

**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, 2016

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.)

2 Musick, 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:

Title of each class	Name of each exchange on which registered
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 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 (§229.405 of this chapter) 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

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

As of June 30, 2016, the aggregate market value of the voting stock held by non-affiliates of the Registrant was \$1,003,474,511 (based upon the \$12.46 closing price for shares of the Registrant's Common Stock as reported by the NASDAQ Global Select Market on June 30, 2016, the last trading date of the Registrant's most recently completed second fiscal quarter).

On February 27, 2017, approximately 82,925,280 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 31, 2017.

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Special Note Regarding Forward-Looking Statements

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

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

- our ability to maintain adequate liquidity to fund our operational needs and research and developments expenses;
- our ability to identify and manage risks; and
- general macroeconomic and world-wide business conditions

You are urged to carefully review and consider the various disclosures made by us, which attempt to advise interested parties of the risks, uncertainties, and other factors that may affect our business, operating results and financial condition, including without limitation the risks set forth under “Risk Factors” in Item 1A of this Annual Report on Form 10-K, for a discussion of other important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, the forward-looking statements herein may not prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all.

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

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, one 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.

PART I

Item 1. Business

Company Overview

Endologix, Inc. (“Endologix,” the “Company,” “we,” “our” or “us”) is a Delaware corporation with corporate headquarters in Irvine, California and production facilities located in Irvine and Santa Rosa, California. We develop, manufacture, market, and sell innovative medical devices for the treatment of aortic disorders. Our products are intended for the minimally invasive endovascular treatment of abdominal aortic aneurysms (“AAA”). The AAA products are built on one of two platforms: (1) traditional minimally-invasive endovascular aneurysm repair (“EVAR”) or (2) endovascular aneurysm sealing (“EVAS”), our innovative solution for sealing the aneurysm sac while maintaining blood flow through two blood flow lumens. Our current EVAR products include the AFX® Endovascular AAA System (“AFX”), the VELA® Proximal Endograft (“VELA”), and the Ovation® Abdominal Stent Graft System (the “Ovation System”). Our current EVAS product is the Nellix® Endovascular Aneurysm Sealing System (the “Nellix EVAS System”). Sales of our EVAR and EVAS platforms (including extensions and accessories) to hospitals in the United States, Canada, New Zealand and Europe, and to third-party international distributors, provide the sole source of our reported revenue.

On February 3, 2016, we completed our merger with TriVascular Technologies, Inc. (“TriVascular”). The merger expanded our product offering and intellectual property, strengthened our management team, increased our sales force, and enhanced our product development capabilities.

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

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

Our Nellix EVAS product consists of (i) bilateral covered stents with endobags, (ii) a biocompatible polymer injected into the endobags to seal the aneurysm and (iii) a delivery system and polymer dispenser. Our Nellix EVAS product seals the entire aneurysm sac effectively excluding the aneurysm reducing the likelihood of future aneurysm rupture.

Within our EVAR platform, we market and sell AFX and Ovation in the United States, Europe, New Zealand and Latin America. AFX is also marketed in Japan. In February 2013, we commenced a market introduction in Europe of the Nellix EVAS System. In December 2013, we received Investigational Device Exemption (“IDE”) approval in the United States to begin a clinical trial for the Nellix EVAS System, which commenced in January 2014. This clinical trial is fully enrolled and the one-year follow-up is complete. In October 2015, we received United States Food and Drug Administration (“FDA”) approval for the AFX2 Bifurcated Endograft System (“AFX2”) for the treatment of AAA. In December 2015, we received Shonin approval for AFX from the Japanese Ministry of Health, Labor and Welfare and entered into a distribution arrangement with a Japanese distributor to introduce AFX in the Japanese market in the first quarter of 2016.

Merger with TriVascular Technologies, Inc.

On February 3, 2016, we completed our merger with TriVascular, a medical device company developing and commercializing innovative technologies to significantly advance minimally invasive treatment of AAA. TriVascular developed its technology platform leveraging engineering principles utilized in many industries, including aerospace, aircraft and automotive, and applied these concepts with the goal of designing an optimal solution for AAA therapy to address unmet clinical needs. TriVascular’s Ovation, Ovation Prime® and Ovation® iX stent graft Systems and their related components, which we refer to herein collectively as the Ovation System, are TriVascular’s solution for the treatment of AAA. The Ovation System is an FDA-approved, stent graft platform that provides an innovative and effective alternative to conventional devices. The Ovation System is designed to specifically address many of the limitations associated with conventional EVAR devices and to expand the pool of patients eligible for EVAR.

TriVascular's differentiated platform, by virtue of its low profile, flexible delivery system and novel sealing mechanism, enables physicians to treat a broader population of patients eligible for EVAR. The Ovation System consists of a main aortic body, injected with a conformable polymer, and typically two iliac limbs. These components, delivered sequentially through the lowest profile FDA-approved delivery system, permit customization to an individual patient's unique anatomy. TriVascular received CE Mark approval in August 2010 and began commercial sales of the Ovation System in Europe in September 2010. In October 2012, TriVascular received approval from the FDA for the Ovation System for the treatment of AAA and began commercial sales in the United States in November 2012.

We believe the benefits of our merger with TriVascular include the following:

- *Enhance our growth opportunities.* We are leveraging the combined company's global sales force and marketing capabilities to expand awareness of and access to our product offerings. We are leveraging the combined company's innovation capabilities and deep pipeline of new technologies to enhance our product offerings in the estimated \$4 billion market opportunity for the treatment of AAA. We anticipate multiple product launches over the next several years.
- *Enhance and leverage our technology.* We expect the combined company to be an innovation leader with broad clinical indications for the treatment of aortic disorders. We have significant clinical evidence for all our products and we expect the combined company will own over 370 issued and pending patents.
- *Drive significant operating synergies.* We are leveraging the combined company's strong technology and commercial capabilities. We expect that the combined company will realize more than \$30 million of cost benefits from the merger by 2017, as a result of, among other things, anticipated reductions in general and administrative expenses and sales and marketing expenses and manufacturing economics of scale, and that the merger will be EBITDA accretive in 2018.

Our Mission

Our mission is to be the leading innovator of medical devices to treat aortic disorders. Key elements of our strategy to accomplish this mission are as follows:

- Focus exclusively on the aorta for the commercialization of innovative products.
- Design and manufacture EVAR and EVAS products that are easy to use and deliver excellent clinical outcomes.
- Design EVAR and EVAS products to expand into the treatment of complex AAA and thoracic anatomies.
- Provide exceptional clinical and technical support to physicians through an experienced and knowledgeable sales and clinical organization.

Market Overview and Opportunity

AAA Background

Atherosclerosis is a disease which results in the thickening and hardening of arteries, which generally is attributable to genetics, smoking, high blood pressure, and/or high cholesterol damage. This disease generally progresses with age. According to AHA Scientific Statement estimates, it affects 5% to 6% of the population over 65.

Atherosclerosis reduces the integrity and strength of blood vessel walls, 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, extending from the chest to the abdomen. The abdominal aorta is the segment between the renal (kidney) arteries and the area where the aorta divides into the two iliac arteries which travel down the legs. AAA occurs when a portion of the abdominal aorta bulges into an aneurysm because of a weakening of the vessel wall, which may result in life threatening internal bleeding upon rupture. AAA is more common in men than women.

Although AAA is one of the most serious cardiovascular diseases, many AAAs are never detected. Most AAA patients do not have symptoms at the time of their initial diagnosis. AAAs generally are discovered coincidentally during procedures to treat or diagnose unrelated medical conditions.

According to a paper titled *Elective Versus Ruptured Abdominal Aortic Aneurysm Repair: A 1-Year Cost-Effectiveness Analysis*, the overall patient mortality rate for ruptured AAA is approximately 80%, making it among the leading causes of death in the United States. Once diagnosed, patients with AAA require either non-invasive monitoring, or, depending on the size and rate of growth of the AAA, EVAR, EVAS or open surgical repair.

EVAR and EVAS Versus Open Surgical Repair

Our EVAR and EVAS products are used exclusively for minimally-invasive procedures, as opposed to open surgical repair of AAA. Open surgical repair is a highly invasive procedure requiring (i) a large incision in the patient’s abdomen, (ii) manipulation of the patient’s abdominal organs to gain access to the aneurysm, (iii) the cross clamping of the aorta to stop blood flow, and (iv) implantation of a synthetic graft which is sutured to the aorta, connecting one end above the aneurysm, to the other end below the aneurysm.

Open surgical repair typically lasts two to four hours, while the typical EVAR and EVAS procedure lasts one to two hours. After receiving open surgical repair, the patient usually requires a few days in the hospital’s surgical intensive care unit, and the total hospital stay may be four to ten days. Post-procedure convalescence may take another four to six weeks due to the invasiveness of the operation. By comparison, patients are often discharged a day or two after their EVAR and EVAS procedure, and once discharged, most patients return to normal activity within two weeks.

We estimate that approximately 75% of all treated AAAs in the United States are repaired through EVAR, and 25% through open surgical repair. Although EVAR and EVAS have many key advantages over open surgical repair, many patients are not candidates for EVAR and EVAS due to the limitations of current EVAR devices to treat more complex AAA anatomies. We are developing new products to address these more challenging anatomies.

Market Size

We estimate the global endovascular aortic aneurysm market potential to be \$4.0 billion annually. We estimate the traditional aneurysm market potential, defined as aneurysms with aortic neck length greater than or equal to 10mm, to be \$1.6 billion. The majority of diagnosed aneurysms in this market can be treated with currently available EVAR products. We estimate that a \$1.2 billion market opportunity exists for the treatment of challenging anatomies, defined as aneurysms with neck lengths less than 10mm. Currently, there are limited options with available EVAR products to treat these short or no neck aortic aneurysms. The thoracic aneurysm market includes aneurysms, dissections, and transections in the ascending aorta, the aortic arch, and the descending aorta. For many of these anatomies there are limited endovascular options due to anatomical and technological challenges. We believe the thoracic market potential is \$1.2 billion. Below is a table summarizing the market potential and penetration by aneurysm type.

Market Description (\$ in millions)	Penetrated		Unpenetrated		Total
Traditional	\$	1,337	\$	306	\$ 1,643
Complex		373		803	1,176
Thoracic		589		606	1,195
Total	\$	2,299	\$	1,715	\$ 4,014

In 2016, we estimate that there were approximately 202,300 AAA (EVAR and surgical repair) procedures performed globally.

In the United States alone, an estimated 1.2 million to 2.0 million people have an AAA and over 200,000 people are diagnosed with AAA in the United States annually. Of those diagnosed with an AAA, approximately 60,300 people underwent an AAA repair procedure in the United States, of which approximately 46,000 were addressed through EVAR.

According to United States Census Bureau estimates, the age 65 and over population in the United States presently numbers approximately 49 million, or 15% of the total population, and is expected to grow to 51 million by 2017. Accordingly, we believe that AAA treatments will naturally increase over time, given this demographic trend.

Since AAAs generally arise in people over the age of 65 and come with little warning, initiatives have been undertaken to increase its screening. The most prominent of these initiatives is the Screening Abdominal Aortic Aneurysms Very Efficiently Act (“SAAAVE”), which was signed into law in the United States on February 8, 2006, began providing coverage on January 1, 2007 and was updated effective January 1, 2014. SAAAVE provides for a one-time free of charge AAA screening for men who have smoked some time in their life, and men or women who have a family history of the disease.

Our Products

Our EVAR Platforms

AFX and VELA:

- *Anatomical Fixation.* AFX is unique in that the main body of the device sits on the patient's natural aortoiliac bifurcation. This provides a solid foundation for the long-term stability of the device. Alternative EVAR devices rely on hooks, barbs and radial force to anchor within the aorta (generally referred to as

"proximal fixation") near the renal arteries. We have proven in our clinical studies that anatomical fixation inhibits device migration within the aorta due to the inherent foundational support of the patient's own anatomy.

- *Unique, Minimally Invasive Delivery System.* Our AFX product is the only EVAR device with 17F introducer access on the ipsilateral side and 7F introducer access on the contralateral side. Comparative endovascular stent grafts for infrarenal repair, require between 12F and 22F introducer access on the ipsilateral side and between 10F and 16F on the contralateral side.
- *Preserves Aortic Bifurcation.* AFX allows for future endovascular procedures when access across the aortic bifurcation is required. Approximately 30% to 40% of AAA patients also have peripheral arterial disease ("PAD"). AFX is the only graft presently available that preserves the physician's ability to go back over the aortic bifurcation for future interventions. This is a meaningful feature of AFX, as many AAA patients are today living longer and returning to the hospital for PAD procedures.

Ovation:

- Our FDA and CE Mark-approved IFU allows for the on-label treatment of more patients who otherwise may undergo an off-label EVAR procedure or be subject to open surgery, or not receive treatment at all. Our differentiated platform expands the pool of patients eligible for EVAR by virtue of its low profile and flexible delivery system that addresses several key anatomical access challenges, while providing a novel sealing mechanism to address many of the difficulties of diseased patient anatomies.
- *Ability to Pass through Small Access Vessels:* The Ovation System's novel separation and optimization of fixation and seal minimize the overlap between metal and fabric within the catheter, allowing the device to be loaded in a delivery catheter that is smaller than those of conventional EVAR devices. At an outer diameter of 14F, or approximately 4.7mm, the Ovation System is the lowest profile FDA-approved stent graft.
- *Ability to Pass through Diseased and/or Tortuous Access Vessels:* The Ovation System has the lowest profile FDA-approved delivery system. Its design characteristics significantly increase flexibility, enabling easier passage through diseased and tortuous access vessels.
- *The Ovation System Enables Minimally Invasive Techniques:* The Ovation System's low profile and proven safety record offer physicians the opportunity to provide PEVAR with regional or local anesthesia to more patients. Studies have shown that the use of smaller profile delivery devices results in fewer access site complications.
- *Treatment of Challenging Short Neck Anatomy:* The separation and optimization of the fixation and sealing mechanisms of the Ovation System enable the device to seal with a smaller aortic contact area than conventional EVAR devices. This can be particularly important for patients with irregular or short aortic neck anatomies.
- *Avoiding Aortic Neck Dilatation.* The Ovation System's non-expanding polymer filled sealing rings do not exert significant chronic, outward pressure at the neck of the aorta. In the Ovation Pivotal Trial, core lab results demonstrated stable neck diameter and durable seal with Ovation through five-year follow-up.

Our EVAS Platform

Our EVAS platform is based on the Nellix EVAS System to seal the aneurysm and provide blood flow to the legs through two blood flow lumens.

- *Biostable Polymer provides extended fixation and long-term stability.* Currently available EVAR devices leave the AAA sac excluded untreated, but while EVAS actively seals the entire aneurysm sac.
- *Predictable Procedure.* The device and procedure steps are relatively simple and intuitive, making procedure times predictable.
- *Potentially reduce endoleaks and secondary interventions.* The Nellix System seals the entire aneurysm, reducing the likelihood of many causes of secondary intervention in EVAR procedures. This can potentially reduce long-term follow-up requirements.
- *Low profile introducer.* The delivery catheter for the Nellix EVAS System has an outer diameter of 17F, which is beneficial for the delivery of the devices in tight access arteries, reducing risk of vascular injuries to the patient.

- *Change the biologic response to EVAR:* The EVAS system fills the entire aneurysm sac and may have the potential to change the biologic response to EVAR in which the aneurysm sac thromboses with an inflammatory response.

Our EVAR and EVAS Extensions and Accessories

Aortic Extensions and Limb Extensions. We offer limb extensions with Ovation and proximal aortic extensions and limb extensions for AFX which allow physicians to customize the implant to fit the patient's anatomy. In February 2014, we launched a proximal extension in the United States, VELA, designed specifically for the treatment of proximal aortic neck anatomies with AFX. VELA features a circumferential graft line marker and controlled delivery system that enable predictable deployment and final positional adjustments. We began a commercial introduction of VELA in Europe in January 2015.

Accessories. We offer various accessories to facilitate the optimal delivery of our EVAR and EVAS products, including compatible guidewires, inflation devices and snares.

Our Product Evolution

The Powerlink System ("Powerlink System for AAA") was first commercialized in Europe in 1999 and in the United States in 2004. As our EVAR products evolved, we branded them under the names Powerlink System with Visiflex Delivery System, IntuiTrak®, and AFX. Ovation was added to our EVAR products through the merger with TriVascular on February 3, 2016.

- *Powerlink System for AAA.* Powerlink System for AAA was our original EVAR Product.
- *IntuiTrak.* In October 2008, we received FDA approval for IntuiTrak. We received CE Mark approval for IntuiTrak in March 2010, and Japanese Shonin approval in December 2012. IntuiTrak provided an updated delivery system that further simplified the implant procedure for physicians.
- *AFX.* In June 2011 and November 2011, we received FDA approval and CE Mark approval, respectively, for AFX and we received Japanese Shonin approval in December 2015. We believe AFX provides physicians with improved vascular access and sealing, as compared to IntuiTrak. We began a full commercial launch of AFX in the United States in August 2011 and in numerous international markets in 2012. In addition, we entered into a distribution arrangement with a Japanese distributor to introduce AFX in the Japanese market in the first quarter of 2016.
- *AFX2.* In October 2015, we received FDA approval for AFX2.
- *Ovation - TriVascular* received CE mark approval for Ovation in August 2010 and FDA approval in October 2012. In June 2015, FDA approved our next generation Ovation iX Iliac Stent Graft for the Ovation System, and in July 2015, the FDA approved the Ovation iX Abdominal Stent Graft System. In September 2015, the first patients were treated with the Ovation iX Abdominal Stent Graft System in Europe, and in October 2015, we initiated the launch of our Ovation iX Iliac Stent Graft System in the United States.

Our EVAS Platform, branded as the Nellix EVAS System, was first commercialized in Europe in February 2013.

- *Nellix EVAS System.* In February 2013, we received CE Mark approval of the Nellix EVAS System, and we commenced a limited market introduction of the Nellix EVAS System in Europe. In December 2013, we received IDE approval in the United States to begin a clinical trial which commenced in January 2014. Enrollment in the IDE study was completed in November 2014. In the third quarter of 2015, we obtained IDE continued access approval for additional patients. In April 2016, we announced achievement of CE Mark approval of the next-generation Nellix EVAS System. In March 2016, we submitted our final premarket approval ("PMA") modules to the FDA and completed our 100-day PMA meeting with the FDA. In November 2016, the FDA requested current patient follow-up data at two-years from our IDE study and indicated that it may request an Advisory Committee Panel following our submission of such data. We expect to submit such follow-up data to the FDA in the second quarter of 2017. If the FDA subsequently requests an Advisory Committee Panel, we anticipate that the timeline for PMA approval of the Nellix EVAS System will extend into the second quarter of 2018. We are working collaboratively with FDA to obtain PMA approval for the Nellix EVAS System as soon as practicable.
- *ChEVAS.* ChEVAS is a procedure where the Nellix EVAS System could be used together with branch stent grafts to treat patients with complex aortic anatomies. Physicians are leading a clinical trial called ASCEND

(Aneurysm Study for Complex AAA: Evaluation of Nellix Durability) to evaluate the clinical performance of ChEVAS. We are pursuing optimal pathways for CE mark and FDA approval for this indication.

Manufacturing and Supply

All of our commercial products are manufactured, assembled, and packaged at our 129,000 square foot leased facilities in Irvine, California and our 110,000 square foot leased facilities in Santa Rosa, California.

We rely on third parties for the supply of certain components used in our EVAR and EVAS Systems, such as the wire used to form our cobalt chromium alloy stent, PTFE and the raw material used in the manufacturing of polymer. While we obtain many of these components from single source suppliers, we believe there are alternative vendors for the supply of the vast majority of our required components. Many of our third party manufacturers go through a formal qualification and approval process, including periodic renewal to ensure fitness for use and compliance with applicable FDA requirements and International Organization for Standardization ("ISO") 13485 requirements, and/or other required quality standards. Additionally, we actively manage supply risk with our key suppliers through a combination of negotiating favorable terms of supply agreements, maintaining strategic inventory levels, and maintaining frequent communications with our suppliers.

Marketing and Sales

We market and sell our EVAR products in the United States, Canada, and in 12 Western European countries (United Kingdom, Ireland, France, Germany, Italy, Poland, Switzerland, Netherlands, Austria, Belgium, Luxembourg, and Monaco) through a direct sales force and network of agents. In 17 other European countries, Japan, ten Latin American countries, and five other Asian countries we sell our EVAR products through independent distributors or agents. In 2016, we marketed our EVAR products in 50 countries outside the US. We market our EVAS products through direct sales, agents and distributor channels in Europe and our independent agent in New Zealand.

United States. We market and sell our EVAR products in the United States through a direct sales force. The primary customer and decision maker for our EVAR products is the vascular surgeon, and to a lesser extent, the cardiovascular surgeon, interventional radiologist and the interventional cardiologist. Through our direct sales force, we provide clinical support and service to many of the approximately 1,600 hospitals and approximately 4,000 physicians in the United States that perform EVAR. Approximately 71% of our revenues for the year ended December 31, 2016 were generated from sales of our EVAR products in the United States.

International. We market and sell our products outside the United States through a direct sales force and through third party distributors. Approximately 29% of our revenues for the year ended December 31, 2016 were generated from sales of our EVAR and EVAS products outside the United States.

See Note 7 of the Notes to the Consolidated Financial Statements for a tabular summary of our revenue by geographic region for the fiscal years 2016, 2015 and 2014.

