 2009, we sold our products through twelve distributors located in the following countries outside of the United States: Argentina, Brazil, Chile, Colombia, Germany, Greece, Ireland, Italy, Japan, Mexico, China, and Turkey. The sales territories authorized within these various distribution agreements cover a total of twenty five countries. The sale and shipment of our products across international borders, as well as the purchase of components and products from international sources, subject us to extensive U.S. and foreign governmental trade, import and export, and custom regulations and laws. Compliance with these regulations is costly and exposes us to penalties for non-compliance. Other laws and regulations that can significantly impact us include various anti-bribery laws, including the U.S. Foreign Corrupt Practices Act and anti-boycott laws. Any failure to comply with applicable legal and regulatory obligations could impact us in a variety of ways that include, but are not limited to, significant criminal, civil and administrative penalties, including imprisonment of individuals, fines and penalties, denial of export privileges, seizure of shipments, restrictions on certain business activities, and exclusion or debarment from government contracting. Also, the failure to comply with applicable legal and regulatory obligations could result in the disruption of our shipping and sales activities.

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

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

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

If our products or processes infringe upon the intellectual property of third parties, the sale of our products may be challenged and we may have to defend costly and time-consuming infringement claims.

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

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

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

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

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

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

Current challenges in the commercial and credit environment may adversely affect our business and financial condition.

The global financial markets have experienced unprecedented levels of volatility. Our ability to generate cash flows from operations or enter into or maintain existing financing arrangements on acceptable terms could be adversely affected if there is a material decline in the demand for our products or in the solvency of our customers, deterioration in our key financial ratios, maintenance of compliance with financial covenants in existing credit agreements, or credit ratings, or other significantly unfavorable changes in conditions. While these conditions and the current economic downturn have not meaningfully impaired our ability to access credit markets or meaningfully adversely affected our operations to date, continuing volatility in the global financial markets could increase borrowing costs or affect our ability to access the capital markets. Current or worsening economic conditions may also adversely affect the business of our customers, including their ability to pay for our products and services, and the amount spent on healthcare generally. This could result in a decrease in the demand for our products and services, longer sales cycles, slower adoption of new technologies and increased price competition.

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

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

- physician acceptance of the Powerlink System;
- the conduct and results of clinical trials;
- the timing and expense of obtaining future regulatory approvals;
- fluctuations in our expenses associated with expanding our operations;
- the introduction of new products by our competitors;
- supplier, manufacturing or quality problems with our devices;
- the timing of stocking orders from our distributors;

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- changes in our pricing policies or in the pricing policies of our competitors or suppliers; and
- changes in third-party payors' reimbursement policies.

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

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

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

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

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

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

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

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

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

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

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

- the FDA, institutional review boards or other regulatory authorities do not approve a clinical study protocol, force us to modify a previously approved protocol, or place a clinical study on hold;
- patients do not enroll in, or enroll at the expected rate, or complete a clinical study;
- patients or investigators do not comply with study protocols;
- patients do not return for post-treatment follow-up at the expected rate;
- patients experience serious or unexpected adverse side effects for a variety of reasons that may or may not be related to our products such as the advanced stage of co-morbidities that may exist at the time of treatment, causing a clinical study to be put on hold;
- sites participating in an ongoing clinical study may withdraw, requiring us to engage new sites;
- difficulties or delays associated with bringing additional clinical sites on-line;
- third-party clinical investigators decline to participate in our clinical studies, do not perform the clinical studies on the anticipated schedule or consistent with the investigator agreement, clinical study protocol, good clinical practices, and other FDA and Institutional Review Board requirements;
- third-party organizations do not perform data collection and analysis in a timely or accurate manner;
- regulatory inspections of our clinical studies require us to undertake corrective action or suspend or terminate our clinical studies;
- changes in U.S. federal, state, or foreign governmental statutes, regulations or policies;
- interim results are inconclusive or unfavorable as to immediate and long-term safety or efficacy; or
- the study design is inadequate to demonstrate safety and efficacy.

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

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

As part of our business strategy, we may acquire other companies, technologies and product lines to maintain our objectives of developing or acquiring innovative technologies. Acquisitions involve numerous risks, including the following:

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

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

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

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

- FDA approval process;

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- California Department of Health Services requirements;
- ISO 9001:1994 and ENISO 13485:2003; and
- European Union CE mark requirements.

Government regulation may impede our ability to conduct continuing clinical trials of Powerlink System enhancements and to manufacture the Powerlink System and other prospective products. Government regulation also could delay our marketing of new products for a considerable period of time and impose costly procedures on our activities. The FDA and other regulatory agencies may not approve any of our future products on a timely basis, if at all. Any delay in obtaining, or failure to obtain, such approvals could negatively impact our marketing of any proposed products and reduce our product revenues.

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

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

The use, misuse or off-label use of our products may harm our image in the marketplace or result in injuries that lead to product liability suits, which could be costly to our business or result in FDA sanctions if we are deemed to have engaged in such promotion.

Our currently marketed products have been cleared by the FDA for specific treatments and anatomies. We cannot, however, prevent a physician from using our products outside of those indications cleared for use, known as off-label use. There may be increased risk of injury if physicians attempt to use our products off-label. We train our sales force not to promote our products for off-label uses. Furthermore, the use of our products for indications other than those indications for which our products have been cleared by the FDA may not effectively treat such conditions, which could harm our reputation in the marketplace among physicians and patients. Physicians may also misuse our products or use improper techniques if they are not adequately trained, potentially leading to injury and an increased risk of product liability. If our products are misused or used with improper technique, we may become subject to costly litigation by our customers or their patients. Product liability claims could divert management's attention from our core business, be expensive to defend and result in sizable damage awards against us that may not be covered by insurance. If we are deemed by FDA to have engaged in the promotion of any our products for off-label use, we could be subject to FDA prohibitions on the sale or marketing of our products or significant fines and penalties, and the imposition of these sanctions could also affect our reputation and position within the industry. Any of these events could harm our business and results of operations and cause our stock to decline.

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

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

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Our third-party distributors may not effectively distribute our products.

We depend on medical device distributors and strategic relationships for the marketing and selling of our Powerlink System internationally. We depend on these distributors' efforts to market our product, yet we are unable to control their efforts completely. In addition, we are unable to ensure that our distributors are complying all applicable laws regarding the sales of our products. If our distributors fail to market and sell our products effectively and in compliance with applicable laws, our operating results and business may suffer substantially, or we may have to make significant additional expenditures or concessions to market our products.

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

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

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

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

Our dependence upon key personnel to operate our business puts us at risk of a loss of expertise if key personnel were to leave us.

We depend upon the experience and expertise of our executive management team. The competition for executives, as well as for skilled product development and technical personnel and sales representatives, in the medical device industry is intense and we may not be able to retain or recruit the personnel we need. If we are not able to attract and retain existing and additional highly qualified management, sales, regulatory, clinical and technical personnel, we may not be able to successfully execute our business strategy.

If we fail to properly manage our anticipated growth, our business could suffer.

We may experience periods of rapid growth and expansion, which could place a significant strain on our limited personnel, information technology systems, and other resources. In particular, the increase in our direct sales force requires significant management and other supporting resources. Any failure by us to manage our growth effectively could have an adverse effect on our ability to achieve our development and commercialization goals. To achieve our revenue goals, we must successfully increase production output as required by customer

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demand. We may in the future experience difficulties in increasing production, including problems with production yields and quality control and assurance, component supply, and shortages of qualified personnel. These problems could result in delays in product availability and increases in expenses. Any such delay or increased expense could adversely affect our ability to generate revenues. Future growth will also impose significant added responsibilities on management, including the need to identify, recruit, train and integrate additional employees. In addition, rapid and significant growth will place a strain on our administrative and operational infrastructure. In order to manage our operations and growth we will need to continue to improve our operational and management controls, reporting and information technology systems, and financial internal control procedures. If we are unable to manage our growth effectively, it may be difficult for us to execute our business strategy and our operating results and business could suffer.

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

We have a history of operating losses, and although we expect to generate positive cash flow from operations in 2010, we may not be able to continue to do so. Our cash requirements in the future may be significantly different from our current estimates and depend on many factors, including:

- the results of our commercialization efforts for the Powerlink System;
- the need for additional capital to fund future development programs;
- the costs involved in obtaining and enforcing patents or any litigation by third parties regarding intellectual property;
- the establishment of high volume manufacturing and increased sales and marketing capabilities; and
- our success in entering into collaborative relationships with other parties.

To finance these activities, we may seek funds through borrowings or through additional rounds of financing, including private or public equity or debt offerings and collaborative arrangements with corporate partners. We may be unable to raise funds on favorable terms, or at all. During the recent economic crisis, it has been difficult for many companies, particularly small cap medical device companies, to obtain financing in the public markets or to obtain debt financing on commercially reasonable terms, if at all. In addition, the sale of additional equity or convertible debt securities could result in additional dilution to our stockholders. If we borrow additional funds or issue debt securities, these securities could have rights superior to holders of our common stock, and could contain covenants that will restrict our operations. We might have to obtain funds through arrangements with collaborative partners or others that may require us to relinquish rights to our technologies, product candidates or products that we otherwise would not relinquish. If we do not obtain additional resources, our ability to capitalize on business opportunities will be limited, and the growth of our business will be harmed.

We rely solely on an in-house process to manufacture our graft material for the Powerlink System, and any disruption in our ability to produce this material could delay or prevent us from producing the product for sale.

Currently, we rely solely on an in-house manufacturing process to produce graft material, which is a primary component for the Powerlink System. Our reliance on a sole source exposes our operations to disruptions in supply caused by:

- failure to comply with quality or regulatory requirements;
- fire, flood or earthquake, or other natural disaster; and
- a supply interruption in the underlying raw material for the process.

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Although we attempt to retain a significant stock of the graft material, the occurrence of any of the above disruptions in supply or other unforeseen events that could cause a disruption in our process to manufacture graft material may cause us to halt or experience a disruption in manufacturing the Powerlink System. Because we do not have alternative suppliers, our sales and operating results would be harmed in the event of a disruption.

We rely on a single vendor to supply certain components for the Powerlink System, and any disruption in our supply could delay or prevent us from producing the product for sale.

Currently, we rely on certain vendors as a sole source to supply us with certain primary components for the Powerlink System. Our reliance on a sole source supplier exposes our operations to disruptions in supply caused by:

- failure to comply with regulatory requirements;
- any strike or work stoppage;
- disruptions in shipping;
- a natural disaster caused by fire, floods or earthquakes;;
- a supply shortage experienced by our sole source suppliers; and;
- the fiscal health and manufacturing strength of our sole source suppliers.

Although we retain significant stock in sole source components, the occurrence of any of the above disruptions in supply or other unforeseen events that could cause a disruption in supply from our sole source suppliers.

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

The market for medical devices is subject to frequent litigation regarding patent and other intellectual property rights. It is possible that our patents or licenses may not withstand challenges made by others or protect our rights adequately.

Our success depends in large part on our ability to secure effective patent protection for our products and processes in the United States and internationally. We have filed and intend to continue to file patent applications for various aspects of our technology. However, we face the risks that:

- we may fail to secure necessary patents prior to or after obtaining regulatory clearances, thereby permitting competitors to market competing products; and
- our already-granted patents may be re-examined, re-issued or invalidated.

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

If we are unable to effectively manage our inventory held on consignment by our intended customers, we will not achieve our expected results.

Our Powerlink System is sold on a consignment basis to certain hospitals which purchase our product as they use it. In these consignment locations, we do not have physical possession of our products. We therefore must rely on information from our customers as well as periodic inspections by our sales personnel to determine when our products have been used. Our efforts to strengthen our monitoring and management of consigned inventory may not be adequate to meaningfully reduce the risk of inventory loss. If we are not able to effectively manage appropriate consigned inventory levels, we may suffer inventory losses which will reduce our operating results.

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

Manufacturing and marketing of our commercial products, and clinical testing of our products under development, may expose us to product liability claims. Although we have, and intend to maintain, product liability insurance, the coverage limits of our insurance policies may not be adequate and one or more successful claims brought against us may have a material adverse effect on our business and results of operations. Additionally, adverse product liability actions could negatively affect the reputation and sale of our products, our ability to obtain and maintain regulatory approval for our products and may divert management's attention from other matters.

Our operations are currently conducted at a single location that may be at risk from earthquakes or other natural disasters.

We currently conduct all of our manufacturing, development and management activities at a single location in Irvine, California, near known earthquake fault zones. We have taken precautions to safeguard our facilities, including insurance, health and safety protocols, and off-site storage of computer data. However, any future natural disaster, such as an earthquake, could cause substantial delays in our operations, damage or destroy our equipment or inventory, and cause us to incur additional expenses. A disaster could seriously harm our business and results of operations. The insurance coverage we maintain may not be adequate to cover our losses in any particular case.

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

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

- announcements by us or our competitors concerning technological innovations;
- introductions of new products;
- FDA and foreign regulatory actions;
- developments or disputes relating to patents or proprietary rights;
- failure of our results of operations to meet the expectations of stock market analysts and investors;
- changes in stock market analyst recommendations regarding our common stock;
- changes in healthcare policy in the United States or other countries; and
- general stock market conditions and other factors unrelated to our operating performance.

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

The average daily trading volume in our common stock for the year ended December 31, 2009 was approximately 190,000 shares. If limited trading in our stock continues, it may be difficult for investors to sell their shares in the public market at any given time at prevailing prices. Moreover, the market price for shares of our common stock may be made more volatile because of the relatively low volume of trading in our common stock. When trading volume is low, significant price movement can be caused by the trading in a relatively small number of shares. Volatility in our common stock could cause stockholders to incur substantial losses.

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

Provisions of our amended and restated certificate of incorporation could make it more difficult for a third party to acquire control of our business, even if such change in control would be beneficial to our stockholders. Our amended and restated

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

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

We have never declared or paid cash dividends on our common stock and do not plan to pay any cash dividends in the near future. Our current policy is to retain all funds and any earnings for use in the operation and expansion of our business. The payment of cash dividends by us is restricted by our revolving credit facility, which contains restrictions prohibiting us from paying any cash dividends without the lender's prior approval. If we do not pay dividends, our stock may be less valuable to you because a return on your investment will only occur if our stock price appreciates.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Currently, we lease two adjacent facilities aggregating approximately 43,500 square feet in Irvine, California under separate lease agreements that expire in August 2011 and may be renewed for two additional twelve month periods, at our option. We believe that our current facilities will be adequate and suitable for our operations through the current lease term.

Item 3. Legal Proceedings

We are involved in various claims and legal proceedings of a nature considered normal to our business, including product liability, intellectual property, employment and other matters.

We are involved in litigation with Cook Medical Incorporated, or Cook, alleging that we infringe two of Cook's patents, one of which was granted in 1991 and the other in 1998. The lawsuit was filed by Cook in the United States District Court, Southern District of Indiana, on October 8, 2009. In December 2009, the United States Patent Office, or PTO, granted our request for a reexamination of the two patents asserted by Cook in the lawsuit, and in January 2010, the United States District Court ordered that the lawsuit be stayed pending the outcome of the patent reexaminations. In February 2010, the PTO completed its re-examination process and concluded that one of the two patents in question was invalid, while the validity of the second was upheld. At this date, the legal proceedings remain stayed.

Item 4. Not used

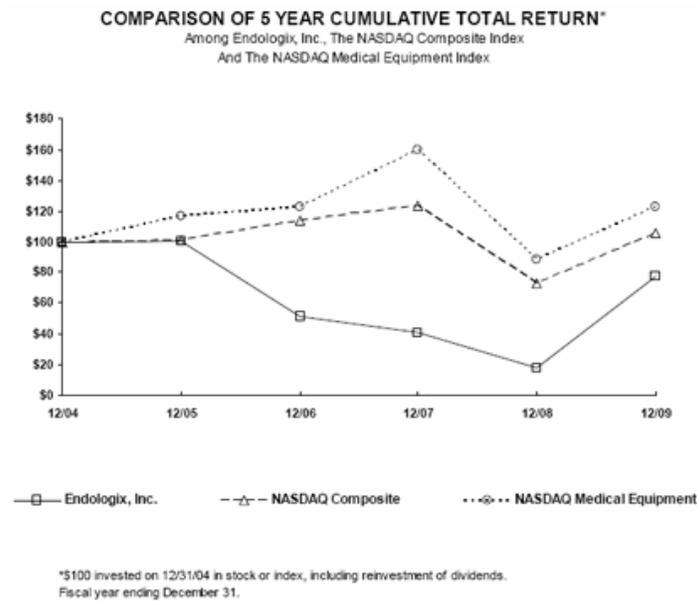
PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock trades on the NASDAQ Global Market under the symbol “ELGX.” The following table sets forth the high and low sale prices for our common stock as reported on the NASDAQ Global Market for the periods indicated.

	High	Low
Year Ended December 31, 2008		
First Quarter	\$3.31	\$2.20
Second Quarter	3.16	2.25
Third Quarter	2.95	1.82
Fourth Quarter	2.35	0.85
Year Ended December 31, 2009		
First Quarter	\$2.25	\$1.08
Second Quarter	3.51	2.05
Third Quarter	6.25	3.28
Fourth Quarter	6.27	4.05

On February 10, 2010, the closing sale price of our common stock on the NASDAQ Global Market was \$4.19 per share and there were 216 record holders of our common stock.



Dividend Policy

We have never paid any dividends. We currently intend to retain all earnings, if any, for use in the expansion of our business and therefore do not anticipate paying any dividends in the foreseeable future. Additionally, the terms of our credit facility prohibit us from paying cash dividends without the lender’s consent.

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Item 6. Selected Financial Data

The following selected consolidated financial data has been derived from our audited consolidated financial statements. The audited consolidated financial statements for the fiscal years ended December 31, 2009, 2008, and 2007 are included elsewhere in this Annual Report on Form 10-K. The information set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and consolidated financial statements and notes thereto included herein.