Competition

The medical device industry is highly competitive. Any product we develop that achieves regulatory clearance or approval will have to compete for market acceptance and market share. We believe that the primary competitive factors in the AAA device market segment are:

- clinical effectiveness;
- product safety, reliability, and durability;
- ease of use;
- sales force experience and relationships; and
- price.

We experience significant competition and we expect that the intensity of competition will increase over time. For example, our major competitors, Medtronic, Inc., W.L. Gore Inc., and Cook Medical Products, Inc., have each obtained full regulatory approval for their EVAR products in the United States and/or other international markets. In addition to these major competitors, we also have smaller competitors, and emerging competitors with active EVAR system development programs.

Our major competitors have substantially greater capital resources than we do and also have greater resources in the areas of research and development, regulatory affairs, manufacturing, marketing, and sales. In addition, these competitors have

multiple product offerings, which some physicians and hospitals may find more convenient when developing business relationships. We also compete with other medical device companies for clinical trial sites and for the hiring of qualified personnel, including sales representatives and clinical specialists.

Product Developments and Clinical Trials

Overview

We incurred expenses of \$48.6 million in 2016, \$41.8 million in 2015, and \$34.9 million in 2014, on research and development activities and clinical studies. Our focus is to continually develop innovative and cost-effective medical devices for the treatment of aortic disorders. We believe that our ability to develop new technologies is a key to our future growth and success. Historically, we have focused on developing our EVAR and EVAS products to treat infrarenal AAA including initial development of products to treat complex AAAs. However, we expect to devote more resources in the future to developing, enhancing and obtaining expanded indications for our current EVAR and EVAS products and to develop new product indications to treat more challenging anatomies.

Nellix EVAS System

On December 10, 2010, we completed our acquisition of Nellix (refer to the section entitled "Nellix Acquisition and Private Placement Transaction" section below). Using the technology we acquired in the Nellix acquisition, we developed the Nellix EVAS System, a next-generation device, to treat infrarenal AAA. We have the following trials in process to build independent and collective clinical and economic evidence of clinical safety and effectiveness:

- *EVAS FORWARD Global Registry* - This study is designed to provide real world clinical results to demonstrate the effectiveness and broad applicability of the Nellix EVAS System. The first phase of the registry included 300 patients enrolled in up to 30 international centers. The first patient in the registry was treated in October 2013. In September 2014, we announced completion of patient enrollment in the Nellix *EVAS FORWARD* Global Registry. In November 2016, we announced updated data on 300 patients with a mean follow-up of 25 months. In 2017, the *EVAS FORWARD* Global Registry 2 commenced as a post market evaluation of the Nellix 3.5 EVAS system. In November 2016, we also announced positive 2-year results from the Nellix *EVAS FORWARD* Global Registry. The following outcomes were presented at the annual VEITH meeting:
 - 37% of the patients had complex anatomies;
 - 98% freedom from any persistent endoleaks at latest follow-up;
 - No secondary interventions for Type II endoleaks;
 - 97% freedom from aneurysm-related mortality; and
 - 99% freedom from cardiovascular mortality.
- *EVAS FORWARD IDE* - We developed this pivotal clinical trial to evaluate the safety and effectiveness of the Nellix EVAS System. This study is a prospective single arm registry which enrolled 179 patients at 29 centers in the United States and Europe. In November 2014, we completed enrollment in the *EVAS FORWARD IDE*, and we submitted the one year results to the FDA in March 2016. In May 2016, we announced the results of the one year clinical data from the *EVAS FORWARD IDE* study that demonstrate that the Nellix EVAS System met the study primary endpoints for major adverse events at 30 days (safety) and treatment success at one year (effectiveness).

In November 2016, we provided an update on the Nellix PMA process and reported that the FDA had requested that we provide current patient follow-up data at two-years from the *EVAS FORWARD IDE* Study. We reported that we expect this data to be available and submitted to the FDA in the second quarter of 2017, followed by a possible FDA Advisory Committee Panel meeting by the end of 2017, and potential PMA approval of the Nellix EVAS System in the second quarter of 2018.
- *ASCEND Registry* - In April 2016, we announced the first data presentation with one-year outcomes from the *ASCEND* Registry (Aneurysm Study for Complex AAA: Evaluation of Nellix Durability), a physician-initiated registry of the Nellix EVAS System used with aortic branch stent grafts for the treatment of patients with complex AAAs.

AFX

In February 2014, we launched a new proximal extension in the United States, VELA, designed to be used in conjunction with our AFX bifurcated device. VELA features a circumferential graft line marker and controlled delivery system that enable

predictable deployment and final positional adjustments. We began a commercial introduction of VELA in Europe in January 2015.

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

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

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

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

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

Ovation

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

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

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

- Low major adverse event (MAE) rate of 0.4%;
- No ruptures, conversion, or secondary interventions;
- 99% and 100% freedom from type I and type III endoleak;
- Fast-Track completed in 216 (87%) patients, with positive results compared to non-Fast-Track patients;
- Procedure time of 84 minutes vs. 110 minutes;

- General anesthesia use 0% vs. 18%;
- ICU stay 0% vs. 32%; and
- Mean hospital stay 1.2 vs. 1.9 days.

In early 2015, TriVascular initiated the *LUCY* Study, a multi-center post-market registry designed to explore the clinical benefits associated with endovascular aneurysm repair (EVAR) using the Ovation Abdominal Stent Graft Platform in female patients with AAA, as compared to males. It is the first prospective study evaluating EVAR in females, a population that has historically been underrepresented in EVAR clinical trials. Endologix announced completion of enrollment of 225 patients in the *LUCY* study in February 2017.

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

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

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

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

PEVAR

Vascular access for EVAR previously required femoral artery exposure (commonly referred to as surgical “cut-down”) of one or both femoral arteries, allowing for safe introduction of the EVAR product. Complications from femoral artery exposure during EVAR procedures is an inherent risk of current surgical practice. PEVAR procedures do not require an open surgical cut-down of either femoral artery, as access to the femoral artery is achieved via a needle-puncture through the skin and closure with use of a suture-mediated device. Advantages to the patient and to the health care system of an entirely percutaneous procedure include reduced surgical procedure times, less post-operative pain, and fewer access-related wound complications.

In April 2013, we announced FDA approval of the PEVAR indication for use for our AFX and IntuiTrak products. Trial results show the safety and effectiveness of our device and PEVAR procedure facilitated with a suture-mediated closure device, and showed significantly reduced surgical procedure time compared to surgical EVAR. Other trends favoring PEVAR include less medication prescribed for post-operative groin pain, reduced blood loss, less hospitalization time, and overall lower incidence of complications. To date, no other company has conducted a randomized prospective FDA trial to specifically obtain approval for a PEVAR indication.

Patents and Proprietary Information

We believe that our intellectual property and proprietary information is key to protecting our technology. We continue to build a portfolio of apparatus and method patents covering various aspects of our current and future technology. In the area of aorta treatment systems, our rights include 35 issued United States issued patents, 11 pending United States patent applications, 29 issued foreign patents and 10 pending foreign patent applications that are related to AFX technologies. Our current aorta treatment related patents have expiration dates from 2017 to 2036. As a result of our acquisition of Nellix, we added additional patents to our portfolio which have evolved to currently include 19 issued United States patents, 19 pending United States applications, and 10 issued foreign patents, with expiration dates from 2017 to 2037. As a result of our merger with TriVascular,

we added patent to our portfolio which have evolved to currently including 41 issued United States patents, 20 pending United States patent applications, and 87 issued foreign patents with expiration dates from 2018 to 2037. We intend to continue to file patent applications to strengthen our intellectual property position as we continue to develop our technology, while simultaneously avoiding paying unnecessary fees to maintain patents and applications when we believe it is not in our best interest.

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 diligent efforts to require our employees, directors, consultants, and advisors 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 certain other parties, the agreements also provide that all inventions conceived by the individual will be our company's exclusive property.

Third-Party Reimbursement

In the United States, hospitals are the primary purchasers of our EVAR and EVAS Systems. Hospitals in turn bill various third-party payors, such as Medicare, Medicaid and private health insurance plans, for the total healthcare services required to treat the patient's AAA. Government agencies, private insurers and other payors determine whether to provide coverage for a particular procedure and to reimburse hospitals for medical treatment. While hospitals are often reimbursed at a fixed rate based on the diagnosis-related group ("DRG") established by the United States Centers for Medicare and Medicaid Service("CMS"), other insurers may negotiate differing approaches with hospitals. The fixed rate of reimbursement is based on the procedure performed, and is unrelated to the specific medical devices used in that procedure.

Reimbursement of procedures utilizing our EVAR and EVAS products currently are covered. Some payors may deny reimbursement if they determine that the device used in a treatment was unnecessary, not cost-effective, or used for a non-approved indication.

Beginning on October 1, 2015, CMS started requiring those who make claims for reimbursement to use ICD-10 codes to designate diagnosis and treatment of Medicare beneficiaries. The following are the ICD-10-PCS codes associated with the endovascular treatment of abdominal aneurysms utilizing Endologix devices indicated for that treatment.

ICD-10 PCS	Description
Abdominal Aorta	
04V03DZ	Restriction of Abdominal Aorta, with Intraluminal Device, Percutaneous Approach
04V04DZ	Restriction of Abdominal Aorta, with Intraluminal Device, Percutaneous Endoscopic Approach
04V03DJ	Restriction of Abdominal Aorta, with Intraluminal Device, Temporary, Percutaneous Approach
04V04DJ	Restriction of Abdominal Aorta, with Intraluminal Device, Temporary, Percutaneous Endoscopic Approach
04U03JZ	Supplement of Abdominal Aorta with Synthetic Substitute, Percutaneous Approach
04U04JZ	Supplement of Abdominal Aorta with Synthetic Substitute, Percutaneous Endoscopic Approach

CMS reimburses these hospital inpatient procedures utilizing the following MS-DRGs. National average reimbursement values are shown.

Aortic and Heart Assist Procedures Except Pulsation Balloon with MCC	\$37,598
Aortic and Heart Assist Procedures Except Pulsation Balloon without MCC	\$24,017

Outside the United States, market acceptance of medical devices, including EVAR and EVAS systems, depends partly upon the availability of reimbursement within the prevailing healthcare payment system. Reimbursement levels vary significantly by country, and by region within some countries. Reimbursement is obtained from a variety of sources, including government sponsored healthcare and private health insurance plans.

Presently, the European Union ("EU") is updating regulations for the sale and reimbursement of medical devices in EU countries. The current Directives on active implantable medical devices (90/385/EEC) and on medical devices (93/42/EEC) will be replaced by a Regulation on medical devices. The legislation will harmonize such regulations throughout all EU countries. It is expected that the new regulations will require: (i) stricter guidelines for clinical evidence supporting device efficacy; (ii) more powers for regulatory assessment bodies; (iii) stronger supervision of manufacturers, importers and distributors, and (iv) an extended database for medical devices and better traceability throughout the supply chain. The European Commission proposals have been discussed in the European Parliament and in the European Council and they agreed on a final text on 15 June 2016. At this moment in time, work is ongoing to translate the final texts in all the EU official languages and to correct technical inconsistencies. Final formal adoption is expected both on the Council and the Parliament sides during the first semester 2017 and the Regulation would then gradually come into effect from 2017 to 2020.

Government Regulation - Medical Devices

Our medical devices are subject to regulation by various government agencies, including the FDA and similar agencies within governments outside the United States. Each of these agencies requires us to comply with laws and regulations governing the development, qualification, manufacturing, labeling, marketing, and distribution of our medical devices.

United States

In the United States, medical devices are regulated 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, 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 life-sustaining or life-supporting devices. Class III devices require rigorous clinical testing prior to their approval and generally require a premarket approval ("PMA") or PMA supplement approval prior to marketing for sale.

Authorization to commercially distribute a medical device in the United States is generally received in one of two ways. The first, known as premarket notification (i.e., the 510(k) process), requires us to submit data to the United States FDA to demonstrate that our medical device is substantially equivalent to another medical device that is legally marketed in the United States. The United States FDA must issue a finding of substantial equivalence before we can commercially distribute our medical device. Devices that receive a finding of substantial equivalence are referred to as 510(k)-cleared devices. Modifications to medical devices cleared under the 510(k) process can be made under the 510(k) process, or without the 510(k) process if the changes do not significantly affect safety or effectiveness.

The second process, known as premarket approval (i.e., the PMA process), requires us to collect and submit nonclinical and human clinical data on the medical device for its intended use to demonstrate that it is safe and effective. Human clinical data must be collected in compliance with FDA IDE regulations. The IDE application must be supported by data, typically including the results of animal and engineering 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. The clinical studies must be conducted under the review of an independent institutional review board to ensure the protection of the patients' rights. In the PMA process, the FDA will approve the medical device and thereby authorize its commercial distribution in the United States if it determines that the probable benefits outweigh the risks for the intended patient population, and, therefore, makes a determination of reasonable assurances of safety and effectiveness. The PMA process takes longer and is more expensive than the 510(k) process. Our Powerlink, IntuiTrak AFX, and Ovation EVAR Systems were approved through this PMA process. The Nellix EVAS System is currently engaged in the PMA process and will be made commercially available in the United States following PMA approval.

We are required to register as a medical device manufacturer with the FDA. Additionally, the California Department of Health Services ("CDHS") requires us to register as a medical device manufacturer. Because of this, the FDA and the CDHS routinely inspect us for compliance with Quality System regulations. These regulations require that we manufacture our products and maintain related documentation in a prescribed manner with respect to manufacturing, testing and control activities. We have undergone and expect to continue to undergo regular Quality System inspections in connection with the manufacture of our products at our facility. Further, the FDA requires us to comply with various regulations regarding labeling. The Medical Device Reporting ("MDR") 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. Although physicians are permitted to use their medical judgment to apply medical devices

to indications other than those cleared or approved by the FDA, we are prohibited from promoting products for such “off-label” uses, and can only market our products for the 510(k)-cleared or PMA-approved indications for use.

International

Internationally, our medical devices are subject to regulatory requirements in the countries in which they are sold. The requirements and regulatory approval processes vary from country to country.

In the EU, one regulatory approval process exists. We must comply with the requirements of the Medical Devices Directive ("MDD"), and appropriately affix the CE Mark on our products to attest to such compliance. To obtain a CE Mark, our products must meet minimum standards of safety, performance, and quality (i.e., "Essential Requirements"), and then comply with defined conformity assessment routes. A notified body, selected by us, assesses our Quality Management System and our product conformity to the Essential Requirements and the requirements of the MDD. The notified body must perform regular inspections to verify compliance. The EU government ministries of health ("Competent Authorities") oversee human clinical studies and post-market surveillance of approved products, referred to as Vigilance Reporting. We are required to report device failures and serious adverse events potentially related to product use to responsible Competent Authorities. We also must comply with additional requirements of individual countries in which our products are marketed. Our Powerlink, AFX, and Ovation EVAR Systems and Nellix EVAS System were approved through the CE marking process.

To be sold in Japan, most medical devices must undergo thorough safety examinations and demonstrate medical efficacy before they are granted approval, or "*Shonin*." In Japan, the Ministry of Health, Labor, and Welfare ("MHLW"), with administration by the Pharmaceutical and Medical Devices Agency, regulates medical devices under the Pharmaceuticals and Medical Device Law ("PMD"). Our quality management system and product conformity to the PMD are overseen by MHLW and Pharmaceutical and Medical Devices Agency ("PMDA"). Our Powerlink and AFX EVAR Systems were approved through the *Shonin* process. The Ovation EVAR System and the Nellix EVAS System require future approval through the process in order to be commercially available in Japan.

To be sold in China, all medical devices are required to have licenses from the China Food and Drug Administration ("CFDA") (formerly State Food & Drug Administration or SFDA). Quality system, premarket testing and clinical investigation are required for Class II and III devices. CFDA released a new regulation on Innovative Medical Device Registration Applications ("IMDR") in March 2014, which Endologix may utilize to register its product in China. Class II and III submissions will have a full application review conducted; this will include a technical and administrative review. Novel and high-risk products may also be subject to an Expert Panel Meeting (which may result in an additional 4 to 6 months to the review process), and CFDA may conduct an onsite QMS audit of manufacturing facilities. The AFX and Ovation EVAR Systems as well as the Nellix EVAS System requires future approval through the process in order to be commercially available in China.

We are also subject to other local, state, federal and international regulations relating to a variety of areas including laboratory practices, manufacturing practices, medical device export, quality system practices, as well as health care reimbursement and delivery of products and services.

United States and Foreign Government Regulations - Healthcare Fraud and Abuse and Privacy Laws

Healthcare Fraud and Abuse

We are subject to various United States and foreign governmental laws and regulations relating to the manufacturing, labeling, marketing and selling of our products, non-compliance with which could adversely affect our business, financial condition and results of operations. We have implemented and maintain a comprehensive compliance program that includes ongoing risk assessment, development of relevant policies, monitoring, and training of our employees to ensure compliance with United States and foreign laws and regulations.

Various United States federal and state laws and regulations pertaining to health care fraud and abuse govern how we can and cannot do business in the United States and globally, including the federal False Claims Act, which prohibits the submission of false or otherwise improper claims for payment to a federally-funded health care program, the federal Anti-Kickback Statute, which prohibits offers to pay or receive remuneration of any kind for the purpose of inducing or rewarding referrals of items or services reimbursable by a Federal health care program, and similar state false claims and anti-kickback laws and regulations that apply to state funded health care programs. Violations of these laws and regulations are punishable by criminal and/or civil sanctions, including, in some instances, fines, imprisonment and, within the United States, exclusion from participation in federal and/or state health care programs, including Medicare and Medicaid. The interpretation and enforcement of these laws and regulations are uncertain and subject to rapid change.

We conduct a significant amount of sales activity outside of the United States. We intend to continue to pursue growth opportunities internationally, including in emerging markets. Our international operations are, and will continue to be, subject to a complex set of laws and regulations, including:

- Foreign medical reimbursement policies and programs;
- Complex data privacy requirements and laws;
- Ever-changing and contradictory country-specific guidelines, transparency requirements and laws;
- The Foreign Corrupt Practices Act, a United States law, which prosecutes United States companies who engage in bribery when doing business with physicians, distributors, agents, and other third parties outside the United States. Many physicians outside the United States are considered government officials, and United States companies, together with individuals who engaged in the bribery, face civil and criminal sanctions both in the United States and any country where bribery of a government official violates the law of that country;
- Foreign anti-corruption laws, such as the UK Bribery Act; and
- Trade protection measures, including import or export restrictions or sanctions, that may restrict us from doing business in and/or shipping products to certain parts of the world.

The foregoing are subject to change and evolving interpretations and any violation thereof could subject us to financial or other penalties.

US and Foreign Privacy Laws

We are subject to various United States federal and state privacy and security laws and regulations that protect the security and privacy of individually identifiable health information. We are mindful that our systems require significant resources and oversight to protect employee, patient, physician and customer information. If we fail to maintain or protect our information systems and data integrity effectively, we could lose existing customers, have difficulty preventing, detecting, and controlling fraud, have disputes with customers, physicians, and other health care professionals, have regulatory sanctions or other penalties imposed, have increases in operating expenses, incur expenses or lose revenues as a result of a data privacy breach, or suffer other adverse consequences.

We are also impacted by the privacy and security requirements of countries outside the United States. Privacy standards in Europe and Asia have become stricter. Enforcement actions and financial penalties related to privacy in the EU are growing, and foreign governmental authorities have passed new laws and restrictions relating to privacy requirements and standards. The management of cross border transfers of information among and outside of EU member countries is becoming more complex, which may affect our consulting arrangements with physicians or our clinical research activities, as well as product offerings that involve transmission or use of clinical data.

Any significant breakdown, intrusion, interruption, corruption, or destruction of our systems or information could have a material adverse effect on our business, results of operations and financial condition. Thus, we will continue our efforts to comply with all applicable privacy and security laws and regulations. To the best of our knowledge at this time, we do not expect that the ongoing cost and impact of assuring compliance with applicable privacy and security laws and regulations will have a material impact on our business, results of operations or financial condition.

Product Liability

The manufacture and marketing of medical devices carries the significant 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 \$20 million per occurrence and \$20 million per year in the aggregate, subject to customary deductible of \$150,000.

Employees

As of December 31, 2016, we had 782 employees (as compared to 619 employees as of December 31, 2015), including 306 in manufacturing, 47 in research and development, 44 in regulatory and clinical affairs, 80 in quality, 224 in sales and marketing, and 81 in administration. We believe that the success of our business will depend, on our ability to attract and retain qualified personnel. Our employees are not subject to a collective bargaining agreement, and we believe that 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, Cardiovascular Dynamics, Inc. (by then a publicly-traded company) merged with privately held Radiance Medical Systems, Inc., and we changed our name to Radiance Medical Systems, Inc. In May 2002, we merged with then privately held Endologix, Inc., and we changed our name to Endologix, Inc.

Our principal executive office is located at 2 Musick, 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 related amendments to these reports, as applicable, available on our website, at www.endologix.com, free of charge as soon as practicable after filing or furnishing such reports with the United States Securities and Exchange Commission ("SEC").

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 Street, 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.

Endologix®, AFX®, Nellix®, IntuiTrak®, Ovation®, VELA®, Ovation Prime®, Duraply®, Ovation Alto®, and CustomSeal®, are registered trademarks of Endologix, Inc. and its subsidiaries and ActiveSeal™ and the respective product logos are trademarks of Endologix, Inc. and its subsidiaries.

Item 1A. Risk Factors

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

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

Risks Related to our Merger with TriVascular

We may be unable to realize the anticipated revenue, operating synergies and other potential benefits of our merger with TriVascular in a timely manner or at all. As a result, our business, results of operations and financial condition may be adversely affected.

The success of our merger with TriVascular depends, in part, on our ability to achieve the anticipated revenue, operating synergies and other potential benefits of the merger. Achieving the anticipated potential benefits of the merger will depend in part upon whether we are able to integrate our operations in an efficient and effective manner. The integration process may not be completed smoothly or successfully. The necessity of coordinating geographically separated organizations, systems and facilities and addressing possible differences in business backgrounds, corporate cultures and management philosophies may increase the difficulties of integration. We operate numerous systems, including those involving accounting and finance, sales, billing, payroll, employee benefits and regulatory compliance. We may also have inconsistencies in standards, controls, procedures or policies that could affect our ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger. We may have difficulty in integrating our commercial organizations, including in particular distribution arrangements. The integration of certain operations requires the dedication of significant management resources, which may temporarily distract management's attention from our day-to-day business. Employee uncertainty and lack of focus during the integration process may also disrupt our business. Any inability of our management to integrate successfully our operations or to do so within a longer time frame than expected could have an adverse effect on our business, results of operations and financial condition. The integration also may result in unanticipated expenses, liabilities, competitive responses and loss of customer relationships. Even if our operations are integrated successfully with TriVascular's, we may not be able to realize the full benefits of the transaction, including the anticipated operating and cost synergies, growth opportunities or long-term strategic benefits of the merger. An inability to realize the full extent of, or any of, the anticipated benefits of the merger,

as well as any delays encountered in the integration process, could have an adverse effect on our business, results of operations and financial condition.

Our future results will suffer if we do not effectively manage our expanded operations as a result of the merger.

As a result of the merger, the size of our business has increased significantly. Our future success depends, in part, upon our ability to manage this expanded business, which will pose substantial challenges for our management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. We may be unable to realize the expected operating efficiencies, cost savings and other benefits currently anticipated from the merger.

In addition, effective internal controls are necessary for us to provide reliable and accurate financial reports. The integration of combined businesses is likely to result in our systems and controls becoming increasingly complex and more difficult to manage. We devote significant resources and time to comply with the internal control over financial reporting requirements of the Sarbanes-Oxley Act of 2002. However, we cannot be certain that these measures will ensure that we design, implement and maintain adequate control over our financial processes and reporting in the future. Any difficulties in the assimilation of combined businesses into our control system could harm our operating results or cause us to fail to meet our financial reporting obligations.

If goodwill or other intangible assets that we record in connection with the merger become impaired, we could be required to take significant charges against earnings.

In connection with the accounting for the merger, we expect to record a significant amount of goodwill and other intangible assets. Under United States generally accepted accounting principles, we must assess, at least annually and potentially more frequently, whether the value of our goodwill and other indefinite-lived intangible assets have been impaired. Amortizing intangible assets will be assessed for impairment in the event of an impairment indicator. Any reduction or impairment of the value of goodwill or other intangible assets will result in a charge against earnings, which could adversely affect our operating results and financial condition in future periods.

We have incurred and expect to continue to incur significant transaction and integration-related costs in connection with the merger and the integration of our operations.

We have incurred and expect to continue to incur a number of non-recurring costs associated with the merger and integrating our operations. The substantial majority of non-recurring expenses resulting from the merger will be comprised of transaction costs related to the merger, employment-related costs, and facilities and systems consolidation costs. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of our businesses should allow us to offset incremental transaction and integration-related costs over time, this net benefit may not be achieved in the near term, or at all.

The surviving corporation following our merger with TriVascular, which is a wholly-owned subsidiary of our company, possesses not only all of the assets, but also all of the liabilities of TriVascular. Discovery of previously undisclosed or unknown liabilities could have an adverse effect on our business, operating results and financial condition.

Business combination transactions involve risks, including inaccurate assessment of undisclosed, contingent or other liabilities or problems. As a result of our merger with TriVascular, we acquired not only all of the assets, but also all of the liabilities of TriVascular. Although we conducted a due diligence investigation of TriVascular and its known and potential liabilities and obligations prior to completing the merger, it is possible that undisclosed, contingent or other liabilities or problems may arise which we were previously unaware. These undisclosed liabilities could have an adverse effect on our business, results of operations and financial condition.

Risks Related to Our Business

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

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

failure to maintain regulatory approvals, we would lose our only source of revenue and our business would be negatively affected.

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

Our industry is highly competitive and subject to rapid 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 enjoy several advantages to us, including:

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

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

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

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

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

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

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

We estimate that over 200,000 people are diagnosed with AAA in the United States annually, and approximately 60,300 people underwent aneurysm repair, either via EVAR or open surgical repair. Our growth will depend upon an increasing percentage of patients with AAA being diagnosed, and an increasing percentage of those diagnosed receiving EVAR, as

opposed to an open surgical procedure. Initiatives to increase screening for AAA include SAAAVE, which was signed into law on February 8, 2006 in the United States. SAAAVE will provide one-time AAA screening for men who have smoked some time in their life, and men or women who have a family history of the disease. Screening is provided as part of the "Welcome to Medicare" physical and such coverage began on January 1, 2007. Such general screening programs may never gain wide acceptance. The failure to diagnose more patients with AAA could negatively impact our revenue growth.

Our success depends on convincing physicians to use, and continue to use, our products in more endovascular AAA procedures.

Our AAA products utilize a different fixation approach within the patient's anatomy than competitive products. Due to our favorable clinical results, and product improvements, and an increase in the size of our sales force, we have been able to increase sales at a rate higher than the general growth within our market segment. However, if we are unable to continue convincing physicians to use our products, our business could be negatively impacted. Additionally, if we fail to maintain our working relationships with health care professionals, many of our products may not be developed and marketed in line with the needs and expectations of the professionals who use and support our products, which could cause a decline in our earnings and profitability. The research, development, marketing, and sales of many of our new and improved products is dependent upon our maintaining working relationships with health care professionals. We rely on these professionals to provide us with considerable knowledge and experience regarding the development, marketing, and sale of our products. Physicians assist us as researchers, marketing and product consultants, inventors, and public speakers. If we are unable to maintain our strong relationships with these professionals and continue to receive their advice and input, the development and marketing of our products could suffer, which could have a material adverse effect on our consolidated earnings, financial condition, and/or cash flows.

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

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

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

Sales of our products outside the United States represented approximately 29% of our revenue in 2016. As of December 31, 2016, we sold our products through 57 distributors located in the following countries outside of the United States: Argentina, Brazil, Chile, Columbia, Czech Republic, Israel, Japan, Mexico, Austria, Latvia, Romania, Poland, Sweden, Switzerland, Denmark, Finland, Iceland, Portugal, Spain, Slovakia, Norway, Italy, Hungary, Greece, Thailand, Singapore, Malaysia, Hong Kong, Vietnam, Russia, Jordan, Bulgaria, Cyprus, Philippines, Costa Rica, Ecuador, Estonia, Lithuania, Panama, Peru, Venezuela, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, Australia and Turkey. The sales territories authorized within these various distribution agreements cover a total of 48 countries. The sale and shipment of our products across international borders, as well as the purchase of components and products from international sources, subjects us to extensive United States and foreign governmental trade, import and export, and custom regulations and laws.

Pursuant to the SEC rules regarding disclosure of the use of certain minerals in our products, known as "conflict minerals," which are mined from the Democratic Republic of the Congo and adjoining countries, we are now required to disclose the procedures we employ to determine the sourcing of such minerals and metals produced from those minerals. The implementation of these rules could adversely affect the sourcing, supply, and pricing of materials used in our products. Although we intend to disclose that we utilized certain of the four conflict minerals in our products in our conflict minerals report for the 2016 calendar year, we have been unable in all instances to determine that our sources of these minerals have been certified as "conflict free." We may continue to face difficulties in gathering this information in the future.

Compliance with these regulations is costly and exposes us to penalties for non-compliance. Other laws and regulations that can significantly impact us include various anti-bribery laws, including the United States Foreign Corrupt Practices Act and anti-boycott laws and similar laws in foreign jurisdictions. Any failure to comply with applicable legal and regulatory obligations could impact us in a variety of ways that include, but are not limited to, significant criminal, civil and

administrative penalties, including imprisonment of individuals, fines and penalties, denial of export privileges, seizure of shipments, restrictions on certain business activities, and exclusion or debarment from government contracting. Also, the failure to comply with applicable legal and regulatory obligations could result in the disruption of our shipping and sales activities.

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

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

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

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

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 demand. In the future, we may experience difficulties in increasing production, including problems with production yields and quality control, 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.

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

We have a direct sales force in the United States and in certain European countries. We also utilize a network of third-party distributors for sales outside of the United States. As we launch new products and increase our marketing efforts with respect to existing products, we will need to retain and develop our direct sales personnel to build upon their experience, tenure with our products, and their relationships with customers. 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.

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

We depend in part on medical device distributors and strategic relationships for the marketing and selling of our products outside of the United States and outside of certain countries in Europe. We depend on these distributors' efforts to market our products, yet we are unable to control their efforts completely. In addition, we are unable to ensure that our distributors comply with all applicable laws regarding the sale of our products. If our distributors fail to effectively market and sell our products, and in full compliance with applicable laws, our operating results and business may suffer.

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

We are currently conducting clinical trials. We will likely need to conduct additional clinical trials in the future to support new product approvals, for the approval for new indications for the use of our products, or support the use of existing products. Clinical testing is expensive, and typically takes many years, which carries 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 establishing additional clinical sites;
- third-party clinical investigators decline to participate in our clinical studies, do not perform the clinical studies on the anticipated schedule, or are inconsistent with the investigator agreement, clinical study protocol, good clinical practices, and other FDA and Institutional Review Board requirements;
- data collection analysis in a timely or accurate manner;
- regulatory inspections of our clinical studies require us to undertake corrective action or suspend or terminate our clinical studies;
- changes in federal, state, or foreign governmental statutes, regulations or policies;
- interim results are inconclusive or unfavorable as to immediate and long-term safety or efficacy;
- the study design is inadequate to demonstrate safety and efficacy; or
- do not meet the study endpoints.

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

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

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

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

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

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

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

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

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

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

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

- stop selling, making, or using products that use the disputed intellectual property;
- obtain a license from the intellectual property owner to continue selling, making, licensing, or using products, which license may not be available on reasonable terms, or at all;

- redesign our products, processes or services; or
- subject us to significant liabilities to third parties.

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

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

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

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

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

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

On January 3, 2017, a stockholder purporting to represent a class of persons who purchased our securities between August 2, 2016 and November 16, 2016, filed a lawsuit against us and certain of our officers in the United States District Court for the Central District of California. The lawsuit alleges that we made materially false and misleading statements and failed to disclose material adverse facts about our business, operational and financial performance, in violation of federal securities laws, relating to FDA PMA for our Nellix EVAS System. On January 11, 2017, a second stockholder filed a similar lawsuit against us and certain of our officers in the United States District Court for the Central District of California. The plaintiffs seek unspecified monetary damages on behalf of the alleged class, interest, and attorney's fees and costs of litigation.

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

Our ability to maintain our competitive position depends on our ability to attract and retain highly qualified personnel.

Our future success depends, in part, upon our ability to retain and motivate key managerial, technical, and sales personnel, particularly John McDermott, our Chief Executive Officer, as well as our ability to continue to attract and retain additional

highly qualified personnel. We compete for such personnel with other companies. We may be unsuccessful in retaining our current personnel or in hiring or retaining qualified personnel in the future. Key personnel may depart because of difficulties with change or a desire not to remain with our company. Any unanticipated loss or interruption of services of our management team and our key personnel could significantly reduce our ability to meet our strategic objectives because it may not be possible for us to find appropriate replacement personnel should the need arise. Loss of key personnel or the inability to hire or retain qualified personnel in the future could have a material adverse effect on our ability to operate successfully.

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

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

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

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

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

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

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

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

The health care industry has been consolidating, and organizations such as GPOs, independent delivery networks, and large single accounts continue to consolidate purchasing decisions for many of our health care provider customers. As a result, transactions with customers are larger, more complex, and tend to involve more long-term contracts. The purchasing power of these larger customers has increased, and may continue to increase, causing downward pressure on product pricing. If we are not one of the providers selected by one of these organizations, we may be precluded from making sales to its members or participants. Even if we are one of the selected providers, we may be at a disadvantage relative to other selected providers that

are able to offer volume discounts based on purchases of a broader range of medical equipment and supplies. Further, we may be required to commit to pricing that has a material adverse effect on our revenues and profit margins, business, financial condition and results of operations. We expect that market demand, governmental regulation, third-party reimbursement policies and societal pressures will continue to change the worldwide health care industry, resulting in further business consolidations and alliances, which may exert further downward pressure on the prices of our products and could adversely impact our business, financial condition, and results of operations.

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

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

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

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

Risks Related to Our Financial Condition

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

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

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

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

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

Changes in the credit environment may adversely affect our business and financial condition.

Our ability to 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 our customers become insolvent. Any deterioration in our key financial ratios, or non-compliance with financial covenants in existing credit agreements could also adversely affect our business and financial condition. While these conditions and the current economic instability have not meaningfully impaired our ability to access credit markets or 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. This could result in a decrease in the demand for our products, longer sales cycles, slower adoption of new technologies, and increased price competition.

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

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

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

In May 2008, the Financial Accounting Standards Board ("FASB"), issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as our senior convertible notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for our senior convertible notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of such notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the accretion of the discounted carrying value of our senior convertible notes to their face amount over the term of such notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period's accretion of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results and the market price of our common stock.

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

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

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

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

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

Risks Related to Regulation of Our Industry

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

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

On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (the "PPACA"). The total cost imposed on the medical device industry by the PPACA may be up to approximately \$20 billion over ten years. The PPACA includes, among other things, a deductible 2.3% excise tax on any entity that manufactures or imports medical devices offered for sale in the United States, with limited exceptions, effective January 1, 2013. This excise tax will result in a significant increase in the tax burden on our industry, and if any efforts we undertake to offset the excise tax are unsuccessful, the increased tax burden could have an adverse effect on our results of operations and cash flows. Other elements of the PPACA, including comparative effectiveness research, an independent payment advisory board, payment system reforms including shared savings pilots and other provisions, may significantly affect the payment for, and the availability of, healthcare services and result in fundamental changes to federal healthcare reimbursement programs, any of which may materially affect numerous aspects of our business.

On December 18, 2015, President Obama signed the Consolidated Appropriations Act of 2016, which imposed a two-year moratorium on the 2.3% excise tax beginning on January 1, 2016 and ending on December 31, 2017. Upon the end of this period we believe the PPACA could continue to have an adverse effect on our results of operations and cash flows.

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

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

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

- properly identify and anticipate physicians and patient needs;
- develop and introduce new products or product enhancements in a timely manner;
- avoid infringing upon the intellectual property rights of third parties;
- demonstrate, if required, the safety and efficacy of new products with data from preclinical studies and clinical trials;
- obtain the necessary regulatory clearances or approvals for new products or product enhancements;

- be fully FDA-compliant with marketing of new devices or modified products;
- provide adequate training to potential users of our products;
- receive adequate coverage and reimbursement for procedures performed with our products; and
- develop an effective and FDA-compliant, dedicated marketing and distribution network.

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

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

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

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

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

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

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

The misuse or off-label use of our products may harm our image in the marketplace; 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 promotion of such off-label uses.

The products we currently market have been cleared or approved by the FDA and international regulatory authorities for specific treatments and anatomies. We cannot, however, prevent a physician from using our products outside of those cleared/approved indications 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 to not promote our products for off-label uses. Furthermore, the use of our products for indications other than those cleared/approved by the FDA or international regulatory authorities 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 the FDA to have engaged in the promotion of 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 price to decline.

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

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

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

Under the FDA MDR regulations, medical device manufacturers are required to submit information to the FDA when they receive a report or become aware that a device has or may have caused or contributed to a death or serious injury or has or may have a malfunction that would likely cause or contribute to death or serious injury if the malfunction were to recur. All manufacturers placing medical devices on the market in the European Economic Area are legally bound to report any serious or potentially serious incidents involving devices they produce or sell to the regulatory agency, or Competent Authority, in whose jurisdiction the incident occurred. Were this to happen to us, the relevant regulatory agency would file an initial report, and there would then be a further inspection or assessment if there are particular issues.

Malfunction of our products could result in future voluntary corrective actions, such as recalls, including corrections, or customer notifications, or agency action, such as inspection or enforcement actions. If malfunctions do occur, we may be unable to correct the malfunctions adequately or prevent further malfunctions, in which case we may need to cease manufacture and distribution of the affected products, initiate voluntary recalls, and redesign the products. Regulatory authorities may also take actions against us, such as ordering recalls, imposing fines, or seizing the affected products. Any corrective action, whether voluntary or involuntary, will require the dedication of our time and capital, distract management from operating our business, and may harm our reputation and financial results.

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

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

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

Many states have also, adopted laws similar to each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers as well as laws that restrict our marketing activities with physicians, and require us to report consulting and other payments to physicians. Some states mandate implementation of commercial compliance programs to ensure compliance with these laws. We also are subject to foreign fraud and abuse laws, which vary by country. For instance, in the European Union, legislation on inducements offered to physicians and other healthcare workers or hospitals differ from country to country. Breach of the laws relating to such inducements may expose us to the imposition of criminal sanctions.

The risk of our being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions are open to a variety of interpretations. Moreover, recent health care reform legislation has strengthened these laws. Further, we expect there will continue to be federal and state laws and/or regulations, proposed and implemented, that could impact our operations and business. The extent to which future legislation or regulations, if any, relating to health care fraud abuse laws and/or enforcement, may be enacted or what effect such legislation or regulation would have on our business remains uncertain. If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us now or in the future, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from governmental health care programs, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our financial results.

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

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

Risks Related to Our Common Stock

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

Under the terms of the merger agreement with Nellix and the other parties thereto, we agreed to issue additional shares of our common stock to the former stockholders of Nellix as contingent consideration upon our satisfaction of one or both of two milestones related to the Nellix System and described in the merger agreement, or upon a change of control of our company prior to our completion of one or both milestones. On June 17, 2014, we issued an additional 2.7 million shares of our common stock to the former stockholders of Nellix upon achievement of a revenue-based milestone. One additional regulatory related milestone remains, and the maximum aggregate number of shares of our common stock remaining issuable to the former Nellix stockholders upon our achievement of such regulatory milestone, or upon a change of control of our company prior to our achievement of such milestone, assuming the average per share closing price of our common stock (as determined under the terms of the Nellix merger agreement) at such time is 2.0 million shares.

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

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

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

- physician acceptance of our products;

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

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

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

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

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

- announcements by us or our competitors concerning technological innovations;
- introductions of new products;
- FDA and foreign regulatory actions;
- developments or disputes relating to patents or proprietary rights;
- maintain the effectiveness of our Quality System;
- failure of our results of operations to meet the expectations of stock market analysts and investors;
- changes in stock market analyst recommendations regarding our common stock;
- the conversion of some or all of our senior convertible notes and any sales in the public market of shares of our common stock issued upon conversion of such notes;
- changes in healthcare policy in the United States or other countries; and
- general stock market and economic conditions and other factors unrelated to our operating performance.

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

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

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

or announce publicly could have an adverse effect on our business, disappoint investors and analysts, and cause the market price of our common stock to decline.

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

The average daily trading volume in our common stock for the twelve months ended December 31, 2016 was approximately 1,317,215 shares. If limited trading in our stock continues, it may be difficult for investors to sell their shares in the public market at any given time at prevailing prices. Moreover, the market price for shares of our common stock may be made more volatile because of the relatively low volume of trading in our common stock. When trading volume is low, significant price movement can be caused by the trading of a relatively small number of shares. Volatility in our common stock could cause stockholders to incur substantial losses.

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

On June 12, 2013, we entered into a lease agreement for two adjacent office, research and development, and manufacturing facilities in Irvine, California. The premises consist of approximately 129,000 combined square feet. The lease has a 15-year term beginning January 1, 2014 and provides for one optional 5 year extension. The initial base rent under the lease is \$1.9 million per year, payable in monthly installments, and escalates by 3% per year for years 2015 through 2019, and 4% per year for years 2020 and beyond. We received a rent abatement for the first nine months of the lease. Refer to Note 8 of the Notes to the Consolidated Financial Statements for further discussion of properties.

Our Rosmalen facility is an administrative office of approximately 2,900 square feet and, in August 2015, we extended the lease term until December 2020.

As a result of our merger with TriVascular, we acquired approximately 110,000 square feet of research and development and manufacturing facilities in Santa Rosa, California under an operating lease scheduled to expire in February 2018, which may be renewed for an additional five years.