	Year Ended December 31,				
	2009	2008	2007	2006	2005
(In thousands, except per share data)					
Consolidated Statement of Operations Data:					
Revenue:					
Product	\$ 52,441	\$ 37,631	\$ 27,017	\$ 14,422	\$ 6,889
License	—	33	754	250	250
Total revenue	52,441	37,664	27,771	14,672	7,139
Cost of product sales	13,181	10,380	10,539	6,330	3,859
Gross profit	39,260	27,284	17,232	8,342	3,280
Operating costs and expenses:					
Research and development	6,569	6,082	6,381	6,765	5,817
Marketing and sales	26,483	23,794	20,142	14,579	8,794
General and administrative	8,550	9,455	6,371	5,585	4,801
Termination of supply agreement	—	—	550	—	—
Total operating costs and expenses	41,602	39,331	33,444	26,929	19,412
Loss from operations	(2,342)	(12,047)	(16,212)	(18,587)	(16,132)
Total other income(expense)	(92)	55	1,137	1,044	614
Net loss	\$ (2,434)	\$ (11,992)	\$ (15,075)	\$ (17,543)	\$ (15,518)
Basic and diluted net loss per share	\$ (0.05)	\$ (0.28)	\$ (0.35)	\$ (0.44)	\$ (0.46)
Shares used in computing basic and diluted net loss per share	45,194	43,045	42,796	40,010	33,951
December 31,					
	2009	2008	2007	2006	2005
(In thousands)					
Consolidated Balance Sheet Data:					
Cash, restricted cash and cash equivalents	\$ 24,065	\$ 8,111	\$ 9,228	\$ 6,771	\$ 8,691
Marketable securities available-for-sale	—	—	—	13,417	8,959
Working capital	31,035	15,876	18,365	26,933	22,520
Total assets	51,292	37,263	40,043	52,686	47,944
Long term debt	83	4,250	—	—	—
Accumulated deficit	(146,164)	(143,730)	(131,738)	(116,663)	(99,120)
Total stockholders' equity	42,854	25,817	34,675	46,505	42,207

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with “Selected Financial Data” and our consolidated financial statements and the related notes included in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of various factors including the risks we discuss in Item 1A of Part I, “Risk Factors” and elsewhere in this Annual Report on Form 10-K.

Overview

We are engaged in the development, manufacturing, marketing and sale of minimally invasive treatments for aortic disorders. Our primary focus is the marketing and sale of the Powerlink System, a catheter-based alternative treatment to surgery for AAA. Beginning in 2009, our sole source of revenue is sales of the Powerlink System. Prior to 2009, we also generated license revenue from the licensing of our technology from our previous line of business.

For the year ended December 31, 2009, we had net sales of \$52.4 million, which was an increase of approximately 39% from the year ended December 31, 2008, and incurred a net loss of \$2.4 million. As of December 31, 2009, we had an accumulated deficit of approximately \$146.2 million. We have experienced year over year sales growth since the commercial launch of the Powerlink System in the United States in 2004. We now sell our products in the United States, Europe, Asia and South America.

As a result of our history of operating losses, we had limited resources with which to develop additional products beyond the Powerlink System. However, in 2009 we generated approximately \$5 million of cash flow from operations and received approximately \$14.7 million net proceeds from a public offering of our common stock, as well as entered into a new long term credit facility whereby we may borrow up to \$10 million. Based on this increase in capital resources, we have the ability to increase our research and development efforts to develop new technologies for the treatment of aortic disorders, which we believe is vital to the future growth of our business.

Summary of Accounting Policies and Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to collectibility of customer accounts, whether the cost of inventories can be recovered, the value assigned to and estimated useful life of intangible assets, the realization of tax assets and estimates of tax liabilities, contingent liabilities and the potential outcome of litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

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The following critical accounting policies and estimates were used in the preparation of the consolidated financial statements:

Revenue Recognition and Accounts Receivable

We comply with the revenue recognition guidelines in SEC Staff Accounting Bulletin No. 104, "Revenue Recognition." We recognize revenue when all of the following criteria are met:

- Persuasive evidence of an arrangement exists;
- The sales price is fixed or determinable;
- Collection of the relevant receivable is probable at the time of sale; and
- Products have been shipped or used and the customer has taken ownership and assumed risk of loss.

For domestic sales, we generally recognize revenue upon completion of a procedure, when our product is implanted in a patient. For international sales, we recognize revenue at the time of shipment of our products to a distributor.

In the past, we have earned royalty revenue, which was included in license revenue in the consolidated statement of operations, as a result of the sale of product rights and technologies to third parties. Royalties were recognized upon the sale of products subject to the royalty by the third party.

We do not offer rights of return and we have no post delivery obligations other than our specified warranty.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. These estimates are based on our review of the aging of customer balances, correspondence with the customer, and the customer's payment history. If additional information becomes available to us indicating the financial condition of the customer is deteriorating, additional allowances may be required.

Inventories

We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated realizable value based upon assumptions about future demand, as driven by economic and market conditions, and the product's shelf life. If actual demand, or economic or market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Goodwill, Intangible Assets and Long-Lived Assets

We record an impairment charge, or expense, for long-lived assets whenever events or changes in circumstances indicate that the value recorded for the asset may not be recoverable. Future changes in operations could cause us to write down the asset value and record an expense to better reflect our current estimate of its value. Goodwill and indefinite-lived intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the goodwill or indefinite-lived intangible assets are impaired. Factors that may impact whether there is potential goodwill impairment include a significant decrease in our stock price and our evaluation of a control premium that may be used when estimating our total fair value. Our stock price may decline, or other factors may arise, which could result in goodwill impairment in future periods. Factors that may impact whether there is a potential impairment to our indefinite-lived intangible assets include legal and regulatory considerations.

Income Taxes

We record the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the financial statements, as well as operating losses and tax credit carry forwards. We have recorded a full valuation allowance to reduce our deferred tax assets to zero, because we believe that, based upon a number of factors, it is more likely than

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not that the deferred tax assets will not be realized. If we were to determine that we would be able to realize our deferred tax assets in the future, an adjustment to the valuation allowance on our deferred tax assets would increase net income in the period such determination was made.

Stock-based compensation

We recognize compensation expense over a stock option award's vesting period based on the award's fair value at the date of grant. We use the Black-Scholes option pricing model to value stock option grants. The fair value for awards that are expected to vest is then amortized on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. The amount of expense attributed is net of an estimated forfeiture rate, which is updated as appropriate. This option pricing model requires the input of highly subjective assumptions, including the expected volatility of our common stock, pre-vesting forfeiture rate and the option's expected life. The financial statements include such amounts based on our best estimates and judgments.

Results of Operations

Comparison of Years Ended December 31, 2009 and 2008

Product Sales. Sales increased 39% to \$52.4 million in 2009 from \$37.6 million in 2008 primarily due to the increased productivity of our sales force, the introduction of new products including Powerlink XL, our suprarenal proximal extension, and the IntuiTrak delivery system, and increased physician acceptance of the Powerlink System. Domestic sales increased from \$31.9 million to \$43.7 million, and sales to distributors outside the United States increased from \$5.7 million in 2008 to \$8.8 million in 2009. This increase was driven primarily by the introduction of IntuiTrak to most of our international distributors. Additionally, we had higher sales to our distributors in South America and Japan and an initial sale generating stocking order from our distributor in China.

We expect that product sales will increase in 2010 by an estimated 18% to 26% from 2009, to \$62 million to \$66 million. Based on the timing of new product launches and continued improvements in sales force productivity, we expect that the majority of the revenue growth will be weighted in the second half of the year. Outside the United States, we expect growth in each of our major markets of Europe, Asia, and South America.

Cost of Product Revenue. The cost of product revenue, which includes labor, overhead, materials and parts, rent, depreciation, small tools and supplies, samples for destructive testing, and utilities, among other items, increased 27% from \$10.4 million in 2008 to \$13.2 million in 2009. The increase is primarily attributable to an increase in the volume of Powerlink System sales, partially offset by efficiencies in our manufacturing process.

Gross Profit. Gross profit increased 44% to \$39.3 million in 2009 from \$27.3 million in 2008. The increase in gross profit resulted from higher product sales in 2009 as compared to 2008 and from a favorable product mix due to new product introductions, which have a higher average selling price. Gross profit as a percentage of revenue increased to 75% in 2009 from 72% in 2008 for these reasons.

We believe that gross profit dollars will increase in 2010 due to higher commercial sales of the Powerlink System both in and outside of the United States. We also expect that gross profit as a percentage of product revenues will increase due to efficiencies from higher manufacturing volumes required to support sales growth.

Research, Development and Clinical. Research, development and clinical expenses increased by 8% to \$6.6 million from \$6.1 million in 2008. The increase primarily resulted from costs associated with the development of new products for the treatment of aortic disorders.

We expect that these expenses will significantly increase in 2010 as we pursue opportunities to develop additional new products for the treatment of aortic disorders and costs associated with the bilateral percutaneous clinical trial. We also expect expenses to increase in subsequent years as we increase our new product development activities.

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Marketing and Sales. Marketing and sales expenses increased by 11% to \$26.5 million from \$23.8 million in 2008. This increase was due to higher sales commission payouts on the 37% growth in domestic sales revenue and an increase in marketing efforts related to our product launches in 2009.

We expect that marketing and sales expense will increase in 2010 due to higher commission expense on the expected increase in sales and due to higher compensation costs associated with the expected increase in the number of sales territories by approximately 30% by the end of 2010.

General and Administrative. General and administrative expenses decreased by 10% to \$8.6 million from \$9.5 million in 2008. The decrease was primarily due to \$700,000 in costs associated with our chief executive officer succession, which occurred in May 2008, and significant legal fees that occurred in 2008. These reductions were partially offset by higher stock based compensation charges and incentive compensation accruals based on performance metrics in 2009. We expect that general and administrative expenses in 2010 will be approximately unchanged from 2009.

Other Income/(expense). Other income/(expense) decreased 267% to (\$92,000) in 2009 from \$55,000 in 2008. An increase in interest income was offset by expenses related to interest expense incurred in the first three quarters of 2009.

We expect that other income will increase due to interest income on a higher average cash balance in 2010, and lower interest expense.

Comparison of Years Ended December 31, 2008 and 2007

Product Sales. Sales increased 39% to \$37.6 million in 2008 from \$27.0 million in 2007 primarily due to the increased productivity of our domestic field sales personnel, and the introduction of our suprarenal proximal extensions and Powerlink XL products. Domestic sales increased from \$23.0 million to \$31.9 million, and sales to distributors outside the United States increased from \$4.0 million in 2007 to \$5.7 million in 2008. This increase was primarily due to sales to our distributor in Japan, as well as an increase in sales to distributors in South America.

License Revenue. License revenue decreased 96% to \$33,000 in 2008 from \$754,000 in 2007. License revenue from Abbott remained at the contractual minimum level of \$250,000 for 2007, and expectedly declined sharply in 2008 as the minimum royalty provision of the agreement expired at December 31, 2007. The license expired and was fully paid up in June 2008. Additionally in 2007, due to our licensing agreement with BioLucent, we received \$504,000 in royalties and fees, including a one-time payment of \$500,000 in exchange for a fully paid up license to certain of our patents in a certain field of use. Beginning January 1, 2008, sales of our Powerlink System were our only material source of revenue.

Cost of Product Revenue. The cost of product revenue, which includes labor, overhead, materials and parts, rent, depreciation, small tools and supplies, samples for destructive testing, and utilities, among other items, decreased 2% to \$10.4 million from \$10.5 million in 2007. This decrease is directly attributable to the substitution of lower-cost in-house produced graft material in a majority of the products sold in 2008.

Gross Profit. Gross profit increased 58% to \$27.3 million in 2008 from \$17.2 million in 2007. The increase in gross profit resulted from higher product sales in 2008 as compared to 2007 and a reduction in the per unit cost of product due to substitution of lower-cost in-house produced graft material in a majority of the products sold in 2008. Gross profit as a percentage of revenue increased to 72% in 2008 from 62% in 2007 for these reasons.

Research, Development and Clinical. Research, development and clinical expenses decreased by 5% to \$6.1 million from \$6.4 million in 2007. The decrease primarily resulted from lower costs associated with clinical trials in the 2008 period. We recorded \$236,000 in 2008 and \$417,000 in 2007, of stock compensation expense.

Marketing and Sales. Marketing and sales expenses increased by 18% to \$23.8 million from \$20.1 million in 2007. This increase was due to higher sales commission payouts on the 39% growth in domestic sales revenue, severance payments, and the implementation of an in-depth sales training program. We recorded \$1.0 million in 2008 and \$878,000 in 2007, respectively, of stock compensation expense.

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General and Administrative. General and administrative expenses increased by 48% to \$9.5 million from \$6.4 million in 2007. The increase was due primarily to increases in patent and legal fees, settlement of the legal dispute with Cook, our chief executive officer succession process, and our analysis and response to the unsolicited acquisition proposal from Elliott Associates. In addition, stock based compensation expense totaled \$1.4 million in 2008 as compared to \$894,000 in 2007.

Termination of Supply Agreement. Termination of supply agreement expense was \$550,000 in 2007. The expense was due to the third amendment to our supply agreement for ePTFE graft material with Bard Peripheral, dated September 21, 2007, which reduced the minimum purchase requirement for the 2007 year from \$2.9 million to \$2.2 million, and wherein both parties agreed to terminate the agreement on December 31, 2007. In consideration for the reduction in the minimum purchase requirement for the 2007 year, we paid \$550,000 to Bard Peripheral.

Other Income. Other income decreased 95% to \$55,000 from \$1.1 million in 2007. The decrease in other income was primarily the result of a realized gain of \$412,000 on our investment in BioLucent in 2007, lower interest income, and higher interest expense in 2008 due to drawing down on the term loan and revolving line of credit with Silicon Valley Bank in September 2008.

Liquidity and Capital Resources

For the years ended December 31, 2009 and 2008, we incurred net losses of \$2.4 million and \$12.0 million, respectively. As of December 31, 2009, we had an accumulated deficit of approximately \$146.2 million. Historically, we have relied on the sale and issuance of equity securities to provide a significant portion of funding for our operations. In August 2009, we completed a sale of our common stock that resulted in net proceeds of approximately \$14.8 million. In 2009, we began to generate positive cash flows from operations for the first time in our history.

In October 2009, we entered into a revolving credit facility with Wells Fargo Bank, National Association, or Wells, whereby we may borrow up to \$10.0 million. All outstanding amounts under the credit facility bear interest at a variable rate equal to the greater of 90 day LIBOR, the federal funds rate, or the lender's prime rate, plus 1.25%, which is payable on a monthly basis. The unused portion is subject to an unused revolving line facility fee, payable quarterly, in arrears, on a calendar year basis, in an amount equal to 0.2% per annum of the average unused portion of the revolving line, as determined by Wells. The credit facility also contains customary covenants regarding operations of our business and financial covenants relating to ratios of current assets to current liabilities and tangible net worth during any calendar quarter and is collateralized by all of our assets with the exception of our intellectual property. All amounts owing under the credit facility will become due and payable on April 30, 2012. As of December 31, 2009, we did not have any outstanding borrowings under this credit facility and we were in compliance with all covenants.

At December 31, 2009, we had cash and cash equivalents of \$24.1 million. We generated \$5.0 million of operating cash flow in 2009. We believe that our current cash balance, in combination with cash flows from operations and borrowings available under our credit facility, will be sufficient to meet anticipated cash needs for operating and capital expenditures for the foreseeable future. If we do not realize expected revenue and gross profit margin levels, are unable to manage our operating expenses in line with our revenues, cannot maintain our days sales outstanding accounts receivable level, we may not continue to achieve positive cash flow from operations, we may need to obtain additional financing.

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 bring these technologies to market, and to increase the size and productivity of our direct sales force. In order to achieve these objectives, we may need to seek additional sources of financing. In the event that we require additional funding, we will attempt to raise the required capital through either debt or equity arrangements.

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

- the need for additional capital to fund future development programs or sales force expansion;
- the need for additional capital to fund business development acquisition(s);
- our requirements for additional facility space or manufacturing capacity;

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- our requirements for additional information technology infrastructure and systems; and
- adverse outcome(s) from current or future litigation and the cost to defend such litigation.

If we are required to obtain additional financing, we may not be able to do so on acceptable terms, if at all. Even if we are able to obtain such financing it may cause substantial dilution for our stockholders, in the case of an equity financing, or may contain burdensome restrictions on the operations of our business, in the case of debt financing.

Accounts Receivable. Trade accounts receivable, net, increased 31% to \$8.3 million at December 31, 2009 from \$6.4 million at December 31, 2008. The increase was due to the 39% increase in product sales in 2009.

Inventories. Inventories decreased 22% to \$5.5 million at December 31, 2009 from \$7.1 million at December 31, 2008. The decrease was primarily the result of a lower cost basis of the ePTFE graft material and the complete transition to the Intuitrak product line.

Accounts Payable and Accrued Expenses. Accounts payable and accrued expenses increased 34% to \$7.2 million at December 31, 2009 from \$5.4 million at December 31, 2008. The increase is primarily attributable higher accruals in 2009 related to incentive bonus and commission programs and higher accrued legal services

Cash Provided by/(Used in) Operations. In 2009, cash provided by operations was \$5.0 million as compared to cash used in operations of (\$6.0) in 2008. The change was primarily attributed to a higher sales volume and improved inventory turns.

Cash Used in Investing Activities. Cash used in investing activities decreased to \$98,000 for the year ended December 31, 2009 from \$447,000 for the year ended December 31, 2008. The change was due to the elimination of a restricted cash requirement of \$500,000 from our primary lender.

Cash Provided by Financing Activities. Cash provided by financing activities was \$11.5 million for the year ended December 31, 2009 from \$5.5 million for the year ended December 31, 2008, primarily as a result of our equity offering of \$14.8 million in 2009. In 2008, we borrowed \$5.0 million, which was repaid in 2009.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements.