We believe that all of our facilities and equipment are in good condition, suitable and adequate for their purposes, and are maintained on a consistent basis for sound operations.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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

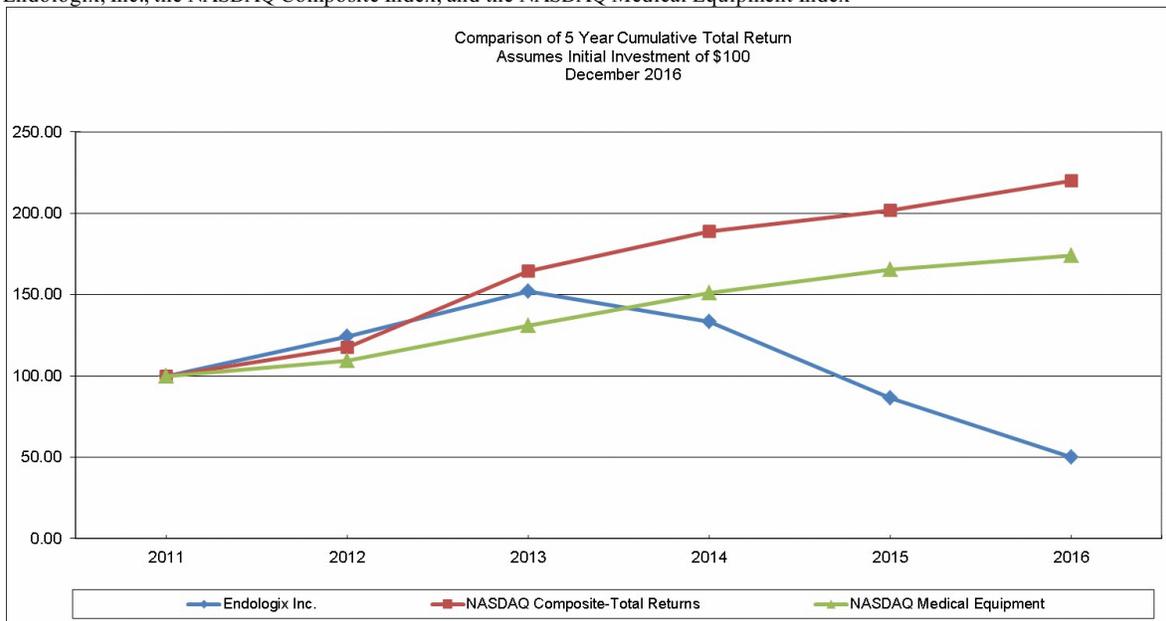
	High	Low
<u>Year Ended December 31, 2015</u>		
First Quarter	\$ 17.07	\$ 13.93
Second Quarter	17.92	15.04
Third Quarter	15.44	11.71
Fourth Quarter	13.98	8.54
<u>Year Ended December 31, 2016</u>		
First Quarter	\$ 10.04	\$ 6.51
Second Quarter	13.60	8.13
Third Quarter	14.50	11.33
Fourth Quarter	13.25	4.78

On February 27, 2017, the closing price of our common stock on the NASDAQ Global Select Market was \$6.69 per share, and there were 254 holders of record of our common stock.

The following chart compares the yearly percentage change in the cumulative total stockholder return on our common stock for the period from December 31, 2011 through December 31, 2016, with the cumulative total return on the NASDAQ Composite Index and the NASDAQ Medical Equipment Index for the same period. The comparison assumes \$100 was invested on December 31, 2011 in our common stock at the then closing price of \$7.15 per share.

Comparison of 5 Year Cumulative Total Return*

Among Endologix, Inc., the NASDAQ Composite Index, and the NASDAQ Medical Equipment Index



*\$100 invested on December 31, 2011 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

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 with Bank of America prohibit us from paying cash dividends without their consent.

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, 2016, 2015, and 2014 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" in Item 7 and the Consolidated Financial Statements and Notes thereto in Item 8.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenue	\$ 192,925	\$ 153,612	\$ 147,588	\$ 132,257	\$ 105,946
Cost of goods sold	69,133	51,821	41,801	32,750	25,282
Gross profit	123,792	101,791	105,787	99,507	64,671
Operating expenses:					
Research and development	32,337	26,421	21,616	16,199	16,571
Clinical and regulatory affairs	16,215	15,418	13,243	8,679	6,343
Marketing and sales	107,759	78,213	73,411	63,588	53,953
General and administrative	41,044	29,581	26,663	21,409	20,266
Restructuring Cost	11,093	—	—	—	—
Contract termination and business acquisition expenses	5,768	5,071	—	—	422
Settlement costs	4,650	—	—	—	5,000
Total operating expenses	218,866	154,704	134,933	109,875	102,555
Loss from operations	(95,074)	(52,913)	(29,146)	(10,368)	(21,891)
Total other income (expense)	(59,105)	(6,848)	(3,334)	(5,710)	(13,352)
Net loss before income tax benefit (expense)	(154,179)	(59,761)	(32,480)	(16,078)	(35,243)
Income tax benefit (expense)	(498)	9,337	62	10	(531)
Net loss	\$ (154,677)	\$ (50,424)	\$ (32,418)	\$ (16,068)	\$ (35,774)
Basic and diluted net loss per share					
	\$ (1.91)	\$ (0.75)	\$ (0.50)	\$ (0.26)	\$ (0.60)
Shares used in computing basic and diluted loss per share	80,976	67,671	65,225	62,607	59,811

	December 31,				
	2016	2015	2014	2013	2012
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents and marketable securities	\$ 47,108	\$ 177,321	\$ 86,669	\$ 126,465	\$ 45,118
Accounts receivable, net	\$ 34,430	\$ 28,531	\$ 26,113	\$ 24,972	\$ 22,600
Total assets	\$ 359,684	\$ 331,050	\$ 248,209	\$ 256,197	\$ 165,103
Convertible Notes	\$ 177,178	\$ 167,748	\$ 70,407	\$ 67,101	\$ —
Total liabilities	\$ 246,891	\$ 227,743	\$ 124,059	\$ 151,556	\$ 70,629
Accumulated deficit	\$ 453,601	\$ 298,924	\$ 248,500	\$ 216,082	\$ 200,014
Total stockholders' equity	\$ 112,793	\$ 103,307	\$ 124,150	\$ 104,641	\$ 94,474

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

Our Business

Our corporate headquarters is located in Irvine, California and manufacturing facilities are located in Irvine and Santa Rosa, California. We develop, manufacture, market, and sell innovative medical devices for the treatment of aortic disorders. Our principal products are intended for the treatment of abdominal aortic aneurysms ("AAA"). Our AAA products are built on one of two platforms: (1) traditional minimally-invasive endovascular repair ("EVAR") or (2) endovascular sealing ("EVAS"), our innovative solution for sealing the aneurysm sac while maintaining blood flow through two blood flow lumens.

We sell our products through (i) our direct United States and European sales forces and (ii) third-party international distributors and agents in other parts of the world.

See Item 1., "Business," for a discussion of:

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

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2016 Overview

2016 was an important year of advancing our new product pipeline, generating clinical evidence and global expansion. On February 3, 2016, we consummated the merger with TriVascular which expanded our sales force, product pipeline and new technologies. We completed the TriVascular integration, advanced our strategic initiatives and exit the year remaining positioned to execute on our long-term strategy.

Characteristics of Our Revenue and Expenses

Revenue

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

Cost of Goods Sold

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

Research and Development

Research and development expenses consist of compensation (including stock-based compensation) and benefits for research and development personnel, materials and supplies, research and development consultants, outsourced and licensed

research and development costs, and allocated facilities-related costs. Our research and development activities primarily relate to the development and testing of new devices and methods to treat aortic disorders.

Clinical and Regulatory

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

Marketing and Sales

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

General and Administrative

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

Critical Accounting Policies and Estimates

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

- Revenue recognition and accounts receivable
- Inventory - lower of cost or market
- Business Combinations
- Goodwill and intangible assets - impairment analysis
- Stock-based compensation
- Contingent consideration for business acquisition
- Litigation accruals

Revenue Recognition and Accounts Receivable

We recognize revenue when all of the following criteria are met:

- We have appropriate evidence of a binding arrangement with our customer;
- The sales price for our EVAR and EVAS products (including extensions and accessories) is established with our customer;
- Our EVAR and EVAS product has been used by the hospital in an AAA repair procedure, or our distributor has assumed title with no right of return, as applicable; and
- Collection from our customer is reasonably assured at the time of sale.

For sales made to a direct customer (i.e., hospitals), we recognize revenue upon completion of an AAA repair procedure, when our EVAR or EVAS product is implanted in a patient. For sales to distributors, we recognize revenue at the time of title transfer, which is typically at shipment. We do not offer any right of return to our customers, other than honoring our standard warranty.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to pay amounts due. These estimates are based on our review of the aging of customer balances, correspondence with the customer, and the customer's payment history.

Inventory - Lower of Cost or Market

We adjust our inventory value for estimated amounts of obsolete or unmarketable items. Such assumptions involve projections of future customer 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 us, additional inventory write-downs may be required.

Business Combinations

The application of acquisition accounting to a business acquisition requires that we identify the individual assets acquired and liabilities assumed and estimate the fair value of each. The fair value of assets acquired and liabilities assumed in a business acquisition are recognized at the acquisition date, with the purchase price exceeding the fair values being recognized as goodwill. Determining fair value of identifiable assets, particularly intangibles, liabilities acquired and contingent obligations assumed requires management to make estimates. In certain circumstances, the allocations of the purchase price are based upon preliminary estimates and assumptions and subject to revision when we receive final information, including appraisals and other analysis. Accordingly, the measurement period for such purchase price allocations will end when the information, or the facts and circumstances, becomes available, but will not exceed twelve months. We will recognize measurement-period adjustments during the period of resolution, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date.

Goodwill and intangible assets often represent a significant portion of the assets acquired in a business combination. We recognize the fair value of an acquired intangible apart from goodwill whenever the intangible arises from contractual or other legal rights, or when it can be separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged, either individually or in combination with a related contract, asset or liability. Intangible assets consist primarily of technology, customer relationships, and trade name and trademarks acquired in business combinations and in-process research and development ("IPR&D"). We generally assess the estimated fair values of acquired intangibles using a combination of valuation techniques. To estimate fair value, we are required to make certain estimates and assumptions, including future economic and market conditions, revenue growth, market share, operating costs and margins, and risk-adjusted discount rates. Our estimates require significant judgment and are based on historical data, various internal estimates, and external sources. Our assessment of IPR&D also includes consideration of the risk of the projects not achieving technological feasibility.

Goodwill and Intangible Assets - Impairment Analysis

Goodwill and other intangible assets with indefinite lives are not subject to amortization, but are tested for impairment annually as of June 30, or whenever events or changes in circumstances indicate that the asset might be impaired.

We evaluate the possible impairment of definite-lived intangible assets if/when events or changes in circumstances occur that indicate that the carrying value of assets may not be recoverable. The impairment reviews require significant estimates about fair value, including estimates of future cash flows, selection of appropriate discount rates, and estimates of long-term growth rates. If actual results, or the forecasts and estimates used in future impairment analysis, are lower than the original estimates used to assess the recoverability of these assets, we could incur impairment charges.

Stock-Based Compensation

We recognize stock-based compensation expense for employees based on fair value at the date of grant. For awards granted to consultants, the award is marked-to-market each reporting period, with a corresponding adjustment to stock-based compensation expense. The fair value of equity awards that are expected to vest is amortized on a straight-line basis over (i) the requisite service period or (ii) the period from grant date to the expected date of the completion of the performance condition for vesting of the award. Stock-based compensation expense recognized is net of an estimated forfeiture rate, which is updated as appropriate.

We use the Black-Scholes option pricing model to value stock option grants. The Black-Scholes option pricing model requires the input of subjective assumptions, including the expected volatility of our common stock, expected risk-free interest rate, and the option's expected life. The fair value of our restricted stock is based on the closing market price of our common stock on the date of grant. A portion of restricted stock vesting is dependent on us achieving certain regulatory and financial milestones. We use judgment in estimating the likelihood and timing of achieving these milestones. Each period, we will reassess the likelihood and estimate the timing of reaching these milestones, and will adjust expense accordingly.

Contingent Consideration for Business Acquisition

We determine the fair value of contingently issuable common stock related to the Nellix acquisition using a probability-based income approach and an appropriate discount rate. Changes in the fair value of the contingently issuable common stock are determined each period end and recorded in the other income (expense) section of the Consolidated Statements of Operations and Comprehensive Loss and the current and non-current liabilities section of the Consolidated Balance Sheet. The fair value of the contingent consideration liability could be impacted by changes such as: (i) fluctuations in the price of our common stock, or (ii) the timing of achieving the underlining milestones.

Litigation Accruals

From time to time we are involved in various claims and legal proceedings of a nature considered normal and incidental to our business. These matters may include product liability, intellectual property, employment, and other general claims. We accrue for contingent liabilities when it is probable that a liability has been incurred and the amount can be reasonably estimated. The accruals are adjusted periodically as assessments change or as additional information becomes available.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU ") No. 2014-09, "Revenue from Contracts with Customers", which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in United States GAAP when it becomes effective. The FASB agreed to a one-year deferral of the revenue recognition standard's effective date for all entities. The new revenue standard is effective for the Company on January 1, 2018. Early application is permitted, but not before the original effective date, which would have been January 1, 2017 for the Company. The new revenue standard permits the use of either the full retrospective or modified retrospective transition method; these methods may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application.

Accordingly and in 2016, we established a cross-functional implementation team to analyze the impact of the new revenue standard. This preliminary analysis included the review of an initial sample of contracts, as well as reviewing current accounting policies and customary business practices to identify potential differences that would result from applying the requirements of the new standard to our revenue contracts. As the Company continues to assess all potential effects of the new revenue standard, it currently expects revenue related to the completion of an EVAR or EVAS procedure in hospitals, when the EVAR or EVAS products are implanted in a patient, to remain substantially unchanged. The Company also plans to select a larger sample from its population of contracts in search of additional attributes. In addition, we identified, and are in the process of implementing, appropriate changes to our business processes, systems and controls to support recognition and disclosure under the new revenue standard. The Company currently expects to adopt the new revenue standard in its first quarter of 2018 utilizing the modified retrospective adoption method. The Company currently does not expect the new revenue standard will have a material impact on the amount and timing of revenue recognized in the Company's consolidated financial statements. The foregoing preliminary assessments or expectations are subject to change pending further analysis through the 2017 year.

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

In February 2016, the FASB issued ASU 2016-02, which amends the FASB Accounting Standards Codification and creates Topic 842, "Leases." The new topic supersedes Topic 840, "Leases," and increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requires disclosures of key information about leasing arrangements. The guidance is effective for reporting periods beginning after December 15, 2018. ASU 2016-02 mandates a modified retrospective transition method. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," which includes multiple provisions intended to simplify various aspects of accounting and reporting for share-based payments. This standard is effective for annual reporting periods, and interim periods

therein, beginning after December 15, 2016. The Company is currently evaluating the impact this guidance will have on the Company's consolidated financial statements.

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

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

Results of Operations

Operations Overview - 2016, 2015, and 2014

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

	Year Ended December 31,					
	2016		2015		2014	
Revenue	\$ 192,925	100.0%	\$ 153,612	100.0%	\$ 147,588	100.0%
Cost of goods sold	69,133	35.8%	51,821	33.7%	41,801	28.3%
Gross profit	123,792	64.2%	101,791	66.3%	105,787	71.7%
Operating expenses:						
Research and development	32,337	16.8%	26,421	17.2%	21,616	14.6%
Clinical and regulatory affairs	16,215	8.4%	15,418	10.0%	13,243	9.0%
Marketing and sales	107,759	55.9%	78,213	50.9%	73,411	49.7%
General and administrative	41,044	21.3%	29,581	19.3%	26,663	18.1%
Restructuring costs	11,093	5.7%	—	—%	—	—%
Settlement costs	4,650	2.4%	—	—%	—	—%
Contract termination and business acquisition expenses	5,768	3.0%	5,071	3.3%	—	—%
Total operating expenses	218,866	113.4%	154,704	100.7%	134,933	91.4%
Loss from operations	(95,074)	(49.3)%	(52,913)	(34.4)%	(29,146)	(19.7)%
Total other income (expense)	(59,105)	(30.6)%	(6,848)	(4.5)%	(3,334)	(2.3)%
Net loss before income tax benefit	(154,179)	(79.9)%	(59,761)	(38.9)%	(32,480)	(22.0)%
Income tax benefit	(498)	(0.3)%	9,337	6.1%	62	—%
Net loss	\$ (154,677)	(80.2)%	\$ (50,424)	(32.8)%	\$ (32,418)	(22.0)%

Year Ended December 31, 2016 versus December 31, 2015

Revenue

	Year Ended December 31,			
	2016	2015	Variance	Percent Change
	(in thousands)			
Revenue	\$ 192,925	\$ 153,612	\$ 39,313	25.6%

US Sales. Net sales totaled \$136.1 million for the year ended December 31, 2016, a 27% increase from \$107.2 million in the year ended December 31, 2015. This increase was driven by sales contributed from products acquired as part of the TriVascular merger offset by the impact of the AFX and AFX2 products hold in the quarter ended December 31, 2016.

International Sales. Net sales of products in our international regions totaled \$56.8 million for the year ended December 31, 2016, a 22% increase from \$46.4 million in the year ended December 31, 2015, primarily due to sales contributed from products acquired as part of the TriVascular merger. Our international sales for the year ended December 31, 2016 included the impact from the temporary AFX CE Mark suspension along with the AFX and AFX2 products hold in the quarter ended December 31, 2016.

Net sales contributed from products acquired as part of the TriVascular merger totaled \$40.0 million for the year ended December 31, 2016.

Cost of Goods Sold, Gross Profit, and Gross Margin Percentage

	Year Ended December 31,		Variance	Percent Change
	2016	2015		
	(in thousands)			
Cost of goods sold	\$ 69,133	\$ 51,821	\$ 17,312	33.4%
Gross profit	123,792	101,791	22,001	21.6%
Gross margin percentage (gross profit as a percent of revenue)	64.2%	66.3%	(2.1)%	

Gross margin for the year ended December 31, 2016 decreased to 64.2% from 66.3% for the year ended December 31, 2015. The increase in cost of goods sold is largely due to the impact of purchase price accounting for inventory and intangible assets acquired in the TriVascular merger as well as due to the increase in sales.

Operating Expenses

	Year Ended December 31,		Variance	Percent Change
	2016	2015		
	(in thousands)			
Research and development	\$ 32,337	\$ 26,421	\$ 5,916	22.4%
Clinical and regulatory affairs	16,215	15,418	797	5.2%
Marketing and sales	107,759	78,213	29,546	37.8%
General and administrative	41,044	29,581	11,463	38.8%
Restructuring costs	11,093	—	11,093	100.0%
Settlement costs	4,650	—	4,650	100.0%
Contract termination and business acquisition expenses	5,768	5,071	697	13.7%

Research and development. The \$5.9 million increase in research and development expenses was attributable to increased product development investments related to Ovation.

Clinical and regulatory affairs. The \$0.8 million increase in clinical and regulatory affairs expenses is due to increased regulatory fees and costs to support ongoing clinical activities, such as LUCY, EVAS FORWARD IDE and LEOPARD.

Marketing and sales. The \$29.5 million increase in marketing and sales expenses for the year ended December 31, 2016, as compared to the prior year period, was driven by the integration of the TriVascular sales and marketing organization.

General and administrative. The \$11.5 million increase in general and administrative expenses is primarily attributable to an increase in headcount related to the TriVascular merger, higher professional fees and stock-based compensation.

Restructuring Costs. The \$11.1 million increase in restructuring costs for the year ended December 31, 2016 is comprised of costs associated with TriVascular executive change in control agreements, severance and retention bonuses as a result of the TriVascular merger.

Settlement Costs. The \$4.7 million in settlement costs for the year ended December 31, 2016 is a result of the LifePort settlement.

Contract Termination and Business Acquisition Expenses. The \$0.7 million increase in contract termination and business acquisition expenses for the year ended December 31, 2016, was primarily related to termination of some of our international distributors as well as transaction related expenses associated with the TriVascular merger.

Other income (expense), net

	Year Ended December 31,		Variance	Percent Change
	2016	2015		
	(in thousands)			
Other income (expense), net	\$ (59,105)	\$ (6,848)	\$ (52,257)	>100%

Other income (expense), Net. Other expense for the year ended December 31, 2016 consists mainly of interest expense of \$15.8 million, the change in fair value of derivative of \$43.8 million, \$2.1 million currency re-measurement loss and a non-cash benefit of \$2.5 million related to the fair value of the Nellix contingent consideration. Other Expense for the year ended December 31, 2015 includes interest expense associated with our convertible notes of \$7.5 million, a non-cash expense of \$0.1 million related to the fair value of the Nellix contingent consideration offset by \$0.5 million currency re-measurement gain of certain assets and liabilities that were not transacted in the functional currency of the corresponding operating entity and \$0.2 million of interest income.

Provision for Income Taxes

	Year Ended December 31,		Variance	Percent Change
	2016	2015		
	(in thousands)			
Income tax benefit (expense)	\$ (498)	\$ 9,337	\$ (9,835)	>100%

Our income tax expense was \$0.5 million and our effective tax rate was (0.3)% for the twelve months ended December 31, 2016 due to our tax positions in various jurisdictions. Our income tax benefit of \$9.3 million for the twelve months ended December 31, 2015 was due to our recognition of a deferred tax liability of \$9.6 million as a result of the temporary difference between the carrying value and the tax basis of the 3.25% Senior Notes. This liability which was recorded as an adjustment to the additional paid-in capital resulted in a reduction of our valuation allowance which was recorded as a benefit to income tax expense in 2015. During the twelve months ended December 31, 2016 and 2015, we had operating legal entities in the United States, Canada, Italy, New Zealand, Poland and the Netherlands (including registered sales branches in certain countries in Europe).

Year Ended December 31, 2015 versus December 31, 2014

Revenue

	Year Ended December 31,		Variance	Percent Change
	2015	2014		
	(in thousands)			
Revenue	\$ 153,612	\$ 147,588	\$ 6,024	4.1%

US Sales. Net sales increased by \$1.1 million due to continued physician adoption of AFX.

International Sales. Net sales of products in our international regions increased by \$4.9 million due to new distributor contract in Japan, strong sales growth related to Nellix offset by unfavorable foreign currency.

Cost of Goods Sold, Gross Profit, and Gross Margin Percentage

	Year Ended December 31,		Variance	Percent Change
	2015	2014		
	(in thousands)			
Cost of goods sold	\$ 51,821	\$ 41,801	\$ 10,020	24.0%
Gross profit	101,791	105,787	(3,996)	(3.8)%
Gross margin percentage (gross profit as a percent of revenue)	66.3%	71.7%	(5.4)%	

The \$10.0 million increase in cost of goods sold was driven by our revenue increase of \$6.0 million and \$7.9 million inventory write-offs for 2015.

Gross margin for the year ended December 31, 2015 decreased to 66.3% from 71.7% in prior year. The increase in cost of goods sold, and corresponding decrease to gross margin, is largely due to a \$7.9 million increase in the reserve for product inventory related to our global transition to DuraPly ePTFE Graft Material for the AFX® Endovascular AAA System, a reserve for product inventory related to product transition and a provision for Nellix inventory that will become obsolete due to quality and process improvements. The decrease is also due to product and geography mix with a greater proportion of sales from international markets, which have lower average selling prices; in addition, Nellix has a higher cost to produce compared to AFX.

Operating Expenses

	Year Ended December 31,		Variance	Percent Change
	2015	2014		
	(in thousands)			
Research and development	\$ 26,421	\$ 21,616	\$ 4,805	22.2%
Clinical and regulatory affairs	15,418	13,243	2,175	16.4%
Marketing and sales	78,213	73,411	4,802	6.5%
General and administrative	29,581	26,663	2,918	10.9%
Contract termination and business acquisition expenses	5,071	—	5,071	100.0%

Research and development. The \$4.8 million increase in research and development expenses was attributable to increased personnel, facility costs and continued product development investments related to Nellix and AFX.

Clinical and regulatory affairs. The \$2.2 million increase in clinical and regulatory affairs was primarily driven by increased personnel, and costs related to the support of our ongoing clinical activities, such as EVAS FORWARD IDE and LEOPARD.

Marketing and sales. The \$4.8 million increase in marketing and sales expense, was driven by costs related to continued growth and development of our worldwide direct sales force, travel and tradeshows and other global marketing activities. Our 2015 marketing and sales expenses include a favorable foreign currency impact of \$3.0 million when compared to 2014.

General and administrative. The \$2.9 million increase in general and administrative expenses is attributable to additional personnel in United States and Europe to support our business growth, professional fees, litigation costs, stock-based compensation and investment in information technology projects. Our 2015 general and administrative expenses include a favorable foreign currency impact of \$0.6 million when compared to 2014.

Contract termination and business acquisition. The \$5.1 million increase in contract termination and business acquisition expense was attributable to \$3.1 million for our TriVascular business acquisition and \$1.9 million for a contract termination fee with a distributor in Japan.

Other income (expense), net

	Year Ended December 31,		Variance	Percent Change
	2015	2014		
	(in thousands)			
Other income (expense), net	\$ (6,848)	\$ (3,334)	(3,514)	105.4%

Other income (expense), Net. Other Expense for the year ended December 31, 2015 includes interest expense associated with our convertible notes of \$7.5 million due to interest on 2.25% Convertible Senior Notes (the “2.25% Senior Notes”) and

3.25% Convertible Senior Notes (the "3.25% Senior Notes"), a non-cash expense of \$0.1 million related to the fair value of the Nellix contingent consideration offset by \$0.5 million currency re-measurement gain of certain assets and liabilities that were not transacted in the functional currency of the corresponding operating entity and \$0.2 million on interest income. Other expense for the year ended December 31, 2014 includes a \$5.7 million currency re-measurement loss of certain assets and liabilities that were not transacted in the functional currency of the corresponding operating entity, along with interest expense associated with our 2.25% Senior Notes of \$5.7 million. This is offset by a non-cash benefit of \$7.9 million, which reflects a decrease in the fair value of the Nellix contingent consideration, related to the decrease in our stock price during the year ended December 31, 2014.

Provision for Income Taxes

	Year Ended December 31,		Variance	Percent Change
	2015	2014		
	(in thousands)			
Income tax benefit	\$ 9,337	\$ 62	\$ 9,275	>100%

For the twelve months ended December 31, 2015, our provision for income taxes was \$9.3 million and our effective tax rate was 15.6% for the year ended December 31, 2015. The increase in our income tax benefit of \$9.3 million was due to our recognition of a deferred tax liability of \$9.6 million as a result of the temporary difference between the carrying value and the tax basis of the 3.25% Senior Notes. This liability which was recorded as an adjustment to the additional paid-in capital resulted in a reduction of our valuation allowance which was recorded as a benefit to income tax expense in 2015.

Liquidity and Capital Resources

The chart provided below summarizes selected liquidity data and metrics as of December 31, 2016, 2015, and 2014:

	December 31, 2016		December 31, 2015		December 31, 2014	
	(in thousands, except financial metrics data)					
Cash and cash equivalents	\$ 26,120	\$ 124,553	\$ 26,798	\$ 20,988	\$ 52,768	\$ 59,871
Marketable securities	\$ 34,430	\$ 28,531	\$ 26,113	\$ 129,845	\$ 236,412	\$ 147,767
Accounts receivable, net	\$ 44,902	\$ 50,855	\$ 29,624	\$ 84,943	\$ 185,557	\$ 118,143
Total current assets	2.9	4.6	5.0	67	67	62
Total current liabilities	67	67	62	2.0	1.8	1.6
Working capital surplus (a)						
Current ratio (b)						
Days sales outstanding ("DSO") (c)						
Inventory turnover (d)						

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

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

(c) net accounts receivable at period end *divided by* revenue for the fourth quarter *multiplied by* 92 days.

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

Year Ended December 31, 2016 versus December 31, 2015

Operating Activities

Cash used in operating activities was \$74.8 million for the year ended December 31, 2016, as compared to cash used in operating activities of \$31.1 million in the prior year period. The increase in cash usage was primarily due to (i) funding the increased net loss of \$154.7 million, (ii) an increase in accounts receivable and other receivables of \$2.9 million and (iii) a decrease in accounts payable of \$5.2 million. These increases in cash usage were partially offset by non-cash stock-based compensation of \$12.3 million, depreciation and amortization of \$9.1 million, an increase in accrued payroll of \$7.1 million, a decrease in inventory expenditures of \$3.5 million, an increase in accrued expenses and other current liabilities of \$2.9 million, non-cash accretion of interest on convertible note of \$9.5 million, and change in fair value of derivative non-cash of \$43.8 million.

During the twelve months ended December 31, 2016 and 2015, our cash collections from customers totaled \$193.9 million and \$152.7 million, respectively, representing 101% and 99% of reported revenue for the same periods.

Investing Activities

Cash used in investing activities for the twelve months ended December 31, 2016 was \$28.5 million, as compared the cash provided by investing activities of \$2.9 million in the prior period. For the twelve months ended December 31, 2016, cash used in investing activities consisted of \$60.6 million used for the acquisition of TriVascular, \$21.0 million used to purchase marketable securities and \$2.8 million used for machinery and equipment purchases. This is offset by proceeds from the maturities of marketable securities of \$55.9 million. Cash provided by investing activities for the twelve months ended December 31, 2015 was \$2.9 million and consisted of proceeds from maturity of marketable securities of \$89.7 million. This is offset by (i) purchases of marketable securities of \$82.6 million and (ii) machinery and equipment purchases for \$4.2 million.

Financing Activities

Cash provided by financing activities was \$5.3 million for the twelve months ended December 31, 2016, as compared to cash provided by financing activities of \$126.7 million in the prior year period. For the twelve months ended December 31, 2016, cash provided by financing activities consisted of \$6.3 million from the exercise of stock options and proceeds from sales of common stock under our employee stock purchase plan, offset by \$0.9 million used to pay deferred financing costs and \$0.1 million used to pay minimum tax withholdings on behalf of employees for restricted stock units vested during the period. Cash provided by financing activities for twelve months ended December 31, 2015 consisted of (i) proceeds of \$5.8 million from the exercise of stock options and proceeds from sales of common stock under our employee stock purchase plan; and (ii) net proceeds from issuance of convertible debt of \$121.4 million, offset by \$0.5 million used to pay minimum tax withholdings on behalf of employees for restricted stock units vested during the period.

Year Ended December 31, 2015 versus December 31, 2014

Operating Activities

Cash used in operating activities was \$31.1 million for the year ended December 31, 2015, as compared to cash used in operating activities of \$26.3 million in the prior year period. The increase in cash usage was primarily due to (i) funding the increased net loss of \$50.4 million, (ii) an increase in accounts receivable and other receivables of \$3.2 million and (iii) non-cash deferred income taxes of \$9.6 million. These increases in cash usage were partially offset by non-cash stock-based compensation of \$9.3 million, depreciation and amortization of \$5.9 million, a decrease in inventory expenditures of \$3.5 million, an increase in accounts payable of \$8.3 million and non-cash accretion of interest on convertible note of \$4.3 million.

During the twelve months ended December 31, 2015 and 2014, our cash collections from customers totaled \$152.7 million and \$147.4 million, respectively, representing 99% and 100% of reported revenue for the same periods.

Investing Activities

Cash provided by investing activities for the twelve months ended December 31, 2015 was \$2.9 million and consisted of proceeds from maturity of marketable securities of \$89.7 million. This is offset by (i) purchases of marketable securities of \$82.6 million and (ii) machinery and equipment purchases for \$4.2 million.

Financing Activities

Cash provided by financing activities was \$126.7 million for the twelve months ended December 31, 2015, as compared to cash provided by financing activities of \$2.1 million in the prior year period. Cash provided by financing activities for twelve months ended December 31, 2015 consisted of (i) proceeds of \$3.0 million from our sale of stock through our employee stock purchase plan; (ii) proceeds of \$2.9 million from the exercise of stock options; and (iii) net proceeds from issuance of convertible debt of 121.4 million, offset by \$0.5 million used to pay minimum tax withholdings on behalf of employees for restricted stock units vested during the period. For the twelve months ended December 31, 2014, cash provided by financing activities was \$2.1 million and consisted of (i) proceeds of \$2.6 million from our sale of stock through our employee stock purchase plan and (ii) proceeds of \$1.8 million from the exercise of stock options, offset in part by \$2.3 million used to pay minimum tax withholdings on behalf of employees for restricted stock units vested during the period.

Credit Arrangements

See Note 6 of the Notes to the Consolidated Financial Statements. The Company was in compliance with all debt covenants as of December 31, 2016.

Future Capital Requirements

We believe that the future growth of our business will depend upon our ability to successfully develop new technologies for the treatment of aortic disorders and successfully bring these technologies to market. We expect to incur significant expenditures in completing product development and clinical trials for the Nellix EVAS System. Also, as a result of the completion of the merger with TriVascular, our future capital requirements are expected to increase.

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

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

We believe that our world-wide cash resources are adequate to operate our business. We presently have several operating subsidiaries outside of the United States. As of December 31, 2016, these subsidiaries hold an aggregate \$8.0 million in foreign bank accounts to fund their local operations. These balances related to undistributed earnings, are deemed by management to be permanently reinvested in the corresponding country in which our subsidiary operates. Management has no present or planned intention to repatriate foreign earnings into the United States. However, in the event that we required additional funds in the United States and had to repatriate any foreign earnings to meet those needs, we would then need to accrue, and ultimately pay, incremental income tax expenses on such “deemed dividend,” unless we then had sufficient net operating losses to offset this potential tax liability.

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

Contractual Obligations

Contractual obligation payments by year with initial terms in excess of one year were as follows as of December 31, 2016 (in thousands):

Contractual Obligations	Payments due by period						
	Total	2017	2018	2019	2020	2021	2022 and thereafter
Long-term debt obligations	\$211,250	\$—	\$86,250	\$—	\$125,000	\$—	\$—
Interest on debt obligations	20,132	6,003	6,003	4,063	4,063	—	—
Operating lease obligations	34,209	3,751	2,643	2,418	2,512	2,484	20,401
Total	\$265,591	\$9,754	\$94,896	\$6,481	\$131,575	\$2,484	\$20,401

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

Off-Balance Sheet Arrangements

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

As of December 31, 2016, we did not have any relationships with unconsolidated entities or financial partnerships, often referred to as "structured finance" or "special purpose entities," established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not subject to any material financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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

We generally place our marketable security investments in high quality credit instruments, as specified in our investment policy guidelines. A hypothetical 100 basis point increase in interest rates would result in an approximate \$90 thousand decrease in the fair value of our investments as of December 31, 2016. We believe, however, that the conservative nature of our investments mitigates our interest rate exposure, and our investment policy limits the amount of our credit exposure to any one issuer (with the exception of United States agency obligations) and type of instrument. We do not expect any material loss from our marketable security investments and therefore believe that our potential interest rate exposure is limited. We intend to hold the majority of our investments to maturity, in accordance with our business plans.

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

We are exposed to market risk for changes in interest rates on the MidCap Credit Facility. All outstanding amounts under the MidCap Credit Facility bear interest at a variable rate equal to LIBOR, plus 4.10%. As of December 31, 2016, we had no amounts outstanding under the MidCap Credit Facility.

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

Foreign Currency Transaction Risk. While a majority of our business is denominated in the United States dollar, a portion of our revenues and expenses are denominated in foreign currencies. Fluctuations in the rate of exchange between the United States dollar and the Euro or the British Pound Sterling may affect our results of operations and the period-to-period comparisons of our operating results. Foreign currency transaction gains and losses are caused by transactions denominated in a currency other than the functional currency and must be remeasured at each balance sheet date or upon settlement. Foreign currency transaction realized and unrealized gains and losses resulted in approximately \$2.1 million of loss in 2016, primarily related to intercompany payables and receivables associated with our European operations. We expect to continue to limit our exposure through future settlements.

Market Price Sensitive Instruments. In connection with our merger with TriVascular Technologies, Inc. ("TriVascular") in February 2016, we issued 13.6 million shares of our common stock as consideration to the former stockholders of TriVascular. As a result of our issuance of such shares in the merger, the quantity of authorized common shares available for future issuance at that time was reduced to a level insufficient to honor all of the potential common shares underlying instruments then outstanding. Such instruments included the conversion options related to the 3.25% Senior Notes and 2.25% Senior Notes, employee stock options, restricted stock units, contingently issuable common stock relating to the prior Nellix acquisition, and stock warrants. The creation of this authorized share deficiency in February 2016 required us, during the first quarter of 2016, to separate as a stand-alone derivative the 3.25% Senior Notes conversion option and a portion of the 2.25% Senior Notes

conversion option for which no authorized shares are available to effect share settlement in the event of a conversion. Accordingly, in February 2016 we reclassified \$24.8 million of the equity component of the Senior Notes to derivative liabilities which will be marked to market each period. For the year ended December 31, 2016, we recorded \$43.8 million as a fair value adjustment of derivative liabilities primarily based on our stock price increasing from \$7.42 to \$13.06 from the date of reclassification. The value of the derivative liability and our earnings was subject to market price risk until we increased the number of our authorized common shares to alleviate the deficiency. In June 2016, upon the approval of our stockholders, we amended our certificate of incorporation to increase the number of our authorized common shares eliminating the authorized share deficiency.

Item 8. Financial Statements and Selected Supplementary Data

ENDOLOGIX, INC.
FORM 10-K ANNUAL REPORT
For the Fiscal Year Ended December 31, 2016

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All other schedules are omitted because the required information is not applicable or the information is presented in the Consolidated Financial Statements or the notes thereto.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Endologix, Inc.:

We have audited the accompanying consolidated balance sheets of Endologix, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement schedule of valuation and qualifying accounts. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Endologix, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with United States generally accepted accounting principles. Also in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Endologix, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

March 1, 2017
Irvine, California

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Endologix, Inc.:

We have audited Endologix, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)". Endologix, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

In our opinion, Endologix, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)".

Endologix, Inc. acquired TriVascular Technologies, Inc. on February 3, 2016, and management excluded from its assessment of the effectiveness of Endologix, Inc.'s internal control over financial reporting as of December 31, 2016, TriVascular Technologies, Inc.'s internal control over financial reporting associated with 5% of total assets and 2% of total net sales included in the consolidated financial statements of Endologix, Inc. and subsidiaries as of and for the year ended December 31, 2016. Our audit of internal control over financial reporting of Endologix, Inc. also excluded an evaluation of the internal control over financial reporting of TriVascular Technologies, Inc.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Endologix, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and the related financial statement schedule, and our report dated March 1, 2017, expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ KPMG LLP

March 1, 2017
Irvine, California

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

	December 31,	
	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 26,120	\$ 124,553
Restricted cash	2,001	—
Marketable securities	20,988	52,768
Accounts receivable, net of allowance for doubtful accounts of \$1,037 and \$226, respectively	34,430	28,531
Other receivables	1,787	375
Inventories	41,160	27,860
Prepaid expenses and other current assets	3,359	2,325
Total current assets	<u>\$ 129,845</u>	<u>\$ 236,412</u>
Property and equipment, net	23,265	23,355
Goodwill	120,711	28,685
Intangibles, net	84,511	42,118
Deposits and other assets	1,352	480
Total assets	<u>\$ 359,684</u>	<u>\$ 331,050</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 13,237	\$ 17,549
Accrued payroll	19,997	13,030
Accrued expenses and other current liabilities	11,668	5,576
Contingently issuable common stock	—	14,700
Total current liabilities	<u>\$ 44,902</u>	<u>\$ 50,855</u>
Deferred income taxes	879	879
Deferred rent	7,949	8,051
Other liabilities	3,783	210
Contingently issuable common stock	12,200	—
Convertible notes	177,178	167,748
Total liabilities	<u>\$ 246,891</u>	<u>\$ 227,743</u>
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value; 5,000,000 shares authorized. No shares issued and outstanding.	—	—
Common stock, \$0.001 par value; 135,000,000 and 100,000,000 shares authorized, respectively. 82,986,244 and 68,235,179 shares issued, respectively. 82,774,005 and 68,034,386 shares outstanding, respectively.	83	68
Additional paid-in capital	567,765	404,462
Accumulated deficit	(453,601)	(298,924)
Treasury stock, at cost, 212,239 and 200,793 shares, respectively.	(2,942)	(2,809)
Accumulated other comprehensive income	1,488	510
Total stockholders' equity	<u>\$ 112,793</u>	<u>\$ 103,307</u>
Total liabilities and stockholders' equity	<u>\$ 359,684</u>	<u>\$ 331,050</u>

See accompanying notes to these consolidated financial statements.

ENDOLOGIX, INC.
Consolidated Statements of Operations and Comprehensive Loss
(In thousands, except per share amounts)

	Year Ended December 31,		
	2016	2015	2014
Revenue	\$ 192,925	\$ 153,612	\$ 147,588
Cost of goods sold	69,133	51,821	41,801
Gross profit	123,792	101,791	105,787
Operating expenses:			
Research and development	32,337	26,421	21,616
Clinical and regulatory affairs	16,215	15,418	13,243
Marketing and sales	107,759	78,213	73,411
General and administrative	41,044	29,581	26,663
Restructuring costs	11,093	—	—
Settlement costs	4,650	—	—
Contract termination and business acquisition expenses	5,768	5,071	—
Total operating expenses	218,866	154,704	134,933
Loss from operations	(95,074)	(52,913)	(29,146)
Other income (expense):			
Interest income	228	175	245
Interest expense	(15,841)	(7,476)	(5,709)
Other income (expense), net	(2,161)	553	(5,798)
Change in fair value of contingent consideration related to acquisition	2,500	(100)	7,928
Change in fair value of derivative liabilities	(43,831)	—	—
Total other income (expense)	(59,105)	(6,848)	(3,334)
Net loss before income tax benefit	(154,179)	(59,761)	(32,480)
Income tax benefit (expense)	(498)	9,337	62
Net loss	\$ (154,677)	\$ (50,424)	\$ (32,418)
Other comprehensive income (loss) foreign currency translation	978	(1,762)	3,369
Comprehensive loss	\$ (153,699)	\$ (52,186)	\$ (29,049)
Basic and diluted net loss per share	\$ (1.91)	\$ (0.75)	\$ (0.50)
Shares used in computing basic and diluted loss per share	80,976	67,671	65,225

See accompanying notes to these consolidated financial statements.