Commitments

As of December 31, 2009, expected future cash payments related to contractual obligations were as follows:

	<u>Total</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<u>(In thousands)</u>					
Contractual Obligations:						
Operating lease obligations	\$ 925	\$512	\$353	\$25	\$20	\$15
Long term debt	162	79	83			
Interest expense on borrowings	8	6	2			
Total	\$1,095	\$597	\$438	\$25	\$20	\$15

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board, or the FASB, issued Accounting Standards Codification, or ASC, FASB ASC topic 805, "Business Combinations" (ASC 805). ASC 805 is a revision to previously existing guidance on accounting for business combinations. The statement retains the fundamental concept of the purchase method of accounting, and introduces new requirements for the recognition and measurement of assets acquired, liabilities assumed and noncontrolling interests. The statement is effective for fiscal years beginning after December 15, 2008. As of December 31, 2009, the adoption of ASC 805 had no impact on our consolidated financial statements.

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In December 2007, the FASB issued FASB ASC topic 810, "Consolidation" (ASC 810). ASC 810 requires that noncontrolling interests be reported as stockholders equity. ASC 810 also establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary as long as that ownership change does not result in deconsolidation. ASC 810 is required to be applied prospectively in 2009, except for the presentation and disclosure requirements which are to be applied retrospectively. The statement is effective for fiscal years beginning after December 15, 2008. As of December 31, 2009, the adoption of ASC 810 had no impact on our consolidated financial statements.

In April 2008, the FASB issued FASB ASC topic 350, "Intangibles-Goodwill and Other" (ASC 350), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets." ASC 350 allows an entity to use its own historical experience in renewing or extending similar arrangements, adjusted for specified entity-specific factors, in developing assumptions about renewal or extension used to determine the useful life of a recognized intangible asset and it is effective for fiscal years and interim periods beginning after December 15, 2008. Additional disclosures are required to enable financial statement users to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement. The guidance for determining the useful life of a recognized intangible asset is to be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements are to be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. As of December 31, 2009, the adoption of ASC 350 had no impact on our consolidated financial statements.

In June 2008, the FASB issued FASB ASC topic 260, "Earnings Per Share" (ASC 260). ASC 260 clarifies that share-based payment awards that entitle their holders to receive nonforfeitable dividends before vesting should be considered participating securities. As participating securities, these instruments should be included in the calculation of basic earnings per share. ASC 260 is effective for financial statements issued for fiscal years beginning after December 15, 2008, as well as interim periods in those years. Once effective, all prior period earnings per share data presented must be adjusted retrospectively and early application is not permitted. As of December 31, 2009, the adoption of ASC 260 had no impact on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We do not believe that we currently have material exposure to interest rate, foreign currency exchange rate or other relevant market risks.

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Interest Rate and Market Risk. Our exposure to market risk for changes in interest rates relates primarily to our revolving credit facility. Under our revolving credit facility all outstanding amounts bear interest at a variable rate equal to the greater of 90 day LIBOR, the federal funds rate, or the lender's prime rate, plus 1.25%. As of December 31, 2009, we had no amounts outstanding under the revolving line of credit. We may be exposed to market risk with respect to the revolving line of credit due to changes in interest rates.

We do not use derivative financial instruments in our investment portfolio. We place our investments with high credit quality issuers and, by policy, limit the amount of credit exposure to any one issuer. 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 the safest and highest credit quality securities and by constantly positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. At December 31, 2009, our investment portfolio consisted of money market instruments.

Foreign Currency Transaction Risk. We do not currently have material foreign currency exposure as the majority of our assets are denominated in U.S. currency and our foreign-currency based transaction exchange risk is not material. For the years ended December 31, 2009, 2008, and 2007, we recorded (\$49,000), \$194,000, and \$51,000, respectively, of foreign currency transaction gains (losses).

Item 8. Financial Statements and Selected Quarterly Financial Data

The financial statements required by this Item 8 are set forth at the pages indicated at Item 15(a)(1).

Summarized Quarterly Data (Unaudited)

	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
	<i>(in thousands, except per share amounts)</i>			
2009:				
Total revenues	\$11,834	\$13,168	\$ 13,777	\$ 13,662
Gross profit	8,929	9,912	10,118	10,301
Net loss	(1,177)	(425)	(156)	(676)
Basic and diluted net loss per share	(0.03)	(0.01)	(0.00)	(0.01)
2008:				
Total revenues	\$ 8,329	\$ 9,273	\$ 9,383	\$ 10,679
Gross profit	5,798	6,719	6,923	7,844
Net loss	(3,692)	(3,762)	(2,962)	(1,576)
Basic and diluted net loss per share	(0.09)	(0.09)	(0.07)	(0.04)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. This process includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts

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and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based on our assessment, we have concluded that, as of December 31, 2009, our internal control over financial reporting was effective based on those criteria.

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The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report, which is included herein.

Disclosure 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 of December 31, 2009, pursuant to Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures, as of such date, were effective.

Changes in internal control over financial reporting

There has been no change in our internal control over financial reporting during the fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III**Item 10. Directors, Executive Officers and Corporate Governance**

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of December 31, 2009 and delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on May 20, 2010.

Item 11. Executive Compensation

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of December 31, 2009 and delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on May 20, 2010.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Certain information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of December 31, 2009 and delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on May 20, 2010.

Equity Compensation Plan Information

The following table sets forth information regarding outstanding options and rights and shares reserved for future issuance under our existing equity compensation plans as of December 31, 2009:

<u>Plan Category</u>	<u>Number of Securities to be Issued upon Exercise of Outstanding Options (a)</u>	<u>Weighted Average Exercise Price of Outstanding Options (b)</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A) (c)</u>
Equity compensation plans approved by security holders:			
2006 Stock Incentive Plan	4,940,302	\$ 2.83	717,561
1996 Stock Option/ Stock Issuance Plan	1,206,342	\$ 5.23	—
2006 Employee Stock Purchase Plan	—	—	1,031,981
Equity compensation plans not approved by security holders:			
1997 Supplemental Stock Option Plan	4,500	\$ 7.00	—
Total	6,151,144	\$ 3.30	1,749,542

1997 Supplemental Stock Option Plan

This stock option plan was used to provide compensation to non-employees, typically as part of a consulting services arrangement. The plan authorized the issuance of non-qualified stock options only. We account for non-employee stock-based awards, in which goods or services are the consideration received for the stock options issued, in accordance with the provisions of SFAS No. 123 and related interpretations. (See Note 1 and 11 to the consolidated financial statements for additional information on recognition of expense associated with non-employee option grants under the 1997 Supplemental Stock Option Plan).

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of December 31, 2009 and delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on May 20, 2010.

Item 14. Principal Accountant Fees and Services

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of December 31, 2000 and delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on May 20, 2010.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

1. Financial Statements.

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets — December 31, 2009 and 2008

Consolidated Statements of Operations for the years ended December 31, 2009, 2008 and 2007

Consolidated Statements of Stockholders' Equity and Comprehensive Loss for the years ended December 31, 2009, 2008 and 2007

Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2008 and 2007

Notes to Consolidated Financial Statements for the years ended December 31, 2009, 2008 and 2007

2. Financial Statement Schedule.

Schedule II — Valuation and Qualifying Accounts

Schedules not listed above have been omitted because they are not applicable or are not required to be set forth herein as such information is included in the Consolidated Financial Statements or the notes thereto.

3. Exhibits.

The following exhibits are filed as part of this Annual Report on Form 10-K:

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 to Endologix Quarterly Report on Form 10-Q, filed with the SEC on July 28, 2009).
3.2	Amended and Restated Bylaws (Incorporated by reference to Exhibit 3.2 to Endologix Annual Report on Form 10-K filed with the SEC on March 29, 2001).
4.1	Specimen Certificate of Common Stock (Incorporated by reference to Exhibit 4.1 to Amendment No. 2 to Endologix Registration Statement on Form S-1, No. 333-04560, filed with the SEC on June 10, 1996).
10.1(2)	1997 Supplemental Stock Option Plan (Incorporated by reference to Exhibit 99.1 to Endologix Registration Statement on Form S-8, No. 333-42161, filed with the SEC on December 12, 1997).
10.2(2)	1996 Stock Option/Stock Issuance Plan (Incorporated by reference to Exhibit 4.1 to Endologix Registration Statement on Form S-8, No. 333-122491, filed with the SEC on February 2, 2005).
10.3(2)	2006 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 to Endologix Current Report on Form 8-K, filed with the SEC on May 26, 2006).
10.4(2)	Form of Stock Option Agreement under 2006 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 to Endologix Quarterly Report on Form 10-Q, filed with the SEC on November 9, 2006).
10.5(2)	Form of Restricted Stock Award Agreement under 2006 Stock Incentive Plan (Incorporated by reference to Exhibit 10.2 to Endologix Quarterly Report on Form 10-Q, filed with the SEC on November 9, 2006).
10.6(2)	2006 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.1 to Endologix Current Report on Form 8-K, filed with the SEC on June 17, 2009).
10.7	Form of Indemnification Agreement entered into with Endologix officers and directors (Incorporated by reference to Exhibit 10.41 to Endologix Quarterly Report on Form 10-Q, filed with the SEC on November 13, 2002).
10.8	Standard Industrial/Commercial Single-Tenant Lease — Net, dated November 2, 2004, by and between Endologix and Del Monico Investments, Inc. (Incorporated by reference to Exhibit 10.46 to Endologix Current Report on Form 8-K, filed with the SEC on November 24, 2004).

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<u>Exhibit Number</u>	<u>Description</u>
10.8.1	Addendum No. 2 to Standard Industrial/Commercial Single-Tenant Lease — Net, by and between Endologix, Inc. and Del Monico Investments, Inc., dated June 9, 2009 (Incorporated by reference to Exhibit 10.1 to Endologix Quarterly Report on Form 10-Q, filed with the SEC on November 2, 2009).
10.9	Loan and Security Agreement, dated as of February 21, 2007, by and between Endologix and Silicon Valley Bank (Incorporated by reference to Exhibit 10.13 to Endologix Quarterly Report on Form 10-Q, filed with the SEC on May 9, 2007).
10.9.1	First Amendment to Loan and Security Agreement, dated as of July 22, 2008, by and between Endologix and Silicon Valley Bank (Incorporated by reference to Exhibit 10.1 to Endologix Current Report on Form 8-K, filed with the SEC on July 28, 2008).
10.9.2	Second Amendment to Loan and Security Agreement, dated as of March 3, 2009, by and between Endologix and Silicon Valley Bank (Incorporated by reference to Exhibit 99.1 to Endologix Current Report on Form 8-K, filed with the SEC on March 5, 2009).
10.10(2)	Offer Letter, dated April 28, 2008, between Endologix and John McDermott (Incorporated by reference to Exhibit 10.1 to Endologix Current Report on Form 8-K, filed with the SEC on May 16, 2008).
10.11(2)	Employment Agreement, dated as of December 29, 2008, by and between Endologix and John McDermott (Incorporated by reference to Exhibit 10.1 to Endologix Current Report on Form 8-K, filed with the SEC on January 2, 2009).
10.12(2)	Employment Agreement, dated as of December 29, 2008, by and between Endologix and Robert J. Krist (Incorporated by reference to Exhibit 10.2 to Endologix Current Report on Form 8-K, filed with the SEC on January 2, 2009).
10.13(2)	Employment Agreement, dated as of December 29, 2008, by and between Endologix and Stefan G. Schreck, Ph.D. (Incorporated by reference to Exhibit 10.3 to Endologix Current Report on Form 8-K, filed with the SEC on January 2, 2009).
10.14(2)	Employment Agreement, dated as of December 29, 2008, by and between Endologix and Janet Fauls (Incorporated by reference to Exhibit 10.4 to Endologix Current Report on Form 8-K, filed with the SEC on January 2, 2009).
10.15	Standard Industrial/Commercial Multi -Tenant Lease — Net, by and between Endologix, Inc. and Four-In-One Associates, dated August 28, 2009 (Incorporated by reference to Exhibit 10.2 to Endologix Quarterly Report on Form 10-Q, filed with the SEC on November 2, 2009).
10.16	Credit Agreement, dated October 30, 2009, by and between Endologix and Wells Fargo Bank, National Association.
10.17	Employment Agreement, dated as of April 13, 2009, by and between Endologix, Inc. and Joseph DeJohn.
14	Code of Ethics for Chief Executive Officer and Principal Financial Officers (Incorporated by reference to Exhibit 14 to Endologix Annual Report on Form 10-K filed with the SEC on March 26, 2004).
21.1	List of Subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included on signature page hereto).
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(b)/15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(b)/15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
(1)	Portions of this exhibit are omitted and were filed separately with the Securities and Exchange Commission pursuant to Endologix application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.
(2)	These exhibits are identified as management contracts or compensatory plans or arrangements of Endologix pursuant to Item 15(a)(3) of Form 10-K.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Endologix, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Endologix, Inc. and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2), presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Orange County, California
March 5, 2010

ENDOLOGIX, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2009	2008
(In thousands, except share and per share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,065	\$ 7,611
Restricted cash equivalents	—	500
Accounts receivable, net of allowance for doubtful accounts of \$97 and \$72	8,342	6,371
Other receivables	3	3
Inventories	5,540	7,099
Other current assets	389	443
Total current assets	<u>38,339</u>	<u>22,027</u>
Property and equipment, net	2,089	2,993
Goodwill	4,631	4,631
Intangibles, net	6,104	7,508
Other assets	129	104
Total assets	<u>\$ 51,292</u>	<u>\$ 37,263</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7,225	\$ 5,401
Current portion of long term debt	79	750
Total current liabilities	7,304	6,151
Long-term liabilities:		
Long term debt	83	4,250
Other long-term liabilities	1,051	1,045
Total long-term liabilities	1,134	5,295
Total liabilities	<u>8,438</u>	<u>11,446</u>
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.001 par value; 75,000,000 shares authorized, 49,152,000 and 44,365,000 shares issued, and 48,657,000 and 43,870,000 outstanding	49	44
Additional paid-in capital	189,656	170,239
Accumulated deficit	(146,164)	(143,730)
Treasury stock, at cost, 495,000 shares	(661)	(661)
Accumulated other comprehensive loss	(26)	(75)
Total stockholders' equity	<u>42,854</u>	<u>25,817</u>
Total liabilities and stockholders' equity	<u>\$ 51,292</u>	<u>\$ 37,263</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

ENDOLOGIX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2009	2008	2007
	(In thousands, except per share amounts)		
Revenue:			
Product	\$ 52,441	\$ 37,631	\$ 27,017
License	—	33	754
Total revenue	<u>52,441</u>	<u>37,664</u>	<u>27,771</u>
Cost of sales:			
Cost of product revenue	<u>13,181</u>	<u>10,380</u>	<u>10,539</u>
Gross profit	<u>39,260</u>	<u>27,284</u>	<u>17,232</u>
Operating costs and expenses:			
Research and development	6,569	6,082	6,381
Marketing and sales	26,483	23,794	20,142
General and administrative	8,550	9,455	6,371
Termination of supply agreement	—	—	550
Total operating costs and expenses	<u>41,602</u>	<u>39,331</u>	<u>33,444</u>
Loss from operations	<u>(2,342)</u>	<u>(12,047)</u>	<u>(16,212)</u>
Other income(expense):			
Interest income	48	170	664
Interest expense	(192)	(106)	—
Other income(expense), net	<u>52</u>	<u>(9)</u>	<u>473</u>
Total other income(expense)	<u>(92)</u>	<u>55</u>	<u>1,137</u>
Net loss	<u>\$ (2,434)</u>	<u>\$ (11,992)</u>	<u>\$ (15,075)</u>
Basic and diluted net loss per share	<u>\$ (0.05)</u>	<u>\$ (0.28)</u>	<u>\$ (0.35)</u>
Shares used in computing basic and diluted net loss per share	<u>45,194</u>	<u>43,045</u>	<u>42,796</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

ENDOLOGIX, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Stockholders' Equity	Comprehensive Loss
	Shares	Amount						
	(In thousands)							
Balance at December 31, 2006	<u>43,144</u>	<u>\$ 43</u>	<u>\$ 163,698</u>	<u>\$ (116,663)</u>	<u>\$ (661)</u>	<u>\$ 88</u>	<u>\$ 46,505</u>	
Exercise of common stock options	123	—	228	—	—	—	228	
Employee stock purchase plan	180	—	491	—	—	—	491	
Amortization of stock compensation expense	—	—	2,430	—	—	—	2,430	
Grant of stock awards	6	—	23	—	—	—	23	
Amortization expense of non-employee stock options	—	—	42	—	—	—	42	
Net loss	—	—	—	(15,075)	—	—	(15,075)	(15,075)
Unrealized holding loss arising during the period	—	—	—	—	—	(3)	(3)	(3)
Unrealized exchange rate gain	—	—	—	—	—	34	34	34
Balance at December 31, 2007	<u>43,453</u>	<u>\$ 43</u>	<u>\$ 166,912</u>	<u>\$ (131,738)</u>	<u>\$ (661)</u>	<u>\$ 119</u>	<u>\$ 34,675</u>	<u>\$ (15,044)</u>
Exercise of common stock options	30	—	29	—	—	—	29	
Employee stock purchase plan	357	—	480	—	—	—	480	
Amortization of stock compensation expense	—	—	2,381	—	—	—	2,381	
Grant of restricted stock	525	1	5	—	—	—	6	
Amortization expense of restricted stock	—	—	432	—	—	—	432	
Net loss	—	—	—	(11,992)	—	—	(11,992)	(11,992)
Unrealized exchange rate loss	—	—	—	—	—	(194)	(194)	(194)
Balance at December 31, 2008	<u>44,365</u>	<u>\$ 44</u>	<u>\$ 170,239</u>	<u>\$ (143,730)</u>	<u>\$ (661)</u>	<u>\$ (75)</u>	<u>\$ 25,817</u>	<u>\$ (12,186)</u>
Exercise of common stock options	238	—	782	—	—	—	782	
Employee stock purchase plan	489	1	785	—	—	—	786	
Sale of Common Stock	3,900	4	14,773	—	—	—	14,777	
Amortization of stock compensation expense	—	—	2,272	—	—	—	2,272	
Grant of restricted stock	160	—	—	—	—	—	—	
Amortization expense of restricted stock	—	—	772	—	—	—	772	
Amortization expense of non-employee stock options	—	—	33	—	—	—	33	
Net loss	—	—	—	(2,434)	—	—	(2,434)	(2,434)
Unrealized exchange rate gain	—	—	—	—	—	49	49	49
Balance at December 31, 2009	<u>49,152</u>	<u>\$ 49</u>	<u>\$ 189,656</u>	<u>\$ (146,164)</u>	<u>\$ (661)</u>	<u>\$ (26)</u>	<u>\$ 42,854</u>	<u>\$ (2,385)</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