ENDOLOGIX, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Issued Shares	\$0.001 Par Value					
Balance at December 31, 2013	<u>63,866</u>	<u>\$ 64</u>	<u>\$ 321,756</u>	<u>\$ (216,082)</u>	<u>\$ —</u>	<u>\$ (1,097)</u>	<u>\$ 104,641</u>
Exercise of common stock options	315	—	1,776	—	—	—	1,776
Employee stock purchase plan	254	—	2,613	—	—	—	2,613
Issuance of common stock	2,684	3	38,627	—	—	—	38,630
Treasury stock purchased	58	—	—	—	(2,328)	—	(2,328)
Stock compensation expense	—	—	5,172	—	—	—	5,172
Issuance of restricted stock	145	—	—	—	—	—	—
Restricted stock expense	—	—	2,620	—	—	—	2,620
Non-employee restricted stock expense	—	—	75	—	—	—	75
Net loss	—	—	—	(32,418)	—	—	(32,418)
Other comprehensive loss	—	—	—	—	—	3,369	3,369
Balance at December 31, 2014	<u>67,322</u>	<u>67</u>	<u>372,639</u>	<u>(248,500)</u>	<u>(2,328)</u>	<u>2,272</u>	<u>124,150</u>
Exercise of common stock options	397	1	2,870	—	—	—	2,871
Employee stock purchase plan	355	—	2,962	—	—	—	2,962
Treasury stock purchased	—	—	—	—	(481)	—	(481)
Stock compensation expense	—	—	6,266	—	—	—	6,266
Issuance of restricted stock	161	—	—	—	—	—	—
Restricted stock expense	—	—	2,843	—	—	—	2,843
Non-employee restricted stock expense	—	—	146	—	—	—	146
Equity conversion option	—	—	17,547	—	—	—	17,547
Debt issuance costs allocated to equity	—	—	(811)	—	—	—	(811)
Net loss	—	—	—	(50,424)	—	—	(50,424)
Other comprehensive income	—	—	—	—	—	(1,762)	(1,762)
Balance at December 31, 2015	<u>68,235</u>	<u>68</u>	<u>404,462</u>	<u>(298,924)</u>	<u>(2,809)</u>	<u>510</u>	<u>103,307</u>
Exercise of common stock options	524	2	3,127	—	—	—	3,129
Employee stock purchase plan	394	—	3,216	—	—	—	3,216
Issuance of common stock	13,587	13	100,799	—	—	—	100,812
Treasury stock purchased	11	—	—	—	(133)	—	(133)
Stock compensation expense	—	—	8,541	—	—	—	8,541
Issuance of restricted stock	235	—	—	—	—	—	—
Restricted stock expense	—	—	3,715	—	—	—	3,715
Non-employee restricted stock expense	—	—	30	—	—	—	30
Equity conversion option	—	—	43,875	—	—	—	43,875
Net loss	—	—	—	(154,677)	—	—	(154,677)
Other comprehensive loss	—	—	—	—	—	978	978
Balance at December 31, 2016	<u>82,986</u>	<u>\$ 83</u>	<u>\$ 567,765</u>	<u>\$ (453,601)</u>	<u>\$ (2,942)</u>	<u>\$ 1,488</u>	<u>\$ 112,793</u>

See accompanying notes to these consolidated financial statements.

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

	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net loss	\$ (154,677)	\$ (50,424)	\$ (32,418)
Adjustments to reconcile net loss to net cash used in operating activities:			
Deferred income taxes	—	(9,635)	(247)
Bad debt expense	916	107	—
Depreciation and amortization	9,149	5,886	3,283
Stock-based compensation	12,286	9,255	7,867
Change in fair value of derivative liabilities	43,831	—	—
Change in fair value of contingent consideration related to acquisition	(2,500)	100	(7,928)
Common stock issued for business development	—	—	258
Accretion of interest & amortization of deferred financing costs on convertible notes	9,539	4,842	3,719
Accretion on marketable securities	(87)	59	260
Loss on disposal of assets	123	58	180
Non-cash foreign exchange (gain) loss	2,112	(504)	5,740
Changes in operating assets and liabilities, net of assets and liabilities acquired in business combination:			
Restricted cash	(2,001)	—	—
Accounts receivable and other receivables	(2,911)	(3,193)	(2,009)
Inventories	3,540	3,528	(12,489)
Prepaid expenses and other current assets	1,070	167	(632)
Accounts payable	(5,152)	8,342	2,727
Accrued payroll	7,079	(75)	1,988
Accrued expenses and other current liabilities	2,875	395	3,367
Net cash used in operating activities	\$ (74,808)	\$ (31,092)	\$ (26,334)
Cash flows from investing activities:			
Purchases of marketable securities	(20,976)	(82,646)	(121,015)
Maturity on marketable securities	55,850	89,690	92,197
Purchases of property and equipment	(2,796)	(4,191)	(13,461)
IntuiTrak Shonin	—	—	(1,000)
Acquisition of business, net of cash acquired of \$24,012	(60,622)	—	—
Net cash (used in) provided by investing activities	\$ (28,544)	\$ 2,853	\$ (43,279)
Cash flows from financing activities:			
Deferred financing costs	(918)	(3,617)	—
Proceeds from sale of common stock under employee stock purchase plan	3,216	2,962	2,613
Proceeds from exercise of stock options	3,129	2,871	1,776
Proceeds from convertible debt	—	125,000	—
Minimum tax withholding paid on behalf of employees for restricted stock units	(133)	(481)	(2,328)
Net cash provided by financing activities	\$ 5,294	\$ 126,735	\$ 2,061
Effect of exchange rate changes on cash and cash equivalents	(375)	(741)	(802)
Net increase (decrease) in cash and cash equivalents	(98,433)	97,755	(68,354)
Cash and cash equivalents, beginning of year	124,553	26,798	95,152
Cash and cash equivalents, end of year	\$ 26,120	\$ 124,553	\$ 26,798
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 6,262	\$ 1,957	\$ 2,018
Cash paid for income taxes	208	124	258
Non-cash investing and financing activities:			
Landlord funded leasehold improvements	\$ —	\$ 46	\$ 5,265
Fair Value of OUS Milestone Shares (note 9)	—	—	38,372
Fair value of warrants issued for business acquisition	44	—	—
Fair value of common stock issued for business acquisition	100,812	—	—
Acquisition of property and equipment included in accounts payable	—	155	2,612

See accompanying notes to these consolidated financial statements.

ENDOLOGIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

(a) Description of Business

Endologix, Inc. (the "Company") is a Delaware corporation with corporate headquarters in Irvine, California and production facilities located in Irvine and Santa Rosa, California. The Company develops, manufactures, markets, and sells innovative medical devices for the treatment of aortic disorders. The Company's products are intended for the treatment of abdominal aortic aneurysms ("AAA"). The Company's AAA products are built on one of two platforms: (1) traditional minimally-invasive endovascular repair ("EVAR") or (2) endovascular sealing ("EVAS"), the Company's innovative solution for sealing the aneurysm sac while maintaining blood flow through two blood flow lumens. The Company's current EVAR products include the Ovation® Abdominal Stent Graft System ("Ovation"), Endologix AFX Endovascular AAA System ("AFX"), the VELA™ Proximal Endograft System ("VELA") and the Endologix IntuiTrak Endovascular AAA System ("IntuiTrak"). The Company's current EVAS product is the Nellix Endovascular Aneurysm Sealing System ("Nellix EVAS System"). Sales of the Company's EVAR and EVAS platforms (including extensions and accessories) to hospitals in the United States and Europe, and to third-party international distributors, provide the sole source of the Company's reported revenue.

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

(b) Basis of Presentation

The accompanying Consolidated Financial Statements in this Annual Report on Form 10-K have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and with the rules and regulations of the United States Securities and Exchange Commission ("SEC"). These financial statements include the financial position, results of operations, and cash flows of the Company, including its subsidiaries, all of which are wholly-owned. All inter-company accounts and transactions have been eliminated in consolidation. For years ended December 31, 2016, 2015, and 2014 there were no related party transactions.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern. ASU 2014-15 explicitly requires management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for all entities in the first annual period ending after December 15, 2016 and for annual periods and interim periods thereafter. We have adopted the guidance for the year ended December 31, 2016. The adoption of ASU 2014-15 did not impact our disclosures in 2016.

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

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

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

(c) Operating Segment

The Company has one operating and reporting segment that is focused exclusively on the development, manufacture, marketing, and sale of EVAR and EVAS products for the treatment of aortic disorders. For the year ended December 31, 2016, all of the Company's revenue and related expenses were solely attributable to these activities. Substantially all of the Company's long-lived assets are located in the United States

2. Use of Estimates and Summary of Significant Accounting Policies

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

The following critical accounting policies and estimates were used in the preparation of the accompanying Consolidated Financial Statements:

(i) Cash and Cash Equivalents

We consider all highly liquid investments that are readily convertible into cash and have a maturity of three months or less at the time of purchase to be cash equivalents. The cost of these investments approximates their fair value.

(ii) Marketable securities

At December 31, 2016, the Company's investments included short-term marketable securities, which are classified as held-to-maturity investments as the Company has the positive intent and ability to hold the investments to maturity. These investments are therefore recorded on an amortized cost basis. Discounts or premiums are amortized to interest income using the interest method. Marketable securities are investments with original maturities of greater than 90 days.

Management reviewed the Company's investments as of December 31, 2016, and concluded that there are no securities with other than temporary impairments in the investment portfolio. The Company does not intend to sell any investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost bases at maturity.

(iii) Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount, inclusive of applicable value-added tax ("VAT"), and do not bear interest. Revenue is recorded net of VAT. The allowance for doubtful accounts is management's best estimate of the amount of probable credit losses in existing accounts receivable. Account balances are charged off against the allowance after appropriate collection efforts are exhausted.

(iv) 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 (FIFO). The Company regularly reviews inventory quantities in process and on hand, and when appropriate, records a provision for obsolete and excess inventory. The provision is based on actual loss experience and a forecast of product demand compared to its remaining shelf life.

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

(v) Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over the following estimated useful lives:

Property Class	Useful Life
Office furniture	Seven years
Computer hardware	Three years
Computer software	Three to eight years
Production equipment and molds	Three to seven years
Leasehold improvements	Shorter of expected useful life or remaining term of lease

Upon sale or disposition of property and equipment, any gain or loss is included in the accompanying Consolidated Statements of Operations and Comprehensive Loss. Property and equipment are tested for impairment only when impairment indicators are present.

(vi) Goodwill and Intangible Assets

Intangible assets with definite lives are amortized over their estimated useful lives using a method that reflects the pattern over which the economic benefit is expected to be realized, and is as follows:

Intangible Asset Class	Useful Life
Goodwill	Indefinite lived
Trademarks and tradenames	Indefinite lived
Developed technology	Eleven to thirteen years
Customer relationships	Ten years

In-process research and development will be amortized upon commencement of commercial sales and it is expected to be amortized over its useful life.

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 business circumstances suggest the potential of an impairment. The Company completed its annual indefinite lived intangible asset impairment test as of June 30, 2016, with no resulting impairment based on the discounted cash flows expected to be generated in connection with underlying assets.

The Company most recently completed its annual test for impairment of goodwill as of June 30, 2016, with no resulting impairment, as its market capitalization was in substantial excess of the value of its total stockholders' equity (the Company has one "reporting unit" for purposes of the goodwill impairment test).

Intangible assets with finite lives are tested for impairment only when impairment indicators are present.

(vii) Fair Value Measurements

In determining the fair value of its assets and liabilities, the Company uses various valuation approaches. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (i) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (ii) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g.,

ENDOLOGIX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

The availability of observable inputs can vary among the various types of financial assets and liabilities. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for financial statement disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is categorized is based on the lowest level input that is significant to the overall fair value measurement.

The Company's held-to-maturity securities, which are fixed income investments, are comprised of obligations of United States government agencies, corporate debt securities and other interest bearing securities. These held-to-maturity securities are recorded at amortized cost and are therefore not included in the Company's market value measurement disclosure. Money market funds, which are cash and cash equivalents, are valued using quoted market prices with no valuation adjustments applied. Accordingly, these securities are categorized in Level 1. The recorded values of all our other financial instruments approximate their current fair values because of their nature and respective relatively short maturity dates or durations.

The recorded values of all our accounts receivable and accounts payable approximate their current fair values because of their nature and respective relatively short maturity dates or durations.

(viii) Contingent Consideration for Business Acquisition

The Company's management determined the fair value of contingently issuable common stock on the Nellix acquisition date (see Note 9) using a probability-based income approach with an appropriate discount rate (determined using both Level 1 and Level 3 inputs). Changes in the fair value of this contingently issuable common stock are determined at each period end and are recorded in the other income (expense) section of the accompanying Consolidated Statements of Operations and Comprehensive Loss, and the current and non-current liabilities section of the accompanying Consolidated Balance Sheet.

(ix) Revenue Recognition

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

- Appropriate evidence of a binding arrangement exists with the customer;
- The sales price for the EVAR or EVAS product (including device extensions and accessories) is established with the customer;
- The EVAR or EVAS product has been used by the hospital in an EVAR procedure, or the distributor has assumed title with no right of return; and
- Collection of the corresponding receivable from the customer is reasonably assured at the time of sale.

For sales made to hospitals, the Company recognizes revenue upon completion of an EVAR or EVAS procedure, when the EVAR or EVAS products are implanted in a patient. For sales made to distributors, the Company recognizes revenue when title passes, which is typically at the time of shipment, as this represents the period that the customer has assumed custody of the EVAR or EVAS product, without right of return, and assumed risk of loss.

The Company does not offer rights of return, other than honoring a standard warranty.

(x) Shipping Costs

Shipping costs billed to customers are reported within revenue, with the corresponding costs reported within costs of goods sold.

(xi) Foreign Currency Transactions

The assets and liabilities of the Company's 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. 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 other income (expense), net, within the accompanying Consolidated Statements of Operations and Comprehensive Loss. Foreign currency translation adjustments between the respective entity's functional currency and the United States dollar are recorded to accumulated other comprehensive loss within the stockholders' equity section of the accompanying Consolidated Balance Sheets. There were no items reclassified out of accumulated other comprehensive loss and into net loss

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

during the years ended December 31, 2016, 2015, and 2014. The only activity in the accumulated other comprehensive loss was related to foreign currency translation.

(xii) 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. The Company has recorded a valuation allowance to substantially reduce its net deferred tax assets, because the Company believes that, based upon a number of factors, it is more likely than not that substantially all the deferred tax assets will not be realized. If the Company were to determine that it would be able to realize additional 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. In the event that the Company were assessed interest and/or penalties from taxing authorities, such amounts would be included in "income tax expense" within the Consolidated Statements of Operations and Comprehensive Loss in the period the notice was received.

(xiii) 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, 2016, 2015, and 2014, options to purchase the common stock, restricted stock awards, and restricted stock units of the Company were excluded from the computation of net loss per share for these periods because the effect would have been antidilutive.

(xiv) Research and Development Costs

Research and development costs are expensed as incurred.

(xv) Product Warranty

Within six months of shipment, certain customers may request replacement of products they receive that do not meet product specifications; no other warranties are offered. The Company contractually disclaims responsibility for any damages associated with physician's use of its EVAR or EVAS product. Historically, the Company has not experienced a significant amount of costs associated with its warranty policy.

3. Balance Sheet Account Detail

(a) Property and Equipment

Property and equipment consisted of the following:

	December 31,	
	2016	2015
Production equipment, molds, and office furniture	\$ 11,714	\$ 13,603
Computer hardware and software	8,162	6,380
Leasehold improvements	15,495	14,345
Construction in progress (software and related implementation, production equipment, and leasehold improvements)	839	510
Property and equipment, at cost	36,210	34,838
Accumulated depreciation	(12,945)	(11,483)
Property and equipment, net	<u>\$ 23,265</u>	<u>\$ 23,355</u>

Depreciation expense for property and equipment for the years ended December 31, 2016, 2015, and 2014 was \$5.3 million, \$4.6 million, and \$2.7 million, respectively.

(b) Inventories

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

Inventories consisted of the following:

	December 31,	
	2016	2015
Raw materials	\$ 13,133	\$ 7,701
Work-in-process	10,139	4,355
Finished goods	17,888	15,804
Inventories	<u>\$ 41,160</u>	<u>\$ 27,860</u>

(c) *Goodwill and Intangible Assets*

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

	December 31,	
	2016	2015
Goodwill (1)	<u>\$ 120,711</u>	<u>\$ 28,685</u>
Intangible assets:		
<u>Indefinite lived intangibles</u>		
Trademarks and trade names	\$ 2,708	\$ 2,708
In-process research and development (1)	11,200	—
<u>Finite lived intangibles</u>		
Developed technology (1)	\$ 67,600	\$ 40,100
Accumulated amortization	(3,810)	(690)
Developed technology, net	<u>\$ 63,790</u>	<u>\$ 39,410</u>
Customer relationship (1)	\$ 7,500	\$ —
Accumulated amortization	(687)	—
Customer relationship, net	<u>\$ 6,813</u>	<u>\$ —</u>
Intangible assets (excluding goodwill), net	<u>\$ 84,511</u>	<u>\$ 42,118</u>

(1) *Difference in the value between these dates is mainly due to acquisition of TriVascular. Refer to Note 13 of the consolidated financial statements for further discussion.*

Amortization expense for intangible assets for the years ended December 31, 2016, 2015, and 2014 was \$3.8 million, \$1.3 million, and \$0.6 million, respectively.

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

	Amortization Expense
2017	\$ 3,818
2018	4,574
2019	6,036
2020	7,677
2021	8,917
2022 and thereafter	39,581
Total	<u>\$ 70,603</u>

(d) *Marketable securities*

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

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

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

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

At December 31, 2016, the Company's investments included 5 held-to-maturity debt securities in unrealized loss positions with a total unrealized loss of approximately \$21 thousand and a total fair market value of approximately \$10.5 million. All investments with gross unrealized losses have been in unrealized loss positions for less than 5 months. The unrealized losses were caused by interest rate fluctuations. There was no change in the credit risk of the securities. The Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the expected recovery of their amortized cost bases. There were no realized gains or losses on the investments for year ended December 31, 2016. Investments of held-to-maturity securities all mature within less than 12 months with an average maturity of 5.0 months.

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

(e) Fair Value Measurements

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

	Fair value measurement at reporting date using:			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
At December 31, 2016				
Cash and cash equivalents	\$ 26,120	\$ —	\$ —	\$ 26,120
Restricted cash	\$ 2,001	\$ —	\$ —	\$ 2,001
Contingently issuable common stock	\$ —	\$ —	\$ 12,200	\$ 12,200
At December 31, 2015				
Cash and cash equivalents	\$ 124,553	\$ —	\$ —	\$ 124,553
Contingently issuable common stock	\$ —	\$ —	\$ 14,700	\$ 14,700

There were no remeasurements to fair value during the years ended December 31, 2016 and 2015 of financial assets and liabilities that are not measured at fair value on a recurring basis. There were no transfers between Level 1, Level 2, or Level 3 securities during the years ended December 31, 2016 and 2015.

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

We measure the fair value of our Senior Notes carried at amortized cost quarterly for disclosure purposes. The estimated fair value of the Senior Notes is determined by Level 2 inputs and is based primarily on quoted market prices for the same or similar issues. Based on the market prices, the fair value of our long-term debt was \$187.6 million as of December 31, 2016 and \$207.9 million as of December 31, 2015.

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

4. Stock-Based Compensation

2015 Stock Incentive Plan

The Company has one active stockholder-approved stock-based compensation plan, the 2015 Stock Incentive Plan (the "2015 Plan"), which replaced the Company's former stockholder-approved plans. Incentive stock options, non-qualified options, restricted stock awards, restricted stock units, and stock appreciation rights may be granted under the 2015 Plan.

The maximum number of shares of the Company's common stock available for issuance under the 2015 Plan is 6.8 million shares. As of December 31, 2016, 2.7 million shares were available for grant. It is the Company's policy that before stock is issued through the exercise of stock options, the Company must first receive all required cash payment for such shares. The stock issuable under the Plan shall be shares of authorized new unissued shares.

Stock-based awards are governed by agreements between the Company and the recipients. Incentive stock options and nonqualified stock options may be granted under the 2015 Plan at an exercise price of not less than 100% of the closing fair market value of the Company's common stock on the respective date of grant. The grant date is generally the first day of employment for new hire grants and the date of approval for all others. Awards are approved by either a delegated member of the Company's Executive Management or by the Compensation Committee of the Board of Directors for awards that exceed the Company's Executive Management's authority.

The Company's standard stock-based award vests 25% on the first anniversary of the date of grant, or for new hires, the first anniversary of their initial date of employment with the Company. Awards vest monthly thereafter on a straight-line basis over three years. Stock options must be exercised, if at all, no later than 10 years from the date of grant. Upon termination of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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employment with the Company, vested stock options may be exercised within 90 days from the last date of employment. In the event of an optionee's death, disability, or retirement, the exercise period is 365 days from the last date of employment.

Employee Stock Purchase Plan

Under the terms of the Company's Amended and Restated 2006 Employee Stock Purchase Plan, as amended (the "ESPP"), eligible employees can purchase common stock through payroll deductions. As of December 31, 2016, 1.4 million shares were available for grant. The purchase price is equal to the closing price of the Company's common stock on the first or last day of the offering period (whichever is less), minus a 15% discount. The Company uses the Black-Scholes option-pricing model, in combination with the discounted employee price, in determining the value of ESPP expense to be recognized during each offering period.

The table below summarizes the stock-based compensation recognized, common stock shares purchased by Company employees, and the average purchase price per share as part of the ESPP program during the years ended December 31, 2016, 2015, and 2014.

	Year Ended December 31,		
	2016	2015	2014
Stock-based compensation expense	\$ 1,205	\$ 921	\$ 841
Common stock shares purchased by Company employees	394,120	355,557	254,602
Average purchase price per share	\$ 8.17	\$ 8.33	\$ 10.26

Stock Options and Restricted Stock

The Company values stock-based awards, including stock options and restricted stock, as of the date of grant (and is marked-to-market at each reporting period for unvested grants issued to non-employees).