ENDOLOGIX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
Operating activities:			
Net loss	\$ (2,434)	\$(11,992)	\$(15,075)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	2,765	2,483	2,322
Stock-based compensation and deferred compensation	3,092	2,900	2,444
Realized (gain)loss on investments	—	—	(412)
Loss on disposal of assets	—	23	—
Changes:			
Accounts receivable	(1,971)	(1,844)	(1,764)
Inventories	1,686	980	1,614
Other receivables and other assets	29	369	(6)
Accounts payable, accrued expenses and long term liabilities	1,830	1,078	(813)
Net cash provided by (used in) operating activities	<u>4,997</u>	<u>(6,003)</u>	<u>(11,690)</u>
Investing activities:			
Purchases of available-for-sale securities	—	—	(1,850)
Maturities of available-for-sale securities	—	—	15,650
Decrease in restricted cash equivalents	500	—	—
Capital expenditures for property and equipment	(598)	(447)	(437)
Net cash provided by (used in) investing activities	<u>(98)</u>	<u>(447)</u>	<u>13,363</u>
Financing activities:			
Proceeds from sale of common stock, net of expenses	14,777	—	—
Proceeds from sale of common stock under employee stock purchase plan	786	497	496
Proceeds from exercise of stock options	782	30	228
Borrowings for capital purchase, net	162	—	—
Borrowings under term loan and line of credit facilities, net	(5,000)	5,000	—
Net cash provided by financing activities	<u>11,507</u>	<u>5,527</u>	<u>724</u>
Effect of exchange rate changes on cash and cash equivalents	48	(194)	60
Net increase (decrease) in cash and cash equivalents	16,454	(1,117)	2,457
Cash and cash equivalents, beginning of year	7,611	8,728	6,271
Cash and cash equivalents, end of year	<u>\$24,065</u>	<u>\$ 7,611</u>	<u>\$ 8,728</u>
Supplemental Disclosure of Cash Flow Activities:			
Cash paid during the year for interest	<u>\$ 192</u>	<u>\$ 106</u>	<u>\$ —</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

ENDOLOGIX, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share or performance unit and per share amounts)

1. Business, Basis of Presentation and Summary of Critical Accounting Policies

Business and Basis of Presentation

Endologix, Inc. (the "Company") was incorporated in California in March 1992 and reincorporated in Delaware in June 1993. In January 1999, the Company merged with privately held Radiance Medical Systems, Inc. ("former Radiance"), and changed its name to Radiance Medical Systems, Inc. In May 2002, the Company merged with privately held Endologix, Inc., and changed its name to Endologix, Inc.

Since the merger in May 2002, the Company has been engaged in the development, manufacture, sales and marketing of minimally invasive therapies for the treatment of vascular disease. The Company's primary focus is the development of the Powerlink System, a catheter-based alternative treatment for abdominal aortic aneurysms, or AAA. AAA is a weakening of the wall of the aorta, the largest artery of the body.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions have been eliminated in consolidation. The Company operates in a single business segment.

Liquidity and Capital Resources

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. For the years ended December 31, 2009, 2008, and 2007, the Company incurred net losses of \$2,434, \$11,992 and \$15,075, respectively. As of December 31, 2009, the Company had an accumulated deficit of \$146,164. The Company believes that its continued growth, gross margins, expense controls, and its current cash and cash equivalents balance, in combination with cash flows from operations and borrowings available under its credit facility, will be sufficient to fund ongoing operations through at least December 31, 2010.

In the event that the Company requires additional funding to continue operations or to fund future development programs, it will attempt to raise the required capital through either debt or equity arrangements. The Company cannot provide any assurance that the required capital would be available on acceptable terms, if at all, or that any financing activity would not be dilutive to its current stockholders. If the Company is not able to raise additional funds, it may be required to significantly curtail its operations and this would have an adverse effect on its financial position, results of operations and cash flows. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Summary of Accounting Policies and Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to collectibility of customer accounts, whether the cost of inventories can be recovered, the value assigned to and estimated useful life of intangible assets, the realization of tax assets and estimates of tax liabilities, contingent liabilities and the potential outcome of litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

ENDOLOGIX, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands, except share or performance unit and per share amounts)

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, demand deposits and money market funds with original maturities of three months or less from the date of purchase.

Accounts Receivables

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in existing accounts receivable. The Company determines the allowance based on historical write-off experience. The Company reviews the allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. Account balances are charged off against the allowance when the Company believes it is probable the receivable will not be recovered.

Inventories

The Company values inventory at the lower of the actual cost to purchase or manufacture the inventory or the market value for such inventory. Cost is determined on the first-in, first-out method. The Company regularly reviews inventory quantities in process and on hand and records a provision for obsolete inventory based on actual loss experience and a forecast of product demand compared to the remaining shelf life.

Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, with the exception of the Company's in-house ePTFE manufacturing equipment, which is depreciated by a per unit produced basis and approximates a six year useful life. Leasehold improvements are amortized over the term of the lease or the estimated useful life of the asset, whichever is shorter. Maintenance and repairs are expensed as incurred while renewals or betterments are capitalized. Upon sale or disposition of property and equipment, any gain or loss is included in the statement of operations. The estimated useful lives for furniture and equipment range from three to seven years and the estimated useful life for leasehold improvements is five years.

Intangible Assets

Goodwill and other intangible assets with indefinite lives are not subject to amortization but are tested for impairment annually or whenever events or changes in circumstances indicate that the asset might be impaired. The Company most recently performed its annual impairment analysis as of June 30, 2009 and will continue to test for impairment annually as of June 30. No impairment was indicated.

The developed technology is being amortized over its estimated useful life of 10 years.

Long-Lived Assets

Long-lived assets and intangible assets with determinate lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company evaluates potential impairment by comparing the carrying amount of the asset with the estimated undiscounted future cash flows associated with the use of the asset and its eventual disposition. Should the review indicate that the asset is not recoverable, the Company's carrying value of the asset would be reduced to its estimated fair value, which is measured by future discounted cash flows.

ENDOLOGIX, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands, except share or performance unit and per share amounts)

Fair Value of Financial Instruments

The carrying amount of all financial instruments approximates fair value because of the short maturities of the instruments.

Concentrations of Credit Risk and Significant Customers

The Company maintains its cash and cash equivalents in deposit accounts and in money market securities administered by a major financial institution.

The Company sells its products primarily to hospitals and distributors worldwide. The Company performs credit evaluations of its customers' financial condition and generally does not require collateral from customers. Management believes that an adequate allowance for doubtful accounts has been provided.

No single customer accounted for more than 10% of the Company's total revenue in 2009, 2008, and 2007.

As of December 31, 2009 and December 31, 2008, no single customer accounted for more than 10% of the Company's accounts receivable balance.

Product Sales by Geographic Region

The Company had product sales by region, based on where the Company ships the product, as follows:

	Year Ended December 31,		
	2009	2008	2007
United States	\$43,682	\$31,950	\$23,049
Europe	2,964	3,095	2,998
Asia	2,870	1,370	70
South America	2,717	1,033	727
Other	208	183	173
	<u>\$52,441</u>	<u>\$37,631</u>	<u>\$27,017</u>

Revenue Recognition

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

- Persuasive evidence of an arrangement exists;
- The sales price is fixed or determinable;
- Collection of the relevant receivable is probable at the time of sale; and
- Products have been shipped or used and the customer has taken ownership and assumed risk of loss.

For domestic sales, the Company generally recognizes revenue upon completion of a procedure, when the product is implanted in a patient. For international sales, the Company recognizes revenue at the time of shipment of the products to a distributor.

From time to time, the Company may earn royalty revenue, from the licensing of its technology, which is included in license revenue in the consolidated statement of operations, as a result of the sale of product rights and technologies to third parties. Royalties are recognized upon the sale of products subject to the royalty, by the third party. Currently, the Company is not receiving royalty revenue.

ENDOLOGIX, INC

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands, except share or performance unit and per share amounts)**

The Company does not offer rights of return or price protection and has no post delivery obligations other than its specified warranty.

Shipping Costs

Shipping costs billed to customers are included in revenue with the related costs in costs of goods sold.

Foreign Currency

The assets and liabilities of foreign subsidiaries are translated at the rates of exchange at the balance sheet date. The income and expense items of these subsidiaries are translated at average monthly rates of exchange. The resulting translation gains and losses are included as a component of accumulated other comprehensive income on the consolidated balance sheet. Gains and losses resulting from foreign currency transactions, which are denominated in a currency other than the respective entity's functional currency are included in the consolidated statement of operations.

Income Taxes

The Company records the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the financial statements, as well as operating losses and tax credit carry forwards. It has recorded a full valuation allowance to reduce its deferred tax assets to zero, because the Company believes that, based upon a number of factors, it is more likely than not that the deferred tax assets will not be realized. If the Company were to determine that it would be able to realize their deferred tax assets in the future, an adjustment to the valuation allowance on its deferred tax assets would increase net income in the period such determination was made.

Net Loss Per Share

Net loss per common share is computed using the weighted average number of common shares outstanding during the periods presented. Because of the net losses during the years ended December 31, 2009, 2008, and 2007, options to purchase the common stock of the Company were excluded from the computation of net loss per share because the effect would have been antidilutive.

If anti-dilutive stock options were included, the number of shares used to compute net loss per share would have been increased by approximately 3,389,000 shares, 4,802,000 shares, and 2,874,000 shares, for the years ended December 31, 2009, 2008 and 2007, respectively. Of these amounts, 2,422,000, 4,746,000, and 2,678,000 shares had an exercise price above the average closing price for the years ended December 31, 2009, 2008, and 2007, respectively.

Research and Development Costs

Research and development costs are expensed as incurred.

ENDOLOGIX, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands, except share or performance unit and per share amounts)

Comprehensive Income (Loss)

Comprehensive income (loss) includes unrealized holding gains and losses and other items that have been previously excluded from net income (loss) and reflected instead in stockholders' equity. Comprehensive income (loss) includes net loss, the effect of foreign currency translation adjustments, and unrealized holding gains (losses) on marketable securities classified as available-for-sale.

Product Warranty

Within six months of shipment, certain customers may request replacement of products they receive that do not meet the manufacturer's product specifications. No other warranties are offered and the Company disclaims responsibility for any consequential or incidental damages associated with the use of the products. Historically, the Company has not experienced a significant amount of costs as a result of its product warranty policy.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board, or the FASB, issued Accounting Standards Codification, or ASC, FASB ASC topic 805, "Business Combinations" (ASC 805). ASC 805 is a revision to previously existing guidance on accounting for business combinations. The statement retains the fundamental concept of the purchase method of accounting, and introduces new requirements for the recognition and measurement of assets acquired, liabilities assumed and noncontrolling interests. The statement is effective for fiscal years beginning after December 15, 2008. As of December 31, 2009, the adoption of ASC 805 had no impact on the Company's consolidated financial statements.

In December 2007, the FASB issued FASB ASC topic 810, "Consolidation" (ASC 810). ASC 810 requires that noncontrolling interests be reported as stockholders equity. ASC 810 also establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary as long as that ownership change does not result in deconsolidation. ASC 810 is required to be applied prospectively in 2009, except for the presentation and disclosure requirements which are to be applied retrospectively. The statement is effective for fiscal years beginning after December 15, 2008. As of December 31, 2009, the adoption of ASC 810 had no impact on the Company's consolidated financial statements.

In April 2008, the FASB issued FASB ASC topic 350, "Intangibles-Goodwill and Other" (ASC 350), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets." ASC 350 allows an entity to use its own historical experience in renewing or extending similar arrangements, adjusted for specified entity-specific factors, in developing assumptions about renewal or extension used to determine the useful life of a recognized intangible asset and it is effective for fiscal years and interim periods beginning after December 15, 2008. Additional disclosures are required to enable financial statement users to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement. The guidance for determining the useful life of a recognized intangible asset is to be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements are to be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. As of December 31, 2009, the adoption of ASC 350 had no impact on the Company's consolidated financial statements.

In June 2008, the FASB issued FASB ASC topic 260, "Earnings Per Share" (ASC 260). ASC 260 clarifies that share-based payment awards that entitle their holders to receive nonforfeitable dividends before vesting should be considered participating securities. As participating securities, these instruments should be included in the calculation of basic earnings per share. ASC 260 is effective for financial statements issued for fiscal years beginning after December 15, 2008, as well as interim periods in those years. Once effective, all prior period earnings per share data presented must be adjusted retrospectively and early application is not permitted. As of December 31, 2009, the adoption of ASC 260 had no impact on the Company's consolidated financial statements.

ENDOLOGIX, INC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued**
(in thousands, except share or performance unit and per share amounts)**2. License Agreements**

In June 1998, the Company signed a technology license agreement with Guidant granting Guidant the right to manufacture and distribute stent delivery products using the Company's Focus technology. Under the agreement, the Company was entitled to receive certain milestone payments based upon the transfer of the technology to Guidant, and royalty payments based upon the sale of products using the Focus technology. In April 2006, Abbott acquired Guidant's vascular business, including all rights and obligations under the license. For the years ended December 31, 2008 and, 2007, the Company recorded \$33 and \$250, respectively, in royalties under the agreement. This royalty agreement expired in June of 2008, at which time Abbott acquired a fully paid up license for the underlying technology.

In September 2006, the Company licensed to BioLucent, Inc., a privately held medical device company, rights under certain patents held by the Company. In September 2007, Hologic, Inc. purchased BioLucent, Inc. Pursuant to this acquisition, the Company had the option to continue the royalty arrangement or to receive a one-time cash payment in exchange for a fully-paid up license. The Company elected to receive the one-time payment of \$500. For the year ended December 31, 2007, the Company recorded \$504 in royalties under the agreement and all payments were received.

3. Restricted Cash Equivalents

The Company has \$750 of available credit in conjunction with a Credit Card Services sub feature within the Company's revolving line of credit with Wells Fargo Bank. At December 31, 2008, the Credit Card Services Agreement required the Company to maintain a restricted cash balance of \$500 with the bank. At December 31, 2009, the Company was no longer required to maintain a restricted cash balance.

4. Inventories

Inventories consisted of the following:

	December 31,	
	2009	2008
Raw materials	\$2,025	\$2,467
Work in process	1,507	2,058
Finished goods	<u>2,395</u>	<u>3,342</u>
	5,927	7,867
Less reserve for excess and obsolescence	<u>(387)</u>	<u>(768)</u>
	<u>\$5,540</u>	<u>\$7,099</u>

ENDOLOGIX, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands, except share or performance unit and per share amounts)

5. Property and Equipment

Property and equipment consisted of the following:

	December 31,	
	2009	2008
Furniture and equipment	\$ 5,321	\$ 4,818
Leasehold improvements	2,127	2,032
	7,448	6,850
Less accumulated depreciation	(5,359)	(3,857)
	<u>\$ 2,089</u>	<u>\$ 2,993</u>

Depreciation expense for property and equipment for the years ended December 31, 2009, 2008, and 2007 was \$1,361, \$1,078 and \$916, respectively.

6. Intangibles

Intangibles consisted of the following:

	December 31,	
	2009	2008
Developed technology	\$ 14,050	\$14,050
Accumulated amortization	(10,654)	(9,250)
	3,396	4,800
Trademarks and trade names	2,708	2,708
Intangible assets, net	<u>\$ 6,104</u>	<u>\$ 7,508</u>

Amortization expense for intangible assets for the years ended December 31, 2009, 2008, and 2007 was \$1,404, \$1,405 and \$1,406, respectively. Estimated amortization in future years is as follows

Year Ending December 31,	
2010	\$1,405
2011	1,405
2012	586
Thereafter	—
	<u>\$3,396</u>

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

	December 31,	
	2009	2008
Accrued payroll and related expenses	\$4,629	\$2,629
Accounts payable	2,176	1,822
Accrued performance units	183	—
Customer deposits	122	684
Current portion of long term debt	79	750
Accrued clinical expenses	79	194
Other accrued expenses	36	72
	<u>\$7,304</u>	<u>\$6,151</u>

8. Long Term Liabilities

Long term liabilities consisted of the following:

	December 31,	
	2009	2008
Deferred income taxes	\$1,029	\$1,029
Term loan	—	3,000
Revolving credit facility	—	2,000
Other	184	16
Total long-term liabilities	1,213	6,045
Current portion of long-term debt	(79)	(750)
Long-term portion	<u>\$1,134</u>	<u>\$5,295</u>

ENDOLOGIX, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands, except share or performance unit and per share amounts)

On February 21, 2007, the Company entered into a revolving credit facility with Silicon Valley Bank (“SVB”), under which it could borrow up to \$5 million. The credit facility was collateralized by all of its assets with the exception of the Company’s intellectual property.

In July 2008, the Company entered into an amendment to the credit facility which added a term loan whereby the Company could borrow up to \$3.0 million and which extended the repayment date for borrowings under the revolving line of credit to July, 2010. The Company repaid all outstanding amounts under the credit facility with SVB in September 2009.

In October 2009, the Company terminated its revolving line of credit facility with SVB and entered into a revolving credit facility with Wells Fargo Bank, National Association (“Wells Fargo”), whereby the Company may borrow up to \$10.0 million. All outstanding amounts under the credit facility bear interest at a variable rate equal to the greater of 90 day LIBOR, the federal funds rate, or lender’s prime rate, plus 1.25%, which is payable on a monthly basis. The unused portion is subject to an unused revolving line facility fee, payable quarterly, in arrears, on a calendar year basis, in an amount equal to 0.2% per annum of the average unused portion of the revolving line, as determined by Wells Fargo. The credit facility also contains customary covenants regarding operations of the business and financial covenants, including requiring the Company to maintain a tangible net worth of \$23 million, and is collateralized by all of its assets with the exception of its intellectual property. All amounts owing under the credit facility will become due and payable on April 30, 2012. As of December 31, 2009, the Company did not have any outstanding borrowings under this credit facility and was in compliance with all covenants.

9. Commitments and Contingencies

Operating Leases

The Company leases its administrative, research and manufacturing facility and certain equipment under long-term, non-cancelable lease agreements that have been accounted for as operating leases. Certain of these leases include renewal options and require the Company to pay operating costs, including property taxes, insurance and maintenance as proscribed by the agreements.

Future minimum payments by year under non-cancelable operating leases with initial terms in excess of one year were as follows as of December 31, 2009:

Year Ending December 31,	
2010	512
2011	353
2012	25
2013	20
2014	15
Thereafter	—
	<u>\$925</u>

ENDOLOGIX, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands, except share or performance unit and per share amounts)

Rental expense charged to operations for all operating leases during the years ended December 31, 2009, 2008 and 2007, was \$414, \$312, and \$329, respectively.

Employment Agreements and Retention Plan

The Company has entered into employment agreements with its officers and “key employees” under which payment and benefits would become payable in the event of termination by the Company for any reason other than cause; or upon a change in control or corporate transaction, by the key employee for good reason, as such terms are defined in the agreement. If due, the payment will generally be equal to six months of the key employee’s then current salary for termination by the Company without cause, and generally be equal to twelve months of salary if by the key employee for good reason upon a change in control or corporate transaction.

10. Stockholders’ Equity

Authorized Shares of Common Stock

In October 2003, shareholders approved an increase in the number of authorized shares of common stock from 30,000,000 to 50,000,000. In May 2006, shareholders approved an amendment, which increased the number of authorized shares of common stock from 50,000,000 to 60,000,000. In May 2009, shareholders approved an amendment that increased the number of authorized shares of common stock from 60,000,000 to 75,000,000.

Sale of Common Stock

In August 2009, the Company completed a public offering of 3,900,000 shares of its common stock at a purchase price of \$4.10 per share, which resulted in net proceeds of approximately \$14,777 after deducting the offering expenses.

Stock Options

Pursuant to the Company’s 1996 Stock Option/Issuance Plan (the “1996 Plan”), the 1997 Supplemental Stock Option Plan (the “1997 Plan”), and the Company’s 2006 Stock Incentive Plan (the “2006 Plan” and together with the 1996 Plan and 1997 Plan, the “Plans”), either incentive stock options, non-qualified options, restricted stock, or awards may be granted. Under the Plans, options are granted at a price not less than 100% of the value of the Company’s common stock on the date of grant and are exercisable over a maximum term of ten years from the date of grant and generally vest over a four-year period.

At December 31, 2009 and 2008, there were approximately 717,000 and 1,676,000 shares of common stock available for future stock grants. The stock option activity under the plans is summarized below:

	2009		2008		2007	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding — Beginning of Year	4,985,261	\$ 3.69	4,124,739	\$ 4.34	3,396,929	\$ 4.38
Granted	1,096,460	3.56	2,025,000	2.57	1,556,500	4.08
Exercised	238,058	3.28	30,000	2.82	122,868	2.38
Forfeited	315,019	3.21	891,978	4.00	647,822	4.34
Expired	62,500	3.40	242,500	4.63	58,000	4.27
Outstanding — End of Year	<u>5,466,144</u>	<u>\$ 3.71</u>	<u>4,985,261</u>	<u>\$ 3.69</u>	<u>4,124,739</u>	<u>\$ 4.34</u>
Exercisable — End of Year	<u>3,168,307</u>	<u>\$ 4.07</u>	<u>2,266,879</u>	<u>\$ 4.52</u>	<u>2,059,617</u>	<u>\$ 4.56</u>
Weighted Average Fair Value of Options Granted						
During Year		<u>\$ 3.56</u>		<u>\$ 2.57</u>		<u>\$ 2.59</u>

Under the Plans, the total intrinsic value for shares outstanding was approximately \$9,172, \$11, and \$126 as of December 31, 2009, 2008, and 2007, respectively. The total intrinsic value for shares exercisable was approximately \$4,337, \$5, and \$126 as December 31, 2009, 2008, and 2007, respectively. The total intrinsic value of options exercised was approximately \$322, \$56, and \$126 in 2009, 2008, and 2007, respectively.

ENDOLOGIX, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands, except share or performance unit and per share amounts)

As of December 31, 2009, there was \$3,076 of total unrecognized compensation cost related to unvested stock options granted. This unrecognized compensation cost is expected to be recognized over a weighted average period of 2.4 years.

The following table summarizes information regarding stock grants outstanding at December 31, 2009:

Range of Exercise Prices	Outstanding			Exercisable	
	Granted Shares Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Granted Shares Exercisable	Weighted-Average Exercise Price
\$0.95 — 2.25	472,084	8.6	\$ 1.98	108,126	\$ 1.89
2.26 — 2.64	639,188	8.3	2.55	375,648	2.55
2.67 — 2.69	535,000	8.4	2.67	212,187	2.67
2.75 — 3.16	484,270	8.5	2.86	152,084	2.89
3.35 — 3.45	594,975	7.2	3.41	403,934	3.40
3.46 — 3.90	558,228	7.9	3.58	207,834	3.65
3.92 — 4.31	391,000	6.2	4.05	308,189	4.04
4.32 — 4.51	740,013	7.2	4.36	538,610	4.37
4.63 — 5.68	332,000	5.5	5.14	292,520	5.18
5.81 — 8.75	719,386	5.9	6.09	569,175	6.10
\$0.95 — 8.75	<u>5,466,144</u>	<u>7.4</u>	<u>\$ 3.71</u>	<u>3,168,307</u>	<u>\$ 4.07</u>

The weighted-average grant-date fair value of stock granted during 2009, 2008 and 2007 where the exercise price on the date of grant was equal to the stock price on that date, was \$3.56, \$2.57, and \$2.59, respectively.

Expense related to non-employee stock options is being amortized over the vesting period, which is generally four years. During the years ended December 31, 2009, 2008, and 2007, \$33, \$(8), and \$42, respectively, was recorded as compensation expense for the change in the fair value of unvested non-employee option grants. During the years ended December 31, 2009 and 2008, the Company did not grant any options to non-employees. For the year ended December 31, 2007, the Company granted 10,000 options to non-employees. As of December 31, 2009, 2008 and 2007, a total of 83,350, 95,000, and 187,000 non-employee stock options, respectively, were outstanding. As of December 31, 2009, 2008 and 2007, a total of 83,350, 76,667, and 168,667, non-employee stock options, respectively, were fully vested.

Restricted Stock

The following table summarizes activity and related information for our restricted stock awards under the Plans:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested as of December 31, 2007	—	\$ —
Granted	525,000	2.65
Vested	—	—
Nonvested as of December 31, 2008	<u>525,000</u>	<u>\$ 2.65</u>
Granted	160,000	3.25
Vested	—	—
Nonvested as of December 31, 2009	<u>685,000</u>	<u>\$ 2.79</u>

During the years ended December 31, 2009 and 2008, we granted 160,000 and 525,000 shares of restricted stock, respectively. We did not grant restricted stock during the year ended December 31, 2007. Restricted stock is granted subject to restrictions as to sale or other disposition of shares and to restrictions that require continuous employment with the Company. The restrictions generally expire in either two or four years from the date of grant. Grants with a two year expiration completely vest after two years. Grants with a four year term vest 25% after one year, with the remainder vesting in equal monthly amounts over the remaining three years. The grant-date fair value of shares granted during the years ended December 31, 2009 and 2008, was \$520 and \$1,389, respectively. The weighted-average grant-date fair value per share for restricted stock granted was based upon the closing market price of the Company's common stock on the grant dates of the awards and was \$3.25 and \$2.65 per share for the years ended December 31, 2009 and 2008, respectively. As of December 31, 2009, none of the shares vested. The Company recorded stock-based compensation related to restricted stock of \$772 and \$432 for the years ended December 31, 2009 and 2008, respectively. As of December 31, 2009, the unrecorded stock-based compensation balance related to restricted stock awards was \$694, and will be recognized over an estimated weighted average amortization period of 1.0 years.

ENDOLOGIX, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands, except share or performance unit and per share amounts)**Employee Stock Purchase Plan**

Under the terms of the Company's 2006 Employee Stock Purchase Plan (the "Purchase Plan"), eligible employees can purchase common stock through payroll deductions at a price equal to the lower of 85% of the fair market value of the Company's common stock at the beginning or end of the applicable offering period. In 2008, an additional 250,000 shares of common stock were approved and in 2009, another 1,500,000 shares of common stock were approved for issuance under the Purchase Plan. During the years ended December 31, 2009, 2008, and 2007, \$335, \$169, and \$155, respectively, was recorded as stock based compensation expense under the Purchase Plan. During 2009, 2008, and 2007, a total of approximately 489,000, 357,000, and 180,000, shares of common stock, respectively, were purchased at an average price of \$1.61, \$1.39, and \$2.74, respectively.

Stock Based Compensation

The Company uses the Black-Scholes option pricing model as the valuation model to calculate the fair value of stock based compensation. The model requires extensive use of financial estimates and accounting judgment, including estimates of the expected period of time employees will retain their vested stock options before exercising them, the expected volatility of the Company's common stock over the expected term, and the number of shares that are expected to be forfeited before they are vested. Application of alternative assumptions could produce significantly different estimates of the fair value of the stock-based compensation and as a result, significantly different results recognized in the consolidated statements of operations.

The weighted average of the assumptions used to estimate the fair value of stock options granted using the Black-Scholes valuation method was as follows:

	2009	2008	2007
Expected Life (in years) (1)	5.5	5.5	5.5
Expected Volatility (2)	55.8%	56.1%	71.2%
Risk Free Interest Rate (3)	2.5%	3.1%	4.5%
Dividend Yield (4)	0.0%	0.0%	0.0%

1. Estimated based on historical experience.
2. Volatility based on historical experience over a period equivalent to the expected life in years.
3. Based on the US Treasury constant maturity interest rate with a term consistent with the expected life of the options granted.
4. The Company does not pay dividends on its common stock and the Company currently does not have any plans to pay or declare any cash dividends.

Stock compensation expense was as follows:

	2009	2008	2007
General and Administrative	\$1,592	\$1,413	\$ 894
Marketing and Sales	989	1,018	878
Research, Development, and Clinical	299	236	417
Cost of Sales	177	245	195
Total Stock Based Compensation	<u>\$3,057</u>	<u>\$2,912</u>	<u>\$2,384</u>

In addition, the Company had \$63, \$78, and \$177 of stock based compensation capitalized in inventory as of December 31, 2009, 2008, and 2007, respectively.

ENDOLOGIX, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands, except share or performance unit and per share amounts)

11. Related Party Transactions

A director of a hospital facility from which the Company contracts for physician training and clinical research services also served as a member of the board of directors of the Company until the expiration of his term on June 11, 2009. Payments totaling \$23, \$97, and \$42 for the period ended June 11, 2009 and the years ended December 31, 2008, and 2007, respectively, were made to this hospital. In addition, this hospital purchased products from the Company totaling \$508, \$816, and \$490 for the period ended June 11, 2009, and the years ended December 31, 2008, and 2007, respectively. All transactions were in accordance with normal commercial terms and conditions.

12. Income Taxes

Income tax expense (benefit) consists of the following:

	2009	2008	2007
Current			
Federal	\$ 1	\$(30)	\$—
State	20	2	2
Foreign	—	—	—
	<u>21</u>	<u>(28)</u>	<u>2</u>
Deferred			
Federal	—	—	—
State	—	—	—
Total tax expense (benefit)	<u>\$ 21</u>	<u>\$(28)</u>	<u>\$ 2</u>

Income tax expense (benefit) is included in other income/(expense) on the Consolidated Statement of Operations.

Income taxes for 2009, 2008 and 2007 differ from income taxes for those years computed by applying the U.S. federal statutory rate of 34% to income/(loss) before taxes for those years as follows:

	2009	2008	2007
Tax expense (benefit) at U.S. statutory rate	\$(827)	\$(4,077)	\$(5,126)
State tax (benefit) net of federal benefit	20	(372)	(493)
Meals & Entertainment (50% addback)	114	128	114
Research & Development Credits	(117)	(110)	(201)
Stock based compensation	471	500	456
Net change in valuation allowance	361	3,898	5,240
Other, net	(1)	5	12
	<u>\$ 21</u>	<u>\$(28)</u>	<u>\$ 2</u>

During 2008, the Housing Assistance Act of 2008 was enacted. This act contains a provision that allows taxpayers to claim a partial refund of its research and development credit and alternative minimum tax credit carryforwards (“accelerated credits”) in lieu of claiming certain tax depreciation deductions. The Company has elected to claim the accelerated credit claim and as of December 31, 2009 and estimates a total refundable credit of approximately \$48.

Significant components of the Company’s deferred tax assets and (liabilities) are as follows at December 31:

	2009	2008
Net operating loss carryforwards	\$ 39,484	\$ 40,173
Accrued expenses	172	203
Tax credits	6,453	6,341
Bad debt	37	27
Depreciation and amortization	699	553
Inventory	146	289
Capitalized research and development	172	281
Developed technology and trademark	(1,279)	(1,808)
Trademarks and tradenames	(1,029)	(1,029)
Deferred compensation	2,007	1,328
Other	99	178
Deferred tax assets	46,961	46,536
Valuation allowance	(47,990)	(47,565)
Net deferred tax liability	<u>\$ (1,029)</u>	<u>\$ (1,029)</u>

ENDOLOGIX, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands, except share or performance unit and per share amounts)

Based upon the Company's history of continuing operating losses, realization of its deferred tax assets does not appear more likely than not. The Company recorded a valuation allowance of \$48.0 million. In determining the net asset subject to a valuation allowance, the Company recorded a deferred tax liability related to its indefinite-lived other intangible assets that is not expected to reverse in the foreseeable future resulting in a net deferred tax liability of approximately \$1.0 million after application of the valuation allowance.

The valuation allowance increased by \$425, \$4,973, and \$5,517, in 2009, 2008 and 2007, respectively.

At December 31, 2009, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately \$105,366 and \$58,436, respectively. The federal net operating loss carryforward will begin expiring in 2015. The state net operating loss began expiring in 2007. In addition, the Company had research and development and other tax credits for federal and state income tax purposes of approximately \$3,218, and \$3,077, respectively, which begin to expire in 2018. The state research and development credits do not expire for California purposes. In addition, the Company has approximately \$110 of California Manufacturers' Investment Credits, which begin to expire in 2010.

The table of deferred tax assets and liabilities shown above does not include certain deferred tax assets at December 31, 2009 and 2008 that arose directly from (or the use of which was postponed by) tax deductions related to equity compensation in excess of compensation recognized for financial reporting. Those deferred tax assets include federal and state net operating losses. Equity will be increased by \$91 if and when such deferred tax assets are ultimately realized. The Company uses SFAS 109 ordering for purposes of determining when excess tax benefits have been realized.

Utilization of the NOL and R&D credit carryforwards may be subject to a substantial annual limitation due to an "ownership change" (as defined) that may have occurred or that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), as well as similar state provisions. These ownership changes may limit the amount of NOL and R&D credit carryforwards, and other tax attributes, that can be utilized annually to offset future taxable income and tax, respectively. In general, an "ownership change" as defined by Section 382 of the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain stockholders or public groups. Since the Company's formation, the Company has raised capital through the issuance of capital stock on several occasions which, combined with the purchasing stockholders' subsequent disposition of those shares, may have resulted in such an ownership change, or could result in an ownership change in the future upon subsequent disposition.

The Company has not completed a study to assess whether an ownership change has occurred or whether there have been multiple ownership changes since the Company's formation due to the complexity and cost associated with such a study. If the Company has experienced an ownership change at any time since its formation, utilization of the NOL, R&D credit carryforwards, and other tax attributes, would be subject to an annual limitation under Section 382 of the Code. In general, the annual limitation, which is determined by first multiplying the value of the Company's stock at the time of the ownership change by the applicable long-term, tax-exempt rate, could further be subject to additional adjustments, as required. Any limitation may result in the expiration of a portion of the NOL or R&D credit carryforwards before utilization. Further, until a study is completed and any limitation is known, no amounts are being considered as an uncertain tax position or disclosed as an unrecognized tax benefit under FIN 48. Due to the existence of the valuation allowance, future changes in the Company's unrecognized tax benefits will not impact its effective tax rate. Any carryforwards that will expire prior to utilization as a result of a limitation under Section 382 will be removed from deferred tax assets with a corresponding reduction of the valuation allowance.

The results of operations for the years ended December 31, 2009, 2008 and 2007 include the net losses of the Company's wholly-owned German subsidiary of \$17, \$11, and \$14, respectively.

ENDOLOGIX, INC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands, except share or performance unit and per share amounts)

The Company has not recognized any additional liability for unrecognized tax benefits. The Company expects any resolution of unrecognized tax benefits, if created, would occur while the full valuation allowance of deferred tax assets is maintained; therefore, the Company does not expect to have any unrecognized tax benefits that, if recognized, would affect the effective tax rate.

The Company is subject to taxation in the U.S. and various states. The Company's tax years for 2006, 2007, and 2008 are subject to examination by the taxing authorities. With few exceptions, the Company is no longer subject to U.S. federal, state, local or foreign examinations by taxing authorities for years before 2006.

13. Employee Benefit Plan

The Company provides a 401(k) Plan for all employees 21 years of age or older. Under the 401(k) Plan, eligible employees voluntarily contribute to the Plan up to 100% of their salary through payroll deductions, subject to statutory limitations. Employer contributions may be made by the Company at its discretion based upon matching employee contributions, within limits, and profit sharing provided for in the Plan. No employer contributions were made in 2009, 2008, or 2007.