The Company recognizes stock-based compensation expense (net of estimated forfeitures) using the straight-line method over the requisite or implicit service period, as applicable. Forfeitures of employee awards are estimated at the time of grant and the forfeiture assumption is periodically adjusted for actual employee vesting behavior. For purposes of this estimate, the Company has applied an estimated forfeiture rate of 11%, 14%, and 14% for the years ended December 31, 2016, 2015, and 2014, respectively.

Stock-Based Compensation Expense Summary

The Company classifies related compensation expense in the accompanying Consolidated Statements of Operations and Comprehensive Loss, based on the Company department to which the recipient belongs. Stock-based compensation expense included in cost of goods sold and operating expenses for years ended December 31, 2016, 2015, and 2014 was as follows:

	Year Ended December 31,		
	2016	2015	2014
Cost of goods sold	\$ 944	\$ 1,000	\$ 857
Operating expenses:			
Research and development	1,528	1,005	770
Clinical and regulatory affairs	672	858	644
Marketing and sales	4,335	3,237	2,533
General and administrative	4,807	3,155	3,063
Total operating expenses	\$ 11,342	\$ 8,255	\$ 7,010
Total	\$ 12,286	\$ 9,255	\$ 7,867

In addition, the Company had \$0.5 million, \$0.6 million, and \$0.4 million of stock-based compensation capitalized in inventory as of December 31, 2016, 2015, and 2014, respectively.

ENDOLOGIX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Valuation Assumptions

The grant-date fair value per share for restricted stock awards was based upon the closing market price of the Company's common stock on the award grant-date.

The fair value of stock options granted was estimated at the date of grant using the Black-Scholes option-pricing model. The following assumptions were used to determine fair value for the stock awards granted in the applicable year:

	Year Ended December 31,		
	2016	2015	2014
Average expected option life (in years) (a)	5.5	5.5	5.5
Volatility (b)	44.2%	43.3%	54.0%
Risk-free interest rate (c)	1.2%	1.6%	1.8%
Dividend Yield (d)	—%	—%	—%
Weighted-average grant-date fair value per stock option	\$3.45	\$6.37	\$6.22

(a) Determined by the historical stock option exercise behavior of the Company's employees (maximum term is 10 years).

(b) Measured using daily price observations for a period equal to stock options' expected term.

(c) Based upon the United States Treasury yields in effect (for a period equaling the stock options' expected term).

(d) The Company has never paid cash dividends on its common stock and does not expect to declare any cash dividends.

Stock Option Activity

Stock option activity during the year ended December 31, 2016 is as follows:

	Number of Stock Options	Weighted Average Exercise Price	Weighted- Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding — January 1, 2016	5,973,049	10.42		
Granted	4,381,500	7.94		
Exercised	(524,504)	5.96		(a) \$ 2,656
Forfeited	(810,051)	11.16		
Expired	(346,779)	13.99		
Outstanding — December 31, 2016	<u>8,673,215</u>	\$9.22	6.7	(b) \$ 3,247
Vested and Expected to Vest — December 31, 2016	7,906,267	9.17	6.5	(b) \$ 3,247
Vested — December 31, 2016	3,788,707	8.58	4.5	(b) \$ 3,247

(a) Represents the *total difference* between the Company's stock price at the time of exercise and the stock option exercise price, *multiplied* by the number of options exercised.

(b) Represents the *total difference* between the Company's closing stock price on the last trading day of period reported on and the stock option exercise price, *multiplied* by the number of in-the-money options as of the period reported on. The amount of intrinsic value will change based on the fair market value of the Company's stock.

For years ended December 31, 2016, 2015 and 2014 the total intrinsic value of options exercised was \$2.7 million, \$3.2 million and \$2.6 million respectively. The Company recognized stock option expense of \$7.4 million, \$5.3 million and \$4.3 million for the years ended December 31, 2016, 2015, and 2014, respectively.

As of December 31, 2016, there was \$14.3 million of total unrecognized compensation expense related to granted, but unvested stock options, which are expected to be recognized over a weighted average period of 2.8.

ENDOLOGIX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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The following table summarizes information regarding outstanding stock option grants as of December 31, 2016:

Range of Exercise Prices	Outstanding			Exercisable	
	Granted Stock Options Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Granted Stock Options Exercisable	Weighted-Average Exercise Price
\$ 1.64 — \$ 6.91	1,756,509	2.9	\$ 3.99	1,584,707	\$ 3.69
7.00 — 7.25	1,032,575	8.4	7.23	240,149	7.21
7.26 — 7.53	2,140,066	8.5	7.53	186,917	7.50
7.57 — 13.17	1,809,080	6.8	11.17	849,003	11.39
13.21 — 17.60	1,934,985	7.0	15.08	927,931	14.94
\$ 1.64 — \$ 17.60	8,673,215	6.7	\$ 9.22	3,788,707	\$ 8.58

Non-employees - Stock Options

As of December 31, 2016, 2015, and 2014, a total of 11,500, 31,500, and 31,500 non-employee stock options, respectively, were outstanding and fully vested.

Restricted Stock Award Activity

The following table summarizes activity and related information for the Company's restricted stock awards:

	Number of Restricted Stock Awards(2)	Weighted Average Fair Value per Share at Grant Date	Grant Date Fair Value	Vest Date Fair Value(1)
Unvested as of December 31, 2015	885,060	\$ 13.45		
Granted	758,128	8.29	\$ 6,285	
Forfeited	(87,231)	14.45		
Vested	(245,938)	14.29		\$ 2,608
Unvested as of December 31, 2016	1,310,019	\$ 10.24		

(1) Represents the Company's stock price on the vesting date *multiplied* by the number of vested shares.

(2) Shares granted in 2016 include 233,482 performance stock units that have certain performance conditions required to be achieved to vest.

For years ended December 31, 2016, 2015 and 2014, the weighted average grant date fair value of shares granted was \$8.29, \$16.03, and \$13.25, respectively.

For years ended December 31, 2016, 2015 and 2014, the total fair value of shares vested was \$2.6 million, \$2.2 million, and \$7.6 million, respectively.

The Company recognized restricted stock expense of \$3.7 million, \$2.8 million, and \$2.6 million for the years ended December 31, 2016, 2015, and 2014, respectively. As of December 31, 2016, there was \$5.2 million of unrecorded expense related to issued restricted stock that will be recognized over an estimated weighted average period of 2.1 years.

Non-employee Restricted Stock

During the years ended December 31, 2016, 2015, and 2014, \$30 thousand, \$0.1 million, and \$0.1 million, respectively, was recorded as compensation expense for the change in the fair value of unvested non-employee restricted stock. There were no restricted stock units granted to non-employees for the year ended December 31, 2016.

As of December 31, 2016, 2015, and 2014, a total of 41,000, 72,000, and 10,000 shares of unvested restricted stock, respectively, issued to non-employees were outstanding.

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Award Modifications

During 2016, there were modifications of awards affecting four employees. The first employee was provided with six months of accelerated vesting for all awards outstanding which included restricted stock units. The second employee was provided with six months of accelerated vesting for all awards outstanding which included stock options and restricted stock units, as well as the extension of standard post termination exercise period from 90 to 150 days for vested stock options. The third employee was provided with six months of accelerated vesting for all awards outstanding which included stock options and restricted stock units, as well as the extension of standard post termination exercise period from 90 to 180 days for vested stock options. The fourth employee was provided with six months of accelerated vesting for all awards outstanding which included stock options, restricted stock units and a single performance stock unit, as well as the extension of standard post termination exercise period from 90 to 180 days for vested stock options. The total incremental stock compensation expense recognized for years ended 2016, 2015 and 2014 related to awards modification was \$273,000, \$46,000 and \$85,000, respectively.

5. Net Loss Per Share

Net loss per share was computed by dividing net loss by the weighted average number of common shares outstanding for the years ended December 31, 2016, 2015, and 2014:

	Year Ended December 31,		
	2016	2015	2014
Net loss	\$ (154,677)	(50,424)	(32,418)
Shares used in computing basic and diluted net loss per share	80,976	67,671	\$ 65,225
Basic and diluted net loss per share	\$ (1.91)	\$ (0.75)	(0.50)

The following outstanding Company securities, using the treasury stock method, were excluded from the above calculations of net loss per share because their impact would have been anti-dilutive due to the net losses during the years ended December 31, 2016, 2015, and 2014:

	Year Ended December 31,		
	2016	2015	2014
Common stock options	1,248	1,651	1,822
Restricted stock awards	129	133	321
Restricted stock units	370	230	182
Total	1,747	2,014	2,325

As discussed in Note 6, in December 2013, the Company issued \$86.3 million aggregate principal amount of 2.25% Convertible Senior Notes due 2018 (the "2.25% Senior Notes") in an underwritten public offering. In October 2015, the Company also issued \$125.0 million aggregate principal amount of 3.25% Convertible Senior Notes due 2020 (the "3.25% Senior Notes") in an underwritten public offering. Upon any conversion, the 2.25% Senior Notes and/or 3.25% Senior Notes, (collectively the "Senior Notes") may be settled, at the Company's election, in cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock. For purposes of calculating the maximum dilutive impact, it is presumed that the Senior Notes will be settled in common stock with the resulting potential common shares included in diluted earnings per share if the effect is more dilutive. The effect of the conversion of the Senior Notes is excluded from the calculation of diluted loss per share because the net loss for the year ended December 31, 2016 causes such securities to be anti-dilutive. The potential dilutive effect of these securities is shown in the chart below:

	Year Ended December 31,		
	2016	2015	2014
Conversion of the Senior Notes	14,767	14,767	3,588

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

6. Credit Facilities

2.25% Convertible Senior Notes

On December 10, 2013, the Company issued \$86.3 million aggregate principal amount of 2.25% Senior Notes. The 2.25% Senior Notes mature on December 15, 2018 unless earlier repurchased by the Company or converted. The Company received net proceeds from the sale of the 2.25% Senior Notes of approximately \$82.6 million, after deducting underwriting discounts and commissions and offering expenses payable by the Company. Interest is payable on the 2.25% Senior Notes on June 15 and December 15 of each year, beginning June 15, 2014.

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

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

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

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

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

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

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

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

The Company was not required to separate the conversion option in the 2.25% Senior Notes under ASC 815, "Derivatives and Hedging", and has the ability to settle the 2.25% Senior Notes in cash, common stock or a combination of cash and common stock, at its option. In accordance with cash conversion guidance contained in ASC 470-20, "Debt with Conversion and Other Options", the Company accounted for the 2.25% Senior Notes by allocating the issuance proceeds between the liability and the equity component. The equity component is classified in stockholders' equity and the resulting discount on the liability component is accreted such that interest expense equals the Company's nonconvertible debt borrowing rate. The separation was performed by first determining the fair value of a similar debt that does not have an associated equity component. That amount was then deducted from the initial proceeds of the 2.25% Senior Notes as a whole to arrive at a residual amount, which was allocated to the conversion feature that is classified as equity. The initial fair value of the indebtedness was \$66.9 million resulting in a \$19.3 million allocation to the embedded conversion option. The embedded conversion option was recorded in stockholders' equity and as debt discount, to be subsequently accreted to interest expense over the term of the 2.25% Senior Notes. Underwriting discounts and commissions and offering expenses totaled \$3.7 million and were allocated between the liability and the equity component in proportion to the allocation of proceeds and accounted for as debt issuance costs and equity issuance costs, respectively. As a result, \$2.9 million attributable to the indebtedness was recorded as deferred financing costs in other assets, to be subsequently amortized as interest expense over the term of the 2.25% Senior Notes, and \$0.8 million attributable to the equity component was recorded as a reduction to additional paid-in-capital in stockholders' equity. During the three months ended March 31, 2016, the Company adopted ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" utilizing retrospective application as permitted. As a result, the Company reclassified \$1.9 million of debt issuance costs from current and non-current other assets to reduce the 2.25% Senior Notes as of December 31, 2015.

As of December 31, 2016, the Company had outstanding borrowings of \$77.8 million, and deferred financing costs of \$1.4 million, related to the 2.25% Senior Notes. There are no principal payments due during the term. Annual interest expense on these 2.25% Senior Notes will range from \$5.7 million to \$6.9 million through maturity.

Capped Call Transactions

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

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

The Capped Call Transactions are expected generally to reduce the potential dilution and/or offset potential cash payments that the Company is required to make in excess of the principal amount upon conversion of the 2.25% Senior Notes in the event that the market price per share of the Company's common stock, as measured under the terms of the Capped Call Transactions, is greater than the strike price of the Capped Call Transactions, which initially corresponds to the \$24.04 conversion price of the 2.25% Senior Notes. If, however, the market price per share of the Company's common stock, as measured under the terms of the Capped Call Transactions, exceeds the initial cap price of \$29.02, there would nevertheless be dilution and/or there would not be an offset of such potential cash payments, in each case, to the extent that such market price exceeds the cap price of the Capped Call Transactions.

The Company will not be required to make any cash payments to Bank of America, N.A. or any of its affiliates upon the exercise of the options that are a part of the Capped Call Transactions, but will be entitled to receive from Bank of America,

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N.A. (or an affiliate thereof) a number of shares of the Company's common stock and/or an amount of cash generally based on the amount by which the market price per share of the Company's common stock, as measured under the terms of the Capped Call Transactions, is greater than the strike price of the Capped Call Transactions during the relevant valuation period under the Capped Call Transactions. However, if the market price of the Company's common stock, as measured under the terms of the Capped Call Transactions, exceeds the cap price of the Capped Call Transactions during such valuation period under the Capped Call Transactions, the number of shares of common stock and/or the amount of cash the Company expects to receive upon exercise of the Capped Call Transactions will be capped based on the amount by which the cap price exceeds the strike price of the Capped Call Transactions.

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

3.25% Convertible Senior Notes due 2020

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

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

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

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

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

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

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

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

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

As of December 31, 2016, the Company had outstanding borrowings of \$103.1 million, and deferred financing costs of \$2.4 million, related to the 3.25% Senior Notes. There are no principal payments due during the term. Annual interest expense on these 3.25% Senior Notes will range from \$9.1 million to \$10.7 million through maturity.

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

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

For the year ended December 31, 2016, the Company recorded \$43.8 million as a fair value adjustment of derivative liabilities. The primary factor causing the change in the fair value of the derivative liability was during the period February 3, 2016 through June 2, 2016 when the Company's stock price increased. Adjustments to the fair value of the derivative liabilities are recognized within other income (expense) in the Consolidated Statements of Operations and Comprehensive Loss.

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

Bank of America line of credit

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

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

Japan Lifeline Co., Ltd. Credit Facility

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

MidCap Credit Facility

On July 29, 2016, the Company entered into a credit and security agreement with MidCap Financial Trust (“MidCap”), as agent for the lenders party thereto and as a lender, whereby the Company may borrow up to the lesser of \$50.0 million or its applicable borrowing base of asset-based revolving loans (the “MidCap Credit Facility”). All amounts owing under the MidCap Credit Facility shall accrue interest at a rate equal to the LIBOR Rate plus four and one tenth percent (4.10%). For purposes of the MidCap Credit Facility, LIBOR Rate means a per annum rate of interest equal to the greater of (a) one half of one percent (0.50%) and (b) the rate determined by MidCap by dividing (i) the Base LIBOR Rate, meaning the base London interbank offer

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rate for the applicable interest period, by (ii) the sum of one minus the daily average during such interest period of the aggregate maximum reserve requirement then imposed under Regulation D of the Board of Governors of the Federal Reserve System for “Eurocurrency Liabilities” (as defined therein). At December 31, 2016, the interest rate was 4.8%. The Company is subject to other fees in addition to interest on outstanding borrowings (“Other Fees”) related to the MidCap Credit Facility. A balance minimum of the lesser of \$10.0 million and average borrowing base during the immediately preceding month (“Minimum Balance”) is used in calculating Other Fees as described hereto. The Unused Line Fee is based on the difference between the preceding month’s average outstanding borrowings and the Minimum Balance, multiplied by 0.50% per annum. Additionally, a Minimum Balance Fee is assessed on the positive difference between the Minimum Balance and the preceding month’s average outstanding borrowings, multiplied by the highest, per annum, prevailing interest rate during the month per the MidCap Credit Facility agreement. Lastly, a Collateral Management Fee is assessed on the greater of the preceding month’s average outstanding borrowings or the Minimum Balance, multiplied by 0.50% per annum.

Deferred financing costs directly related to the MidCap Credit Facility such as legal, origination, and professional services fees totaled \$0.9 million. In conjunction with the Company’s adoption of ASU 2015-03 “Simplifying the Presentation of Debt Issuance Costs” during the first quarter of 2016, the Company also adopted an update thereof or ASU 2015-15 “Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of Credit Arrangements.” As a result, \$0.9 million attributable to the MidCap Credit Facility was recorded as deferred financing costs in other assets, to be subsequently amortized as interest expense over the term of the MidCap Credit Facility. The MidCap Credit Facility also contains a lockbox arrangement clause requiring the Company to maintain a lockbox bank account in favor of the MidCap Credit Facility; Company cash receipts remitted to the lockbox bank account are swept on a regular basis to reduce outstanding borrowings related to the MidCap Credit Facility.

As of December 31, 2016, the Company had \$0 in outstanding borrowings and \$0.8 million in deferred financing costs related to the MidCap Credit Facility.

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

The MidCap Credit Facility is secured by substantially all of the Company’s assets, excluding its intellectual property (“Collateral”), and places customary limitations on indebtedness, liens, distributions, acquisitions, investments, and other activities of the Company in a manner designed to protect the Collateral. The Company could be materially affected if it violates any covenants, as MidCap could declare all outstanding borrowing related to the MidCap Credit Facility, together with accrued interest and Other Fees, to be immediately due and payable. The MidCap Credit Facility is also subject to customary affirmative and negative covenants for asset-based revolving credit facilities, including a minimum net revenue covenant. As of December 31, 2016, the Company was in compliance with all financial covenants. The MidCap Credit Facility is scheduled to terminate on July 29, 2020.

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

7. Revenue by Geographic Region

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

	Year Ended December 31,					
	2016		2015		2014	
United States	\$136,111	70.6%	\$107,228	69.8%	\$106,052	71.9%
Total International	56,814	29.4%	46,384	30.2%	41,536	28.1%
Revenue	<u>\$192,925</u>	<u>100%</u>	<u>\$153,612</u>	<u>100%</u>	<u>\$147,588</u>	<u>100%</u>

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8. Commitments and Contingencies

(a) Leases

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

Future minimum payments by year under non-cancelable leases with initial terms in excess of one year were as follows as of December 31, 2016:

2017	\$	3,751
2018		2,643
2019		2,418
2020		2,512
2021		2,484
2022 and thereafter		20,401
Total	\$	<u>34,209</u>

Facilities rent expense in 2016, 2015 and 2014 was \$3.3 million, \$2.3 million, and \$2.7 million, respectively.

On June 12, 2013, the Company entered into a lease agreement for two adjacent office, research and development, and manufacturing facilities in Irvine, California. The premises consist of approximately 129,000 combined square feet. The lease has a 15-year term beginning January 1, 2014 and provides for one optional 5 year extension. The initial base rent under the lease is \$1.9 million per year, payable in monthly installments, and escalates by 3% per year for years 2015 through 2019, and 4% per year for years 2020 and beyond. The Company received a rent abatement for the first nine months of the lease. These premises replaced the Company's previous Irvine facilities. The terms of this lease agreement provide for \$6.8 million of landlord-funded improvements (and certain other allowances) to this facility, in order to best suit the Company's requirements.

The Company's Rosmalen facility is an administrative office of approximately 2,900 square feet and in August 2015, the Company extended the lease term for the Rosmalen facility until December 2020.

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

(b) Employment Agreements and Retention Plan

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

(c) Legal Matters

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

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LifePort Sciences LLC v. Endologix, Inc.

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

Shareholder Litigation

In January 2017, two stockholders purporting to represent a class of persons who purchased the Company's securities between August 2, 2016 and November 16, 2016, filed lawsuits against the Company and certain of its officers in the United States District Court for the Central District of California. The lawsuits allege that the Company made materially false and misleading statements and failed to disclose material adverse facts about its business, operational and financial performance, in violation of federal securities laws, relating to FDA PMA for the Company's Nellix EVAS System. The Company believes the lawsuits are without merit and intends to defend itself vigorously.

(d) Contract Termination

In the years ended December 31, 2016 and 2015, the Company sent notices of termination to certain of its distributors providing for the termination of the respective distribution agreements. In accordance with ASC No. 420 "Exit or Disposal Cost Obligations", the Company expensed distributor termination costs in the period in which the written notification of termination occurred. As a result, the Company incurred termination costs of \$2.5 million and \$1.9 million for the years ended December 31, 2016 and 2015, respectively. Such termination costs are included in contract termination and business acquisition expenses for the years ended December 31, 2016 and 2015.

9. Contingently Issuable Common Stock

On October 27, 2010, the Company, entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement") with Nepal Acquisition Corporation, a wholly-owned subsidiary of the Company ("Merger Sub"), Nellix, Inc., certain of Nellix's stockholders named therein and Essex Woodlands Health Ventures, Inc., as representative of the former Nellix stockholders. On December 10, 2010 (the "Nellix Closing Date"), the Company completed its acquisition of Nellix, Inc., a pre-revenue, AAA medical device company. The purchase price consisted of 3.2 million of the Company's common shares, issuable to the former Nellix stockholders as of the Nellix Closing Date, then representing a value of \$19.4 million. Additional payments, solely in the form of the Company's common shares (the "Contingent Payment"), will be made upon the achievement of a revenue milestone and a regulatory approval milestone (collectively, the "Nellix Milestones").