14. Legal Matters

The Company is involved in various claims and legal proceedings of a nature considered normal to its business, including product liability, intellectual property, employment and other matters. The Company is involved in litigation with Cook Medical Incorporated ("Cook"), alleging that the Company infringed two of Cook's patents, one of which was granted in 1991 and the other in 1998. The lawsuit was filed by Cook in the United States District Court, Southern District of Indiana, on October 8, 2009. In December 2009, the United States Patent Office ("PTO") granted the Company's request for a reexamination of the two patents asserted by Cook in the lawsuit. In January 2010, the United States District Court ordered that the lawsuit be stayed pending the outcome of the patent reexaminations. In February 2010, the PTO completed its reexamination process and concluded that one of the two patents in question was invalid, while the validity of the second was upheld. As of March 5, 2010, the legal proceedings remain stayed.

The Company accrues for contingent liabilities when it is probable that a liability has been incurred and the amount can be reasonably estimated. These accruals are adjusted periodically as assessments change or additional information becomes available. At December 31, 2009, the Company had not accrued for any contingent liabilities. While it is possible that the Company may incur costs in connection with this matter, it is unable to provide a reasonable estimate of the range of any such costs that may be incurred.

Management is of the opinion that the outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations, or cash flow. However, as these matters are ongoing, there is no assurance that these matters will be resolved favorably by the Company or will not result in a material liability.

(2) Financial Statement Schedule

ENDOLOGIX, INC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(in thousands, except share or performance unit and per share amounts)

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
Years Ended December 31, 2009, 2008 and 2007

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>		<u>Column D</u>	<u>Column E</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions (Reductions)</u>		<u>Deductions(a)</u>	<u>Balance at End of Period</u>
		<u>Charges to Costs and Expenses</u>	<u>Charged to Other Accounts</u>		
Year ended December 31, 2009					
Allowance for doubtful accounts	\$ 72	\$ 103	\$ —	\$ (78)	\$ 97
Reserve for excess and obsolete inventories	\$ 768	\$ 791	\$ —	\$ (1,172)	\$ 387
Income tax valuation allowance	\$ 47,565	\$ 425	\$ —	\$ —	\$47,990
Year ended December 31, 2008					
Allowance for doubtful accounts	\$ 100	\$ 89	\$ —	\$ (117)	\$ 72
Reserve for excess and obsolete inventories	\$ 660	\$ 318	\$ —	\$ (210)	\$ 768
Income tax valuation allowance	\$ 42,592	\$ 4,973	\$ —	\$ —	\$47,565
Year ended December 31, 2007					
Allowance for doubtful accounts	\$ 38	\$ 81	\$ —	\$ (19)	\$ 100
Reserve for excess and obsolete inventories	\$ 79	\$ 777	\$ —	\$ (196)	\$ 660
Income tax valuation allowance	\$ 37,075	\$ 5,517	\$ —	\$ —	\$42,592

(a) Deductions represent the actual write-off of accounts receivable balances or the disposal of inventory.

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 to Endologix Quarterly Report on Form 10-Q, filed with the SEC on July 28, 2009).
3.2	Amended and Restated Bylaws (Incorporated by reference to Exhibit 3.2 to Endologix Annual Report on Form 10-K filed with the SEC on March 29, 2001).
4.1	Specimen Certificate of Common Stock (Incorporated by reference to Exhibit 4.1 to Amendment No. 2 to Endologix Registration Statement on Form S-1, No. 333-04560, filed with the SEC on June 10, 1996).
10.1(2)	1997 Supplemental Stock Option Plan (Incorporated by reference to Exhibit 99.1 to Endologix Registration Statement on Form S-8, No. 333-42161, filed with the SEC on December 12, 1997).
10.2(2)	1996 Stock Option/Stock Issuance Plan (Incorporated by reference to Exhibit 4.1 to Endologix Registration Statement on Form S-8, No. 333-122491, filed with the SEC on February 2, 2005).
10.3(2)	2006 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 to Endologix Current Report on Form 8-K, filed with the SEC on May 26, 2006).
10.4(2)	Form of Stock Option Agreement under 2006 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 to Endologix Quarterly Report on Form 10-Q, filed with the SEC on November 9, 2006).
10.5(2)	Form of Restricted Stock Award Agreement under 2006 Stock Incentive Plan (Incorporated by reference to Exhibit 10.2 to Endologix Quarterly Report on Form 10-Q, filed with the SEC on November 9, 2006).
10.6(2)	2006 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.1 to Endologix Current Report on Form 8-K, filed with the SEC on June 17, 2009).
10.7	Form of Indemnification Agreement entered into with Endologix officers and directors (Incorporated by reference to Exhibit 10.41 to Endologix Quarterly Report on Form 10-Q, filed with the SEC on November 13, 2002).
10.8	Standard Industrial/Commercial Single-Tenant Lease — Net, dated November 2, 2004, by and between Endologix and Del Monico Investments, Inc. (Incorporated by reference to Exhibit 10.46 to Endologix Current Report on Form 8-K, filed with the SEC on November 24, 2004).
10.8.1	Addendum No. 2 to Standard Industrial/Commercial Single-Tenant Lease — Net, by and between Endologix, Inc. and Del Monico Investments, Inc., dated June 9, 2009 (Incorporated by reference to Exhibit 10.1 to Endologix Quarterly Report on Form 10-Q, filed with the SEC on November 2, 2009).
10.9	Loan and Security Agreement, dated as of February 21, 2007, by and between Endologix and Silicon Valley Bank (Incorporated by reference to Exhibit 10.13 to Endologix Quarterly Report on Form 10-Q, filed with the SEC on May 9, 2007).
10.9.1	First Amendment to Loan and Security Agreement, dated as of July 22, 2008, by and between Endologix and Silicon Valley Bank (Incorporated by reference to Exhibit 10.1 to Endologix Current Report on Form 8-K, filed with the SEC on July 28, 2008).
10.9.2	Second Amendment to Loan and Security Agreement, dated as of March 3, 2009, by and between Endologix and Silicon Valley Bank (Incorporated by reference to Exhibit 99.1 to Endologix Current Report on Form 8-K, filed with the SEC on March 5, 2009).
10.10(2)	Offer Letter, dated April 28, 2008, between Endologix and John McDermott (Incorporated by reference to Exhibit 10.1 to Endologix Current Report on Form 8-K, filed with the SEC on May 16, 2008).
10.11(2)	Employment Agreement, dated as of December 29, 2008, by and between Endologix and John McDermott (Incorporated by reference to Exhibit 10.1 to Endologix Current Report on Form 8-K, filed with the SEC on January 2, 2009).
10.12(2)	Employment Agreement, dated as of December 29, 2008, by and between Endologix and Robert J. Krist (Incorporated by reference to Exhibit 10.2 to Endologix Current Report on Form 8-K, filed with the SEC on January 2, 2009).

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<u>Exhibit Number</u>	<u>Description</u>
10.13(2)	Employment Agreement, dated as of December 29, 2008, by and between Endologix and Stefan G. Schreck, Ph.D. (Incorporated by reference to Exhibit 10.3 to Endologix Current Report on Form 8-K, filed with the SEC on January 2, 2009).
10.14(2)	Employment Agreement, dated as of December 29, 2008, by and between Endologix and Janet Fauls (Incorporated by reference to Exhibit 10.4 to Endologix Current Report on Form 8-K, filed with the SEC on January 2, 2009).
10.15	Standard Industrial/Commercial Multi-Tenant Lease — Net, by and between Endologix, Inc. and Four-In-One Associates, dated August 28, 2009 (Incorporated by reference to Exhibit 10.2 to Endologix Quarterly Report on Form 10-Q, filed with the SEC on November 2, 2009).
10.16	Credit Agreement, dated October 30, 2009, by and between Endologix and Wells Fargo Bank, National Association.
10.17	Employment Agreement, dated as of April 13, 2009, by and between Endologix, Inc. and Joseph DeJohn.
14	Code of Ethics for Chief Executive Officer and Principal Financial Officers (Incorporated by reference to Exhibit 14 to Endologix Annual Report on Form 10-K filed with the SEC on March 26, 2004).
21.1	List of Subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included on signature page hereto).
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(b)/15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(b)/15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
(1)	Portions of this exhibit are omitted and were filed separately with the Securities and Exchange Commission pursuant to Endologix application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.
(2)	These exhibits are identified as management contracts or compensatory plans or arrangements of Endologix pursuant to Item 15(a)(3) of Form 10-K.

CREDIT AGREEMENT

THIS CREDIT AGREEMENT (this "Agreement") is entered into as of October 30, 2009, by and between ENDOLOGIX, INC. ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

Borrower has requested that Bank extend or continue credit to Borrower as described below, and Bank has agreed to provide such credit to Borrower on the terms and conditions contained herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree as follows:

ARTICLE I
CREDIT TERMS

SECTION 1.1 LINE OF CREDIT.

(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make advances to Borrower from time to time up to and including April 30, 2012, not to exceed at any time the aggregate principal amount of Ten Million Dollars (\$10,000,000) (the "Line of Credit"), the proceeds of which shall be used for general working capital and corporate purposes. Borrower's obligation to repay advances under the Line of Credit shall be evidenced by a promissory note dated as of October 30, 2009 (the "Line of Credit Note"), all terms of which are incorporated herein by this reference.

(b) Limitation on Borrowings. Outstanding borrowings under the Line of Credit, to a maximum of the principal amount set forth above, shall not at any time exceed an aggregate of Ten Million Dollars (\$10,000,000).

(c) Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue or cause an affiliate to issue letters of credit for the account of Borrower (each, a "Letter of Credit" and collectively, "Letters of Credit"); provided however, that the aggregate undrawn amount of all outstanding Letters of Credit shall not at any time exceed Five Hundred Thousand Dollars (\$500,000). The form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion. No Letter of Credit shall have an expiration date subsequent to the maturity date of the Line of Credit. The undrawn amount of all Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Letter of Credit shall be subject to the additional terms and conditions of the Letter of Credit agreements, applications and any related documents required by Bank in connection with the issuance thereof. Each drawing paid under a Letter of Credit shall be deemed an advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such advances; provided however, that if advances under the Line of Credit are not available, for any reason, at the time any drawing is paid, then Borrower shall immediately pay to Bank the full amount drawn, together with interest thereon from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest applicable to advances under the Line of Credit. In such event Borrower agrees that Bank, in its sole discretion, may debit any account maintained by Borrower with Bank for the amount of any such drawing.

(d) Credit Card Services Subfeature. Subject to the terms and conditions of this Agreement, Borrower may request corporate credit cards from Bank (the "Credit Card Services"). The aggregate limit of the corporate credit cards shall not exceed Seven Hundred Fifty Thousand Dollars (\$750,000), provided that availability under the Line of Credit shall be reduced by the aggregate limits of the corporate credit cards issued to Borrower. In addition, Bank may, in its sole reasonable discretion, charge as advances under the Line of Credit any amounts that become due or owing to Bank in connection with the Credit Card Services. The terms and conditions (including repayment and fees) of such Credit Card Services shall be subject to the terms and conditions of the Bank's standard forms of application and agreement for the Credit Card Services, which Borrower hereby agrees to execute.

(e) Borrowing and Repayment. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth above.

SECTION 1.2 INTEREST/FEEES.

(a) The outstanding principal balance of each credit subject hereto shall bear interest, and the amount of each drawing paid under any Letter of Credit shall bear interest from the date such drawing is paid to the date such amount is fully repaid by Borrower, at the rate of interest set forth in the Line of Credit Note.

(b) Computation and Payment. Interest shall be computed on the basis of a 360-day year, actual days elapsed. Interest shall be payable at the times and place set forth in each promissory note or other instrument or document required hereby.

(c) Commitment Fee. Borrower shall pay to Bank a non-refundable commitment fee for the Line of Credit equal to Forty Thousand Dollars (\$40,000), which fee shall be due and payable in full on October 30, 2009.

(d) Unused Commitment Fee. Borrower shall pay to Bank a fee equal to one fifth of one percent (0.20%) per annum (computed on the basis of a 360-day year, actual days elapsed) on the average daily unused amount of the Line of Credit, which fee shall be calculated on a yearly basis by Bank and shall be due and payable by Borrower in arrears within ten (10) days after each billing is sent by Bank.

(e) Letter of Credit Fees. Borrower shall pay to Bank (i) fees upon the issuance of each Letter of Credit equal to one and one quarter percent (1.25%) per annum (computed on the basis of a 360-day year, actual days elapsed) of the face amount thereof, and (ii) fees upon the payment or negotiation of each drawing under any Letter of Credit and fees upon the occurrence of any other activity with respect to any Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity. Notwithstanding the foregoing, with respect to any Letters of Credit that are cash secured to the satisfaction of Bank such Letter of Credit Fee shall be reduced to three quarters of one percent (0.75%).

SECTION 1.3 COLLECTION OF PAYMENTS. Borrower authorizes Bank to collect all principal, interest and fees due under each credit subject hereto by charging Borrower's deposit account number 4828785279 with Bank, or any other deposit account maintained by Borrower with Bank, for the full amount thereof. Should there be insufficient funds in any such deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower.

SECTION 1.4 COLLATERAL.

As security for all Indebtedness and other obligations of Borrower to Bank, Borrower has granted to Bank security interests in all Borrower's personal property, as more fully described in that certain Security Agreement between Borrower and Bank dated as of the date hereof.

The foregoing shall be evidenced by and subject to the terms of such security agreements, financing statements, deeds or mortgages, and other documents as Bank shall reasonably require, all in form and substance satisfactory to Bank. Borrower shall pay to Bank immediately upon demand the full amount of all charges, costs and expenses (to include fees paid to third parties and all allocated costs of Bank personnel), expended or incurred by Bank in connection with any of the foregoing security, including without limitation, filing and recording fees and costs of appraisals, audits and title insurance.

SECTION 1.5 SUBORDINATION OF DEBT. All indebtedness and other obligations of Borrower to any other party shall be subordinated in right of repayment to all indebtedness and other obligations of Borrower to Bank, as evidenced by and subject to the terms of subordination agreements in form and substance satisfactory to Bank.

ARTICLE II
REPRESENTATIONS AND WARRANTIES

Borrower makes the following representations and warranties to Bank, which representations and warranties shall survive the execution of this Agreement and shall continue in full force and effect until the full and final payment, and satisfaction and discharge, of all obligations of Borrower to Bank subject to this Agreement.

SECTION 2.1 LEGAL STATUS. Borrower is a corporation, duly organized and existing and in good standing under the laws of Delaware, and is qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could reasonably be expected to have a material adverse effect on Borrower.

SECTION 2.2 AUTHORIZATION AND VALIDITY. This Agreement and each promissory note, contract, instrument and other document required hereby or at any time hereafter delivered to Bank in connection herewith (collectively, the "Loan Documents") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

SECTION 2.3 NO VIOLATION. The execution, delivery and performance by Borrower of each of the Loan Documents do not violate any provision of any law or regulation, or contravene any provision of the Certificate of Incorporation or By-Laws of Borrower, or result in any breach of or default under any contract, obligation, indenture or other instrument to which Borrower is a party or by which Borrower may be bound.

SECTION 2.4 LITIGATION. Except as disclosed in Schedule 2.4 hereof, there are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could reasonably be expected to have a material adverse effect on the financial condition or operation of Borrower other than those disclosed by Borrower to Bank in writing prior to the date hereof or, in the case of any subsequent extension, prior to such date (and approved in writing by Bank, such approval not to be unreasonably withheld).

SECTION 2.5 CORRECTNESS OF FINANCIAL STATEMENT. The annual financial statement of Borrower dated December 31, 2008, and all interim financial statements delivered to Bank since said date, true copies of which have been delivered by Borrower to Bank prior to the date hereof, (a) are complete and correct and present fairly the financial condition of Borrower, (b) disclose all liabilities of Borrower that are required to be reflected or reserved against under generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) have been prepared in accordance with generally accepted accounting principles consistently applied. Since the dates of such financial statements there has been no material adverse change in the financial condition of Borrower, nor has Borrower mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Bank or as otherwise permitted by Bank in writing.

SECTION 2.6 INCOME TAX RETURNS. Borrower has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year.

SECTION 2.7 NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which Borrower is a party or by which Borrower may be bound that requires the subordination in right of payment of any of Borrower's obligations subject to this Agreement to any other obligation of Borrower.

SECTION 2.8 PERMITS, FRANCHISES. Borrower possesses, and will hereafter possess, all permits, consents, approvals, franchises and licenses required and rights to all trademarks, trade names, patents, and fictitious names, if any, necessary to enable it to conduct the business in which it is now engaged in compliance with applicable law.

SECTION 2.9 ERISA. Borrower is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA"); Borrower has not violated any

provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower (each, a “Plan”); no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan initiated by Borrower; Borrower has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under generally accepted accounting principles.

SECTION 2.10 OTHER OBLIGATIONS. Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

SECTION 2.11 ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Bank in writing prior to the date hereof, Borrower is in compliance in all material respects with all applicable federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower’s operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Borrower has no material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

ARTICLE III
CONDITIONS

SECTION 3.1 CONDITIONS OF INITIAL EXTENSION OF CREDIT. The obligation of Bank to extend any credit contemplated by this Agreement is subject to the fulfillment to Bank’s satisfaction of all of the following conditions:

- (a) Approval of Bank Counsel. All legal matters incidental to the extension of credit by Bank shall be satisfactory to Bank’s counsel.
- (b) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed:
 - (i) This Agreement and each promissory note or other instrument or document required hereby, including the Line of Credit Note;
 - (ii) Certificate of Incumbency;
 - (iii) Corporate Resolution: Borrowing;
 - (iv) Security Agreement;

(v) Subject to Section 4.10, deposit and securities account control agreements for any accounts maintained outside of Bank;

(vi) an audit of the Collateral, the results of which shall be satisfactory to Bank; and

(vii) Such other documents as Bank may reasonably require under any other Section of this Agreement.

(c) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower, nor any material decline, as determined by Bank, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower.

(d) Insurance. Borrower shall have delivered to Bank evidence of insurance coverage on all Borrower's property, in form, substance, amounts, covering risks and issued by companies satisfactory to Bank, and where required by Bank, with loss payable endorsements in favor of Bank, including without limitation, policies of fire and extended coverage insurance covering all real property collateral required hereby, with replacement cost and mortgagee loss payable endorsements, and such policies of insurance against specific hazards affecting any such real property as may be required by governmental regulation or Bank.

SECTION 3.2 CONDITIONS OF EACH EXTENSION OF CREDIT. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

(a) Compliance. The representations and warranties contained herein and in each of the other Loan Documents shall be true on and as of the date of the signing of this Agreement and on the date of each extension of credit by Bank pursuant hereto, with the same effect as though such representations and warranties had been made on and as of each such date, and on each such date, no Event of Default as defined herein, and no condition, event or act which with the giving of notice or the passage of time or both would constitute such an Event of Default, shall have occurred and be continuing or shall exist.

(b) Documentation. Bank shall have received all additional documents which may be required in connection with such extension of credit.

ARTICLE IV AFFIRMATIVE COVENANTS

Borrower covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower shall, unless Bank otherwise consents in writing:

SECTION 4.1 PUNCTUAL PAYMENTS. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein, and immediately upon demand by Bank, the amount by which the outstanding principal balance of any credit subject hereto at any time exceeds any limitation on borrowings applicable thereto.

SECTION 4.2 ACCOUNTING RECORDS. Maintain adequate books and records in accordance with generally accepted accounting principles consistently applied, and permit any representative of Bank, at any reasonable time, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of Borrower.

SECTION 4.3 FINANCIAL STATEMENTS. Provide to Bank all of the following, in form and detail satisfactory to Bank:

- (a) not later than seventy-five (75) days after and as of the end of each fiscal year, cpa audited financial statements of Borrower;
- (b) not later than forty-five (45) days after and as of the end of each calendar quarter, financial statements of Borrower, prepared by Borrower;
- (c) contemporaneously with each annual and quarterly financial statement of Borrower required hereby, a certificate of the president or chief financial officer of Borrower that said financial statements are accurate and that there exists no Event of Default nor any condition, act or event which with the giving of notice or the passage of time or both would constitute an Event of Default;
- (d) not later than sixty (60) days after the end of each fiscal year, financial projections approved by Borrower's board of directors;
- (e) not later than forty-five (45) days after and as of the end of each calendar quarter, a report of the dollar amount and location of Borrower's inventory with third parties (including sales representatives and hospitals), in form and content reasonably acceptable to Bank and generally prepared by Borrower in the ordinary course of business; and
- (f) from time to time such other information as Bank may reasonably request.

For purposes of this Section 4.3, any financial statements that have been included in an Annual Report on Form 10-K or a Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission's Electronic Data Gathering Analysis & Retrieval system (or any successor system) shall be deemed delivered.

SECTION 4.4 COMPLIANCE. Preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business; and comply with the provisions of all documents pursuant to which Borrower is organized and/or which govern Borrower's continued existence and with the requirements of all laws, rules, regulations and orders of any governmental authority applicable to Borrower and/or its business.

SECTION 4.5 INSURANCE. Maintain and keep in force, for each business in which Borrower is engaged, insurance of the types and in amounts customarily carried in similar lines of business, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to Bank, and deliver to Bank from time to time at Bank's request schedules setting forth all insurance then in effect.

SECTION 4.6 FACILITIES. Keep all properties useful or necessary to Borrower's business in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

SECTION 4.7 TAXES AND OTHER LIABILITIES. Pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except (a) such as Borrower may in good faith contest or as to which a bona fide dispute may arise, and (b) for which Borrower has made provision, to Bank's satisfaction, for eventual payment thereof in the event Borrower is obligated to make such payment.

SECTION 4.8 LITIGATION. Promptly give notice in writing to Bank of any litigation pending or threatened against Borrower with a claim in excess of One Hundred Thousand Dollars (\$100,000).

SECTION 4.9 FINANCIAL CONDITION. Maintain Borrower's financial condition as follows using generally accepted accounting principles consistently applied and used consistently with prior practices (except to the extent modified by the definitions herein):

(a) Modified Quick Ratio greater than (i) 1.75 to 1.0 at all times from October 30, 2009 through October 30, 2010 and (ii) 2.00 to 1.0 at all times thereafter, with "Modified Quick Ratio" defined as (I) the aggregate of Borrower's unrestricted cash and receivables convertible into cash divided by (II) total current liabilities plus, to the extent not already included therein, all indebtedness owing from Borrower to Bank.

(b) Tangible Net Worth at all times greater than (i) Twenty Three Million Dollars (\$23,000,000) plus (ii) fifty percent (50%) of any proceeds received by Borrower from the sale of its equity securities (other than sales under the Borrower's equity incentive plans) after October 30, 2009, plus (iii) after Borrower achieves two (2) consecutive quarters of profitability, fifty percent (50%) of Borrower's quarterly net profit, with "Tangible Net Worth" defined as the aggregate of total stockholders' equity less any intangible assets and less any loans or advances to, or investments in, any related entities or individuals.

SECTION 4.10 ACCOUNTS. Borrower shall maintain its primary operating and other deposit accounts and securities accounts with Bank which accounts shall represent at least eighty percent (80%) of the dollar value of Borrower's accounts at all financial institutions. Notwithstanding the foregoing, (i) Borrower shall maintain no less than One Million Dollars (\$1,000,000) on deposit with Bank and Bank's Affiliates as of the date of this Agreement; and (ii) Borrower shall transfer the balance of its accounts (in accordance with the preceding paragraph) to Bank by November 16, 2009. Borrower shall provide Bank five (5) days

prior written notice before establishing any account at or with any bank or financial institution other than Bank. For each such account that Borrower at any time maintains, Borrower shall cause the applicable bank or financial institution at or with which any such account is maintained to execute and deliver an account control agreement with respect to such account to perfect Bank's lien in such account which control agreement may not be terminated without the prior written consent of Bank.

SECTION 4.11 NOTICE TO BANK. Promptly (but in no event more than five (5) days after the occurrence of each such event or matter) give written notice to Bank in reasonable detail of: (a) the occurrence of any Event of Default, or any condition, event or act which with the giving of notice or the passage of time or both would constitute an Event of Default; (b) any change in the name or the organizational structure of Borrower; (c) the occurrence and nature of any Reportable Event or Prohibited Transaction, each as defined in ERISA, or any funding deficiency with respect to any Plan; or (d) any termination or cancellation of any insurance policy which Borrower is required to maintain, or any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting Borrower's property in excess of an aggregate of One Hundred Thousand Dollars (\$100,000).

ARTICLE V
NEGATIVE COVENANTS

Borrower further covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower will not without Bank's prior written consent:

SECTION 5.1 USE OF FUNDS. Use any of the proceeds of any credit extended hereunder except for the purposes stated in Article I hereof.

SECTION 5.2 CAPITAL EXPENDITURES. Make any additional investment in fixed assets in excess of (i) Five Hundred Thousand Dollars (\$500,000) in fiscal year 2009; (ii) One Million Five Hundred Thousand Dollars (\$1,500,000), in the aggregate, for fiscal years 2010 and 2011; and (iii) One Million Five Hundred Thousand Dollars (\$1,500,000) in fiscal year 2012.

SECTION 5.3 LEASE EXPENDITURES. Incur operating lease expense in any calendar year in excess of an aggregate of Two Hundred Fifty Thousand Dollars (\$250,000).

SECTION 5.4 OTHER INDEBTEDNESS. Create, incur, assume or permit to exist any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) the liabilities of Borrower to Bank, (b) trade payables incurred in the ordinary course of business and (c) any other liabilities of Borrower existing as of, and disclosed to Bank prior to, the date hereof.

SECTION 5.5 MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Merge or consolidate, or permit any of its subsidiaries to merge or consolidate, with or into any other business organization (other than mergers or consolidations of a subsidiary into another subsidiary or into Borrower), or acquire, or permit any of its subsidiaries to acquire, all or substantially all of the capital stock or property of another person except where (a) each of the following conditions is applicable: (i) the cash consideration paid in connection with such transactions (including assumption of liabilities) does not in the aggregate exceed \$250,000 during any fiscal year, (ii) no Event of Default has occurred, is continuing or would exist after giving effect to such transactions, (iii) such transactions do not result in a change in control (as contemplated in Section 6.1(i) below), and (iv) Borrower is the surviving entity; or (b) the obligations of Borrower hereunder and under the other Loan Documents are repaid in full concurrently with the closing of any merger or consolidation of Borrower in which Borrower is not the surviving entity; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's assets except in the ordinary course of its business (including non-exclusive licenses and similar arrangements for the use of Borrower's property in the ordinary course of business). Notwithstanding the foregoing, Borrower may in-license intellectual property, at an expense to Borrower not to exceed \$500,000 during any fiscal year, except as otherwise consented to in writing by Bank from time to time, such consent not to be unreasonably withheld.

SECTION 5.6 GUARANTIES. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate any assets of Borrower as security for, any liabilities or obligations of any other person or entity, except any of the foregoing in favor of Bank.

SECTION 5.7 LOANS, ADVANCES, INVESTMENTS. Make any loans or advances to or investments in any person or entity, except any of the foregoing existing as of, and disclosed to Bank prior to, the date hereof.

SECTION 5.8 DIVIDENDS, DISTRIBUTIONS. Declare or pay any dividend or distribution either in cash, stock or any other property on Borrower's stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of Borrower's stock now or hereafter outstanding.

SECTION 5.9 PLEDGE OF ASSETS. Mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's assets now owned or hereafter acquired, except any of the foregoing in favor of Bank or which is existing as of, and disclosed to Bank in writing prior to, the date hereof

ARTICLE VI
EVENTS OF DEFAULT

SECTION 6.1 The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

(a) Borrower shall fail to pay when due any principal, interest, fees or other amounts payable under any of the Loan Documents; provided that, it shall not constitute an Event of Default if Borrower shall have sufficient funds on deposit with Bank to satisfy any payment when due but Bank fails or refuses to debit such account for such amount.

(b) Any financial statement or certificate furnished to Bank in connection with, or any representation or warranty made by Borrower or any other party under this Agreement or any other Loan Document shall prove to be incorrect, false or misleading in any material respect when furnished or made.

(c) Any default in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those specifically described as an "Event of Default" in this section 6.1), and with respect to any such default that by its nature can be cured, such default shall continue for a period of twenty (20) days from its occurrence.

(d) Any default in the payment or performance of any obligation, or any defined event of default, under the terms of any contract, instrument or document (other than any of the Loan Documents) pursuant to which Borrower, any guarantor hereunder or any general partner or joint venturer in Borrower if a partnership or joint venture (with each such guarantor, general partner and/or joint venturer referred to herein as a "Third Party Obligor") has incurred any debt or other liability to any person or entity, including Bank, in excess of \$100,000 in the aggregate.

(e) Borrower or any Third Party Obligor shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; Borrower or any Third Party Obligor shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or Borrower or any Third Party Obligor shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower or any Third Party Obligor shall be adjudicated a bankrupt, or an order for relief shall be entered against Borrower or any Third Party Obligor by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors.

(f) The filing of a notice of judgment lien against Borrower or any Third Party Obligor; or the recording of any abstract of judgment against Borrower or any Third Party Obligor in any county in which Borrower or such Third Party Obligor has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower or any Third Party Obligor; or the entry of a judgment against Borrower or any Third Party Obligor; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower or any Third Party Obligor.

(g) There shall exist or occur any event or condition that Bank in good faith believes materially impairs, or is substantially likely materially to impair, the prospect of payment or performance by Borrower, any Third Party Obligor, or the general partner of either if such entity is a partnership, of its material obligations under any of the Loan Documents.

(h) The dissolution or liquidation of Borrower or any Third Party Obligor if a corporation, partnership, joint venture or other type of entity; or Borrower or any such Third Party Obligor, or any of its directors, stockholders or members, shall take action seeking to effect the dissolution or liquidation of Borrower or such Third Party Obligor.

(i) Any change in control of Borrower or any entity or combination of entities that directly or indirectly control Borrower, with "control" defined as ownership of an aggregate of fifty percent (50%) or more of the common stock, members' equity or other ownership interest (other than a limited partnership interest).

(j) The sale, transfer, hypothecation, assignment or encumbrance, whether voluntary, involuntary or by operation of law, without Bank's prior written consent, of all or any part of or interest in any real property collateral required hereby.

SECTION 6.2 REMEDIES. Upon the occurrence of any Event of Default: (a) all indebtedness of Borrower under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Bank's option and without notice become immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are hereby expressly waived by Borrower; (b) the obligation, if any, of Bank to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and (c) Bank shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law, including without limitation the right to resort to any or all security for any credit subject hereto and to exercise any or all of the rights of a beneficiary or secured party pursuant to applicable law. All rights, powers and remedies of Bank may be exercised at any time by Bank and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

ARTICLE VII MISCELLANEOUS

SECTION 7.1 NO WAIVER. No delay, failure or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

SECTION 7.2 NOTICES. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to each party at the following address:

BORROWER: ENDOLOGIX, INC.
11 Studebaker
Irvine, CA 92618
Attention: Robert Krist
Phone: 595-7200
bkrist@endologix.com

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION
2030 Main Street, Suite 900
Irvine, CA 92614
Attn: James Ligman
Phone: 949-251-4122
Fax: 866-967-9265
james.ligman@wellsfargo.com

or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

SECTION 7.3 COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) the negotiation and preparation of this Agreement and the other Loan Documents; Bank's continued administration hereof and thereof, and the preparation of any amendments and waivers hereto and thereto, (b) the enforcement of Bank's rights and/or the collection of any amounts which become due to Bank under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.

SECTION 7.4 SUCCESSORS, ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interests or rights hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. In connection therewith, Bank may disclose all documents and information which Bank now has or may hereafter acquire relating to any credit subject hereto, Borrower or its business, any guarantor hereunder or the business of such guarantor, or any collateral required hereunder.

SECTION 7.5 ENTIRE AGREEMENT; AMENDMENT. This Agreement and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to each credit subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This Agreement may be amended or modified only in writing signed by each party hereto.

SECTION 7.6 NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

SECTION 7.7 TIME. Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

SECTION 7.8 SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

SECTION 7.9 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement.

SECTION 7.10 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 7.11 ARBITRATION.

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in tort, contract or otherwise in any way arising out of or relating to (i) any credit subject hereto, or any of the Loan Documents, and their negotiation, execution, collateralization, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination; or (ii) requests for additional credit.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in California selected by the American Arbitration Association (“AAA”); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA’s commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the

arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to herein, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies, Self-Help and Foreclosure. The arbitration requirement does not limit the right of any party to (i) foreclose against real or personal property collateral; (ii) exercise self-help remedies relating to collateral or proceeds of collateral such as setoff or repossession; or (iii) obtain provisional or ancillary remedies such as replevin, injunctive relief, attachment or the appointment of a receiver, before during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder, including those arising from the exercise of the actions detailed in sections (i), (ii) and (iii) of this paragraph.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of California or a neutral retired judge of the state or federal judiciary of California, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of California and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding, discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. No party hereto shall be entitled to join or consolidate disputes by or against others in any arbitration, except parties who have executed any Loan Document, or to include in any arbitration any dispute as a representative or member of a class, or to act in any arbitration in the interest of the general public or in a private attorney general capacity.

(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Real Property Collateral; Judicial Reference. Notwithstanding anything herein to the contrary, no dispute shall be submitted to arbitration if the dispute concerns indebtedness secured directly or indirectly, in whole or in part, by any real property unless (i) the holder of the mortgage, lien or security interest specifically elects in writing to proceed with the arbitration, or (ii) all parties to the arbitration waive any rights or benefits that might accrue to them by virtue of the single action rule statute of California, thereby agreeing that all indebtedness and obligations of the parties, and all mortgages, liens and security interests securing such indebtedness and obligations, shall remain fully valid and enforceable. If any such dispute is not submitted to arbitration, the dispute shall be referred to a referee in accordance with California Code of Civil Procedure Section 638 et seq., and this general reference agreement is intended to be specifically enforceable in accordance with said Section 638. A referee with the qualifications required herein for arbitrators shall be selected pursuant to the AAA's selection procedures. Judgment upon the decision rendered by a referee shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure Sections 644 and 645.

(i) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

(j) Small Claims Court. Notwithstanding anything herein to the contrary, each party retains the right to pursue in Small Claims Court any dispute within that court's jurisdiction. Further, this arbitration provision shall apply only to disputes in which either party seeks to recover an amount of money (excluding attorneys' fees and costs) that exceeds the jurisdictional limit of the Small Claims Court.

[Balance of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ James Ligman
Title: Vice President

ENDOLOGIX, INC.

By: /s/ Robert J. Krist
Title: Chief Financial Officer

[Signature Page to Credit Agreement]

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of April 13, 2009, by and between ENDOLOGIX, INC., a Delaware corporation (the "Company"), and Joseph DeJohn, an individual (the "Executive").

R E C I T A L

The Company desires to employ Executive in the capacity hereinafter stated, and the Executive desires to enter into the employ of the Company in that capacity pursuant to the terms and conditions set forth herein.

A G R E E M E N T

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements set forth herein, the Company and the Executive, intending to be legally bound, hereby agree as follows:

Employment. The Company hereby agrees to employ the Executive as the Vice President of Sales of the Company, reporting to the Chief Executive Officer of the Company, and the Executive accepts such employment and agrees to devote substantially all his business time and efforts and skills on such reasonable duties as shall be assigned to him by the Company commensurate with such position.

1. Stock Options: Acceleration of Options. Notwithstanding any provisions of the Company's option or stock incentive plan, or of the Executive's stock option or restricted stock agreements, in the event of a "Corporate Transaction" or "Change in Control," as defined below, during the period of the Executive's employment with the Company, all of the Executive's stock options shall vest in full and all rights of the Company to repurchase restricted stock of the Executive shall terminate.

For purposes hereof, "Change in Control" shall mean a change in ownership or control of the Company effected through the acquisition (other than in a public offering), directly or indirectly, by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders which the Board does not recommend such stockholders to accept.

For purposes hereof, "Corporate Transaction" shall mean either of the following stockholder-approved transactions to which the Company is a party:

(a) A merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction; or

(b) The sale, transfer or other disposition of all or substantially all of the Company's assets; provided, that such transaction does not constitute a transfer to a related party under Treasury Regulation §1.409A-3(i)(5)(vii)(B).

2. Termination.

2.1 Termination by the Company for Cause. Any of the following acts or omissions shall constitute grounds for the Company to terminate the Executive's employment pursuant to this Agreement for "cause":

(a) Willful misconduct by Executive causing material harm to the Company but only if Executive shall not have discontinued such misconduct within 30 days after receiving written notice from the Company describing the misconduct and stating that the Company will consider the continuation of such misconduct as cause for termination of this Agreement;

(b) Any material act or omission by the Executive involving gross negligence in the performance of the Executive's duties to, or material deviation from any of the policies or directives of, the Company, other than a deviation taken in good faith by the Executive for the benefit of the Company;

(c) Any illegal act by the Executive which materially and adversely affects the business of the Company, provided that the Company may suspend the Executive with pay while any allegation of such illegal act is investigated; or

(d) Any felony committed by Executive, as evidenced by conviction thereof, provided that the Company may suspend the Executive with pay while any allegation of such felonious act is investigated.

Termination by the Company for cause shall be accomplished by written notice to the Executive and, in the event of a termination pursuant to Sections 3.1(a), 3.1(b), and/or 3.1(c) above, shall be preceded by a written notice providing a reasonable opportunity for the Executive to correct his conduct.

2.2 Termination for Death or Disability. In addition to termination for cause pursuant to Section 3.1 hereof, the Executive's employment pursuant to this Agreement shall be immediately terminated without notice by the Company (i) upon the death of the Executive or (ii) upon the Executive becoming totally disabled. For purposes of this Agreement, the term "totally disabled" means an inability of Executive, due to a physical or mental illness, injury or impairment, to perform a substantial portion of his duties for a period of one hundred eighty (180) or more consecutive days, as determined by a competent physician selected by the Company's Board of Directors and reasonably agreed to by the Executive, following such one hundred eighty (180) day period.

2.3 Termination for Good Reason. Executive's employment pursuant to this Agreement may be terminated by the Executive for "good reason" if the Executive voluntarily terminates his employment as a result of any of the following:

(a) Without the Executive's prior written consent, a material reduction in his then current Base Salary;

(b) Without the Executive's prior written consent, a material reduction in the Executive's authority, duties, or responsibilities; or

(c) Without Executive's prior written consent, a material change in the geographic location of Executive's principal place of employment.

In order for any of the foregoing conditions or events to constitute "good reason" under this Agreement, all of the following must occur: (i) the Executive must provide written notice to the Company of the occurrence of any of the foregoing events or conditions within ninety (90) days of the occurrence of such event or condition; (ii) the Company or any surviving entity shall have failed to cure such event or condition within the succeeding thirty (30) day period after the Company's receipt of written notice of such event or condition from the Executive; and (iii) the Executive's termination of employment following such thirty (30) day cure period must occur no later than the date that is two (2) years following the initial occurrence of one of the foregoing events or conditions

2.4 Termination Without Cause. The Company may terminate this Agreement, and the employment of the Executive under this Agreement, without cause, at any time upon at least thirty (30) days' prior written notice to the Executive. This Section 3.4 shall not apply to a termination of the Executive by the Company as a result of a "Corporate Transaction" or "Change in Control," but, instead, the provisions of Section 3.5 below shall apply.

2.5 Termination Due to Corporate Transaction or Change in Control. The Company may terminate this Agreement and the employment of the Executive under this Agreement, upon at least thirty (30) days' prior written notice to the Executive in the event of a "Corporate Transaction" or "Change in Control," as defined in Section 2, during the period of the Executive's employment. Provided that subsections (i) through (iii) of Section 3.3 are satisfied, the Executive may terminate this Agreement and the employment of the Executive under this Agreement following the occurrence of a "Corporate Transaction" or "Change in Control," as defined in Section 2, during the period of Executive's employment if any of the following occur as a result of the "Corporate Transaction" or "Change in Control": (i) a material reduction in Executive's current Base Salary, or (ii) a material reduction in the Executive's authority, duties, or responsibilities, or (iii) a material change in the geographic location of Executive's principal place of employment.

2.6 Payments Upon Removal or Termination.

(a) If, during the term of this Agreement, the Executive resigns for one of the reasons stated in Section 3.3, or if the Company terminates Executive's employment pursuant to Section 3.4 above, the Executive shall be entitled to the following compensation: (i) the portion of his then current Base Salary which has accrued through his date of termination; (ii) any payments for unused vacation and reimbursement expenses, which are due, accrued or payable at the date of Executive's termination; (iii) severance payment in an amount equal to six-months of Executive's then-current Base Salary (the "Severance Amount"); and (iv) to the extent not already vested under Section 2 or otherwise all of Executive's options to purchase shares of the Company's common stock and restricted stock shall vest by six additional months, and such options shall otherwise be exercisable in accordance with their terms. In addition, in such event, Executive shall be entitled to (a) a prorated payment equal to the target bonus amount for which Executive would be eligible for the year in which such resignation or termination occurred to be paid in lump sum within sixty (60) days after the Executive's date of termination, and (b) continuation of the insurance benefits set forth in Exhibit A, for six-months. The payments provided by this paragraph 3.6(a) shall be Executive's complete and exclusive remedy for any such termination.

(b) If, during the term of this Agreement, the Company terminates Executive's employment pursuant to Section 3.5 above or the Executive terminates his employment pursuant to Section 3.5 above, the Executive shall be entitled to the following compensation: (i) the portion of his then current Base Salary which has accrued through his date of termination, (ii) any payments for unused vacation and reimbursement expenses, which are due, accrued or payable at the date of Executive's termination, (iii) severance payment in an amount equal to twelve-months of Executive's then-current Base Salary (the "Severance Amount"); and (iv) to the extent not already vested under Section 2 or otherwise all of Executive's options to purchase shares of the Company's common stock and restricted stock shall accelerate and automatically vest, and such options shall otherwise be exercisable in accordance with their terms. In addition, in such event Executive shall be entitled to (a) a prorated payment equal to the target bonus amount for which Executive would be eligible for the year in which such resignation or termination occurred to be paid in lump sum within sixty (60) days after the Executive's date of termination, and (b) continuation of the insurance benefits set forth in Exhibit A, for twelve-months. The payments provided by this paragraph 3.6(b) shall be Executive's complete and exclusive remedy for any such termination.

(c) All payments required to be made by the Company to the Executive pursuant to this Section 3 shall be paid on a regular basis in accordance with the Company's normal payroll procedures and policies as in effect as of the date of Executive's termination, including, without limitation, the Severance Amount which shall be paid in equal installments on the Company's regular payroll dates in accordance with the Company's normal payroll procedures and policies over the number of months immediately succeeding the date of termination that is equal to the number of months of Base Salary payable as the Severance Amount. For purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") (including, without limitation, for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii)), the Executive's right to receive the installment payments of the Severance Amount shall be treated as a right to receive a series of separate payments and, accordingly, each installment payment shall at all times be considered a separate and distinct payment. Amounts payable to Executive under subsections (a)(ii) and (b)(ii) of this Section 3.6, as a reimbursement of expenses, shall be made in accordance with Treasury Regulation Section 1.409A-3(i)(1)(iv) and be paid on or before the last day of Executive's taxable year following the taxable year in which Executive incurred the expenses. If the Company terminates the Executive's employment pursuant to Sections 3.1 or 3.2, or if the Executive voluntarily resigns (except as provided in Section 3.3 or Section 3.5), then the Executive shall be entitled to only the compensation set forth in items (i) and (ii) of Section 3.6(a).

(d) To the extent that any or all of the payments and benefits provided for in this Agreement constitute "parachute payments" within the meaning of Section 280G of the Code and, but for this paragraph, would be subject to the excise tax imposed by Section 4999 of the Code, then at the Executive's election:

(i) The Executive shall receive all such payments and benefits the Executive is entitled to receive hereunder, and any liability for taxes pursuant to the above shall be the liability solely of the Executive; or

(ii) The aggregate amount of such payments and benefits shall be reduced such that the present value thereof (as determined under the Code and applicable regulations) is equal to 2.99 times the Executive's "base amount" (as defined in Section 280G of the Code).

The determination of any reduction or increase of any payment or benefits under this paragraph pursuant to the foregoing provision shall be made by a nationally recognized public accounting firm chosen by the Company in good faith, and such determination shall be conclusive and binding on the Company and the Executive.

3. Section 409A.

3.1 Payment Delay. Notwithstanding anything herein to the contrary, to the extent any payments to Executive pursuant to Section 3 are treated as non-qualified deferred compensation subject to Section 409A of the Code, then (i) no amount shall be payable pursuant to such section unless Executive's termination of employment constitutes a "separation from service" with the Company (as such term is defined in Treasury Regulation Section 1.409A-1(h) and any successor provision thereto) (a "Separation from Service"), and (ii) if Executive, at the time of her Separation from Service, is determined by the Company to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code and the Company determines that delayed commencement of any portion of the termination benefits payable to Executive pursuant to this Agreement is required in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code (any such delayed commencement, a "Payment Delay"), then such portion of the Executive's termination benefits described in Section 3 shall not be provided to Executive prior to the earlier of (A) the expiration of the six-month period measured from the date of the Executive's Separation from Service, (B) the date of the Executive's death, or (C) such earlier date as is permitted under Section 409A. Upon the expiration of the applicable Code Section 409A(a)(2)(B)(i) deferral period, all payments deferred pursuant to a Payment Delay shall be paid in a lump sum to Executive within 30 days following such expiration, and any remaining payments due under the Agreement shall be paid as otherwise provided herein. The determination of whether Executive is a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code as of the time of her Separation from Service shall be made by the Company in accordance with the terms of Section 409A of the Code and applicable guidance thereunder (including without limitation Treasury Regulation Section 1.409A-1(i) and any successor provision thereto).

3.2 Exceptions to Payment Delay. Notwithstanding Section 4.1, to the maximum extent permitted by applicable law, amounts payable to Executive pursuant to Section 3 shall be made in reliance upon Treasury Regulation Section 1.409A-1(b)(9) (with respect to separation pay plans) or Treasury Regulation Section 1.409A-1(b)(4) (with respect to short-term deferrals). Accordingly, the severance payments provided for in Section 3 are not intended to provide for any deferral of compensation subject to Section 409A of the Code to the extent (i) the severance payments payable pursuant to Section 3, by their terms and determined as of the date of Executive's Separation from Service, may not be made later than the 15th day of the third calendar month following the later of (A) the end of the Company's fiscal year in which Executive's Separation from Service occurs or (B) the end of the calendar year in which Executive's Separation from Service occurs, or (ii) (A) such severance payments do not exceed an amount equal to two times the lesser of (1) the amount of Executive's annualized compensation based upon Executive's annual rate of pay for the calendar year immediately preceding the calendar year in which Executive's Separation from Service occurs (adjusted for any increase during the calendar year in which such Separation from Service occurs that would be expected to continue indefinitely had Executive remained employed with the Company) or (2) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) for the calendar year in which Executive's Separation from Service occurs, and (B) such severance payments shall be completed no later than December 31 of the second calendar year following the calendar year in which Executive's Separation from Service occurs.

3.3 Interpretation. To the extent the payments and benefits under this Agreement are subject to Section 409A of the Code, this Agreement shall be interpreted, construed and administered in a manner that satisfies the requirements of Sections 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations thereunder (and any applicable transition relief under Section 409A of the Code).

4. Assignment. This Agreement shall not be assignable, in whole or in part, by either party without the written consent of the other party, except that the Company may, without the consent of the Executive, assign its rights and obligations under this Agreement to an Affiliate or to any corporation, firm or other business entity (i) with or into which the Company may merge or consolidate, or (ii) to which the Company may sell or transfer all or substantially all of its assets. After any such assignment by the Company, the Company shall be discharged from all further liability hereunder and such assignee shall thereafter be deemed to be the Company for the purposes of all provisions of this Agreement including this Section 5.

5. Successors. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amounts are still payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee, or other designee or, if there be no such designee, to the Executive's estate.

6. Miscellaneous.

6.1 Governing Law. This Agreement is made under and shall be governed by and construed in accordance with the laws of the State of California.

6.2 Prior Agreements. This Agreement contains the entire agreement of the parties relating to the subject matter hereof and supersedes all prior agreements and understanding with respect to such subject matter, including that certain Employment Agreement by and between the Company and Executive (the "Prior Employment Agreement"), and the parties hereto have made no agreements, representations or warranties relating to the subject matter of this Agreement which are not set forth herein. In addition, upon the execution of this Agreement, the Prior Employment Agreement shall automatically terminate and become null and void and of no force and effect without any further action by the parties thereto, and any rights or claims that Executive may have with respect to his employment shall be governed by this Agreement.

6.3 Arbitration. In the event of any controversy, claim or dispute between the parties hereto arising out of or relating to this Agreement, the matter shall be determined by arbitration, which shall take place in Orange County, California, under the rules of the American Arbitration Association. The arbitrator shall be a retired Superior Court judge mutually agreeable to the parties and if the parties cannot agree such person shall be chosen in accordance with the rules of the American Arbitration Association. The arbitrator shall be bound by applicable legal precedent in reaching his or her decision. Any judgment upon such award may be entered in any court having jurisdiction thereof. Any decision or award of such arbitrator shall be final and binding upon the parties and shall not be appealable. The parties hereby consent to the jurisdiction of such arbitrator and of any court having jurisdiction to enter judgment upon and enforce any action taken by such arbitrator. The fees payable to the American Arbitration Association and the arbitrator shall be paid by the Company.

6.4 Withholding Taxes. The Company may withhold from any salary and benefits payable under this Agreement all federal, state, city or other taxes or amounts as shall be required to be withheld pursuant to any law or governmental regulation or ruling.

6.5 Amendments. No amendment or modification of this Agreement shall be deemed effective unless made in writing signed by the parties hereto.

6.6 No Waiver. No term or condition of this Agreement shall be deemed to have been waived nor shall there be any estoppel to enforce any provisions of this Agreement, except by a statement in writing signed by the party against whom enforcement of the waiver or estoppel is sought. Any written waiver shall not be deemed a continuing waiver unless specifically stated, shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

6.7 Severability. To the extent any provision of this Agreement shall be invalid or unenforceable, it shall be considered deleted herefrom and the remainder of such provision and of this Agreement shall be unaffected and shall continue in full force and effect.

6.8 Counterpart Execution. This Agreement may be executed by facsimile and in counterparts, each of which shall be deemed an original and all of which when taken together shall constitute but one and the same instrument.

6.9 Attorneys' Fees. Should any legal action or arbitration be required to resolve any dispute over the meaning or enforceability of this Agreement or to enforce the terms of this Agreement, the prevailing party shall be entitled to recover its or his reasonable attorneys fees and costs incurred in such action, in addition to any other relief to which that party may be entitled.

6.10 Notices. Any notice required or permitted to be given hereunder shall be in writing and may be personally served or sent by United States Mail, and shall be deemed to have been given when personally served or two days after having been deposited in the United States Mail, registered mail, return receipt requested, with first class postage prepaid and properly addressed as follows:

If to Executive: Joseph DeJohn
 11 Studebaker
 Irvine, CA 92618

If to the Company: Endologix, Inc.
 11 Studebaker
 Irvine, CA 92618
 Attn: Chief Executive Officer

6.11 Proprietary Information and Inventions Agreement. Executive agrees to sign the Company's standard form of employee proprietary information and inventions agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year set forth above.

“COMPANY”

ENDOLOGIX, INC., a Delaware corporation

/s/ John McDermott

John McDermott
President & Chief Executive Officer

“EXECUTIVE”

/s/ Joseph DeJohn

EXHIBIT A

JOSEPH DEJOHN'S BENEFITS

- Health Insurance
- Dental Insurance
- Vision Insurance
- Prescription Drug Insurance
- Group Life Insurance

LIST OF SUBSIDIARIES

1. CVD/RMS Acquisition Corp., a Delaware corporation.
2. Radiance Medical Systems GmbH, a German corporation.

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-159078, 333-107286, 333-35343, 333-33997, 333-71053, 333-52474, 333-90960, 333-126710, and 333-114140) and Form S-8 (Nos. 333-160317, 333-152774, 333-136370, 333-122491, 333-114465, 333-52482, 333-72531, 333-59305, 333-07959 and 333-42161) of Endologix, Inc. of our report dated March 5, 2010 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Orange County, California
March 5, 2010

CERTIFICATION

I, John McDermott, certify that:

1. I have reviewed this Annual Report on Form 10-K of the Company;
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 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 purposes in accordance with generally accepted accounting principles;
 - (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 the 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.

/s/ John McDermott
John McDermott
Chief Executive Officer

Date: March 5, 2010

CERTIFICATION

I, Robert J. Krist, certify that:

1. I have reviewed this Annual Report on Form 10-K of the Company;
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 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 purposes in accordance with generally accepted accounting principles;
 - (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 the 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.

/s/ Robert J. Krist

Robert J. Krist
Chief Financial Officer

Date: March 5, 2010

CERTIFICATION

In connection with the Annual Report of Endologix, Inc. (the "Company") on Form 10-K for the period ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John McDermott, Chief Executive Officer of the Company, certify, pursuant to Rule 13a-14(b) or Rule 15d-14(b) under the Securities Exchange Act of 1934 (15 U.S.C. 78m or 780(d)) and 18 U.S.C. Section 1350, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John McDermott
John McDermott
Chief Executive Officer

This certification accompanies this 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.

Date: March 5, 2010

CERTIFICATION

In connection with the Annual Report of Endologix, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert J. Krist, Chief Financial Officer of the Company, certify, pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 780(d)) and 18 U.S.C. Section 1350, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert J. Krist

Robert J. Krist
Chief Financial Officer

This certification accompanies this 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.

Date: March 5, 2010