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

The Merger Agreement provides that, in addition to the shares of common stock of the Company (the "Common Stock") issued to the former Nellix stockholders at the closing of the Merger, the former Nellix stockholders are entitled to receive shares of the Common Stock if the Company's sales of one of Nellix's products (the "Nellix Product") outside of the United States exceed \$10.0 million within a certain time period following the Company's receipt of CE mark approval for the Nellix Product (the "OUS Milestone"). The aggregate dollar value of the shares of the Common Stock to be issued upon achievement of the OUS Milestone ranged from a high of \$24.0 million or 6.9 million shares to a low of \$10.0 million or 1.3 million shares.

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The price per share of the Common Stock to be issued upon achievement of the OUS Milestone was subject to a floor of \$3.50 per share and a ceiling of \$7.50 per share.

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

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

At December 31, 2016, the Company's stock price closed at \$5.72 per share. Thus, had the PMA Milestone been achieved on December 31, 2016, the Contingent Payment would have comprised 2.0 million shares (based on the 30-day average closing stock price ending 5 days prior to the announcement), representing a value of \$11.4 million.

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

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

	Fair Value of Contingently Issuable Common Stock
December 31, 2015	\$ 14,700
Fair value adjustment of Contingent Payment for year ended December 31, 2016	(2,500)
December 31, 2016	<u>\$ 12,200</u>

As of December 31, 2016, \$12.2 million was presented in non-current liabilities due to the expected achievement of the PMA milestone in the second quarter of 2018.

10. Income Tax Expense

Net loss before income tax benefit attributable to United States and international operations, consists of the following:

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	Year Ended December 31,		
	2016	2015	2014
United States	\$ (135,925)	\$ (44,114)	\$ (9,799)
Foreign	(18,254)	(15,647)	(22,681)
Net loss before income tax	<u>\$ (154,179)</u>	<u>\$ (59,761)</u>	<u>\$ (32,480)</u>

Income tax (benefit) expense consists of the following:

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	\$ (50)	\$ 50	\$ (20)
State	90	100	181
Foreign	458	148	24
Total current	<u>\$ 498</u>	<u>\$ 298</u>	<u>\$ 185</u>
Deferred:			
Federal	\$ —	\$ (8,621)	\$ (10)
State	—	(1,008)	—
Foreign	—	(6)	(237)
Total deferred	<u>\$ —</u>	<u>\$ (9,635)</u>	<u>\$ (247)</u>
Total:			
Federal	\$ (50)	\$ (8,571)	\$ (30)
State	90	(908)	181
Foreign	458	142	(213)
Income tax expense (benefit)	<u>\$ 498</u>	<u>\$ (9,337)</u>	<u>\$ (62)</u>

Income tax benefit was computed by applying the United States federal statutory rate of 34% to net loss before taxes as follows:

	Year Ended December 31,		
	2016	2015	2014
Income tax benefit at federal statutory rate	\$ (52,418)	\$ (20,315)	\$ (11,043)
State income tax expense (benefit), net of federal benefit	(2,323)	(937)	(1,097)
Meals and entertainment	445	328	279
Research and development credits	(2,041)	(1,756)	(4,897)
Stock-based compensation	2,604	1,633	1,161
Derivative gain/loss	14,903	—	—
Contingent consideration	(850)	34	(2,696)
Foreign tax rate differential	1,394	1,013	1,418
Net change in valuation allowance	35,678	10,052	8,930
Return to provision true-up	1,981	583	593
Unrecognized tax benefits	971	928	6,444
Other, net	154	(900)	846
Income tax benefit	<u>\$ 498</u>	<u>\$ (9,337)</u>	<u>\$ (62)</u>

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Significant components of the Company's deferred tax assets and (liabilities) are as follows:

	Year Ended December 31,	
	2016	2015
Deferred tax assets:		
Net operating loss carryforwards	\$ 124,881	\$ 66,280
Accrued expenses	6,582	4,391
Tax credits	11,314	8,438
Bad debt	91	81
Inventory	4,424	2,307
Capitalized research and development	21,374	8,948
Deferred compensation	3,596	3,075
Other	964	1,659
Deferred tax asset	173,226	95,179
Valuation allowance	(133,784)	(67,172)
Total deferred tax assets	39,442	28,007
Deferred tax liabilities:		
Developed technology and trademark	(14,218)	(14,645)
Trademarks and tradenames	(1,027)	(1,002)
Depreciation and amortization	(15,316)	(1,183)
Convertible debt	(9,760)	(12,056)
Other	—	—
Total deferred tax liabilities	(40,321)	(28,886)
Net deferred tax liability	\$ (879)	\$ (879)

The Company has evaluated the available evidence supporting the realization of its gross deferred tax assets, including the amount and timing of future taxable income, and has determined that it is more likely than not that the domestic and foreign deferred tax assets will not be realized. Due to such uncertainties surrounding the realization of the domestic and foreign deferred tax assets, the Company maintains a valuation allowance of \$133.8 million against a substantial portion of its deferred tax assets as of December 31, 2016. For the year ended December 31, 2016, the total change in valuation allowance was \$66.6 million, of which \$35.7 million was recorded against the current year change in net deferred tax assets and \$30.9 million was recorded against the net deferred tax assets recorded through purchase accounting in connection with the acquisition of TriVascular. Realization of the deferred tax assets will be primarily be dependent upon the Company's ability to generate sufficient taxable income prior to the expiration of its net operating losses.

At December 31, 2016, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately \$300.4 million and \$185.2 million, respectively.

Federal and state net operating loss carryforwards began expiring in 2016 and will continue to expire through 2036. The majority of the state net operating losses are attributable to California. In addition, the Company had research and development credits for federal and state income tax purposes of approximately \$9.0 million and \$13.4 million, respectively, which will begin to expire in 2020. The California research and development credits do not expire.

The table of deferred tax assets and liabilities shown above does not include certain deferred tax assets at December 31, 2016 and 2015 that arose directly from (or the use of which was postponed by) tax deductions related to equity compensation in excess of compensation recognized under GAAP. Those deferred tax assets include federal and state net operating losses. The Company utilizes the with-and-without approach in determining if and when such excess tax benefits are realized, and under this approach excess tax benefits of \$10.3 million related to stock based compensation are the last to be realized.

Under Section 382 of the Internal Revenue Code of 1986, as amended, or the IRC, substantial changes in our ownership may limit the amount of net operating loss and research and development income tax credit carryforwards that could be utilized annually in the future to offset taxable income. Specifically, this limitation may arise in the event of a cumulative change in ownership of our company of more than 50% within a three-year period. Any such annual limitation may significantly reduce the utilization of the net operating loss carryforwards before they expire.

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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 intends to complete a study in the future to assess whether an ownership change has occurred or whether there have been multiple ownership changes since the Company's formation.

The Company completed an analysis under IRC Sections 382 and 383 to determine if the acquired TriVascular Technologies, Inc.'s net operating loss carryforwards and research and development credits are limited due to a change in ownership. The Company concluded that TriVascular Technologies, Inc. had an ownership change as of February 3, 2016. As a result of the ownership change, the Company reduced the acquired federal and state net operating loss carryforwards by \$230.3 million and \$210.6 million, respectively, and federal research and development credits by \$3.1 million.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits (in thousands):

	Year Ended December 31, 2016	Year Ended December 31, 2015
Balance at January 1, 2016	\$ 8,928	\$ 7,808
Additions for tax positions related to prior periods	1,654	50
Decreases related to prior year tax positions	(95)	—
Lapse of statute of limitations	—	—
Additions for tax positions related to current period	1,267	1,070
Balance at December 31, 2016	<u>\$ 11,754</u>	<u>\$ 8,928</u>

Our unrecognized gross tax benefits presented above would not reduce our annual effective tax rate if recognized because we have recorded a full valuation allowance on the deferred tax assets. We do not foresee any material changes to our gross unrecognized tax benefit within the next twelve months. We recognize interests and/or penalties related to income tax matters in income tax expense. We did not recognize any accrued interest and penalties related to gross unrecognized tax benefits related to the year ended December 31, 2016.

The undistributed earnings of the Company's foreign subsidiaries are considered to be indefinitely reinvested. Accordingly, no provision for U.S. federal and state income taxes or foreign withholding taxes have been provided on such undistributed earnings. As of December 31, 2016, the cumulative amount of earnings upon which U.S. income taxes have not been provided is approximately \$0.1 million. Determination of the potential amount of unrecognized deferred U.S. income tax liability and foreign withholding taxes is not practicable because of the complexities associated with its hypothetical calculation; however, net operating losses and unrecognized foreign tax credits would be available to reduce some portion of the U.S. liability.

In general, the Company is no longer subject to United States federal, state, local, or foreign examinations by taxing authorities for years before 2011, however, net operating loss and other tax attribute carryforwards utilized in subsequent years continue to be subject to examination by the tax authorities until the year to which the net operating loss and/or other tax attributes are carried forward is no longer subject to examination.

For the twelve months ended December 31, 2016, our provision for income taxes was \$0.5 million expense and our effective tax rate was (0.32%) for the year ended December 31, 2016. During the twelve months ended December 31, 2016, we had operating legal entities in the United States, Italy, New Zealand, Singapore, Poland and the Netherlands (plus registered sales branches of our Dutch entity in certain countries in Europe).

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11. Quarterly Results of Operations (Unaudited)

Three Months Ended:	Revenue	Gross Profit	Operating expenses	Net loss	Basic and Diluted loss per share
December 31, 2016	\$ 47,463	\$ 29,461	\$ 51,669	\$ (24,924)	\$ (0.30)
September 30, 2016	52,122	36,931	48,165	(15,245)	(0.18)
June 30, 2016	50,974	29,459	52,687	(66,837)	(0.81)
March 31, 2016	42,366	27,941	66,345	(47,671)	(0.62)
Three Months Ended:					
December 31, 2015	\$ 39,232	\$ 23,717	\$ 45,483	\$ (15,293)	\$ (0.22)
September 30, 2015	38,231	27,036	36,370	(10,917)	(0.16)
June 30, 2015	39,479	24,132	36,282	(13,001)	(0.19)
March 31, 2015	36,671	26,906	36,569	(11,213)	(0.17)

12. Restructuring Charges

In the twelve months ended December 31, 2016, the Company recorded \$11.1 million in restructuring costs within operating expenses related to focused reductions of its workforce. The Company began substantially formulating plans around this workforce reduction during the first quarter of 2016 in conjunction with its merger of TriVascular. The targeted reductions and other restructuring activities were initiated to provide efficiencies and realign resources as well as to allow for continued investment in strategic areas and drive growth.

The Company expects to incur a total of \$11.3 million in restructuring charges upon the completion of the plan, which represents the Company's best estimate as of December 31, 2016.

The recognition of restructuring charges requires that the Company make certain judgments and estimates regarding the nature, timing and amount of costs associated with the planned reductions of workforce. At the end of each reporting period, the Company will evaluate the remaining accrued balance to ensure that no excess accruals are retained and the utilization of the provisions are for their intended purpose in accordance with developed plans. The following table reflects the movement of activity of the restructuring reserve for the year ended December 31, 2016:

	One-time Termination Benefits
Accrual balance as of December 31, 2015	\$ —
Restructuring charges	11,093
Utilization	(8,339)
Accrual balance as of December 31, 2016	<u>\$ 2,754</u>

The accrual balance as of December 31, 2016 is classified within accrued expenses and other current liabilities in the Company's Consolidated Balance Sheet.

13. TriVascular Merger

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

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consideration given related to the acquisition follows:

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

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

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

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

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

The goodwill is primarily attributable to strategic opportunities that arose from the acquisition of TriVascular, such as broadening the product portfolio for the treatment of AAA and leveraging the combined company's technology and commercial capabilities. The goodwill is not expected to be deductible for tax purposes. The changes in the carrying amount of goodwill for the year ended December 31, 2016 are as follows (in thousands):

Balance at January 1, 2016	\$	28,685
Goodwill acquired from the Merger		92,086
Foreign currency translation adjustment		(60)
Balance at December 31, 2016	\$	<u>120,711</u>

During the year ended December 31, 2016, the Company revised the opening net assets acquired and goodwill by \$27.1 million, which comprised of the following: an increase in inventories of \$0.2 million; an increase in prepaid expenses and other current assets of \$0.1 million; an increase in accounts receivable of \$0.2 million; and an increase in accrued liabilities and other of \$0.6 million as a result of gathering additional information during the measurement period. The Company also revised the initial values of intangible assets by decreasing them \$27.0 million as a result of switching from utilizing

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

publicly available benchmarking information to determine the fair value of the intangible assets to primarily utilizing an income method based on forecasts of expected future cash flows. During the three months ended June 30, 2016, the Company recorded an adjustment to the amortization of intangible assets of \$0.3 million, comprising of a \$0.2 million and \$49 thousand decrease within cost of goods sold and marketing and sales expense, respectively, in the Consolidated Statement of Operations and Comprehensive Loss, that would have been recorded during the three months ended March 31, 2016, if the adjustment to the intangible assets had been recognized as of the date of the Merger.

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

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

Pro Forma Combined Financial Information (Unaudited)

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

	Twelve Months Ended	
	December 31,	
	2016	2015
Pro forma net sales	\$ 195,596	\$ 190,605
Pro forma net loss from continuing operations	(150,054)	(113,534)
Pro forma basic and diluted net loss per share	\$ (1.82)	\$ (1.40)

Included in the Consolidated Statement of Operations and Comprehensive Loss are net sales from products acquired as part of the TriVascular merger of \$40.0 million for the year ended December 31, 2016. Net losses included in the Consolidated Statement of Operations and Comprehensive Loss from the TriVascular operations for the year ended December 31, 2016 have not been reported as it is impracticable to do so given the integration and other efficiency and cost saving measures in process during the year ended December 31, 2016.

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

None.

Item 9A CONTROLS AND PROCEDURES.

Management's Annual 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 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 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 all 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, 2016. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework (2013)*. Based on our management's assessment, we have concluded that, as of December 31, 2016, our internal control over financial reporting was effective based on those criteria.

We merged with TriVascular on February 3, 2016. Management excluded from its evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2016 the merged entity's internal control over financial reporting associated with 5% of total assets and 2% of total net sales included in our consolidated financial statements as of and for the year ended December 31, 2016.

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in its report, which is included herein.

Disclosure Controls and Procedures

We have established disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act. Our disclosure controls and procedures are designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within our organization. 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, 2016, pursuant to Rules 13a-15(e) and 15d-15(e) under the Exchange Act, to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures, as of December 31, 2016, were effective.

Changes in Internal Control over Financial Reporting

Following the completion of our merger with TriVascular on February 3, 2016, we implemented internal controls over financial reporting that include the consolidation of TriVascular, as well as acquisition-related accounting and disclosures. Our merger with TriVascular represented a material change in internal control over financial reporting since management's last assessment of our internal control over financial reporting, which was completed as of December 31, 2015. TriVascular utilizes

separate information and accounting systems and processes. As a result, our management is reviewing and evaluating the design and operating effectiveness of our internal control over financial reporting as it relates to TriVascular.

Except as set forth above, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of the fiscal year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

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, 2016 and delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on May 31, 2017.

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, 2016 and delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on May 31, 2017.

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

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of December 31, 2016 and delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on May 31, 2017.

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, 2016 and delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on May 31, 2017.

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, 2016 and delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on May 31, 2017.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements and Schedules

The following financial statements and schedules listed below are included in this Annual Report on Form 10-K:

Financial Statements

Reports of Independent Registered Public Accounting Firms

Consolidated Balance Sheets as of December 31, 2016 and 2015

Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2016, 2015, and 2014

Consolidated Statements of Stockholders' Equity for the years ended 2016, 2015 and 2014

Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015, and 2014

Notes to the Consolidated Financial Statements

Financial Statement Schedule:

Schedule II - Valuation and Qualifying Accounts for the years ended December 31, 2016, 2015, and 2014. All other schedules are omitted, as required information is inapplicable or the information is presented in the consolidated financial statements.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
Years Ended December 31, 2016, 2015, and 2014

<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 (1)</u>	<u>Balance at End of Period</u>
		<u>Additions to Bad Debt Expense</u>	<u>Charged to Other Accounts</u>		
(In thousands)					
Year ended December 31, 2016					
Allowance for doubtful accounts	\$ 226	\$ 916	\$ —	\$ (105)	\$ 1,037
Year ended December 31, 2015					
Allowance for doubtful accounts	\$ 185	\$ 107	\$ —	\$ (66)	\$ 226
Year ended December 31, 2014					
Allowance for doubtful accounts	\$ 399	\$ —	\$ —	\$ (214)	\$ 185

(1) Deductions represent the actual write-off of accounts receivable balances.

(b) Exhibits

The following is a list of exhibits required by Item 601 of Regulation S-K filed as part of this Annual Report on Form 10-K. For exhibits that previously have been filed, the Company incorporates those exhibits herein by reference. The exhibit table below includes the Form Type and Filing Date of the previous filing and the original exhibit number in the previous filing which is being incorporated by reference herein.

Exhibit Number		Exhibit Description
2.1		Agreement and Plan of Merger and Reorganization, dated October 27, 2010, by and among Endologix, Inc., Nepal Acquisition Corporation, Nellix, Inc., certain of Nellix, Inc.'s stockholders listed therein and Essex Woodlands Health Ventures, Inc., as representative of Nellix, Inc.'s stockholders (Incorporated by reference to Exhibit 2.1 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on October 27, 2010).
2.1		Agreement and Plan of Merger, dated October 26, 2015, by and among Endologix, Inc., Teton Merger Sub, Inc. and TriVascular Technologies, Inc. (Incorporated by reference to Exhibit 2.1 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on October 26, 2015).
3.1		Amended and Restated Certificate of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 to Endologix, Inc. Quarterly Report on Form 10-Q, File No. 000-28440, filed on August 5, 2016).
3.2		Amended and Restated Bylaws, as amended (Incorporated by reference to Exhibit 3.1 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on December 14, 2010).
4.1		Specimen Certificate of Common Stock (Incorporated by reference to Exhibit 4.1 to Amendment No. 2 to Endologix, Inc. Registration Statement on Form S-1, No. 333-04560, filed on June 10, 1996).
4.1.1		Updated Specimen Certificate of Common Stock effective as of May 22, 2014 (Incorporated by reference to Exhibit 4.1.1 to Endologix, Inc. Annual Report on Form 10-K, File No. 000-28440, filed on March 2, 2015).
4.2		Indenture, dated December 10, 2013, between Endologix, Inc. and Wells Fargo Bank, National Association, as trustee (Incorporated by reference to Exhibit 4.1 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on December 10, 2013).
4.3		First Supplemental Indenture, dated December 10, 2013, between Endologix, Inc. and Wells Fargo Bank, National Association, as trustee (Incorporated by reference to Exhibit 4.2 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on December 10, 2013).
4.4		Form of 2.25% Convertible Senior Notes due 2018 (Incorporated by reference to Exhibit A to Exhibit 4.2 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on December 10, 2013).
4.5		Second Supplemental Indenture, dated November 2, 2015, between Endologix, Inc. and Wells Fargo Bank, National Association, as trustee (Incorporated by reference to Exhibit 4.2 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on November 2, 2015).
4.6		Form of 3.25% Convertible Senior Notes due 2020 (Incorporated by reference to Exhibit A to Exhibit 4.2 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on November 2, 2015).
10.1	(1)	1997 Supplemental Stock Option Plan (Incorporated by reference to Exhibit 99.1 to Endologix, Inc. Registration Statement on Form S-8, No. 333-42161, filed on December 12, 1997).
10.2	(1)	1996 Stock Option/Stock Issuance Plan (Incorporated by reference to Exhibit 4.1 to Endologix, Inc. Registration Statement on Form S-8, No. 333-122491, filed on February 2, 2005).
10.3	(1)	2006 Stock Incentive Plan, as amended (Incorporated by reference to Exhibit 10.1 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on May 24, 2013).
10.4	(1)	Form of Stock Option Agreement under 2006 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 to Endologix, Inc. Quarterly Report on Form 10-Q, File No. 000-28440, filed on November 9, 2006).
10.5	(1)	Form of Restricted Stock Award Agreement under 2006 Stock Incentive Plan (Incorporated by reference to Exhibit 10.2 to Endologix, Inc. Quarterly Report on Form 10-Q, File No. 000-28440, filed on November 9, 2006).
10.6	(1)	Form of Employee Restricted Stock Unit Award Agreement under 2006 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 to Endologix, Inc. Quarterly Report on Form 10-Q, File No. 000-28440, filed on November 1, 2012).
10.7	(1)	Form of Director Restricted Stock Unit Award Agreement under 2006 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 to Endologix, Inc. Quarterly Report on Form 10-Q, File No. 000-28440, filed on November 1, 2012).
10.8	(1)	Amended and Restated 2006 Employee Stock Purchase Plan, as amended (Incorporated by reference to Exhibit 10.2 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on June 7, 2016).
10.9	(1)	2015 Stock Incentive Plan, as amended (Incorporated by reference to Exhibit 10.1 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on June 7, 2016).
10.9.1	(1)	Form of Stock Option Agreement under 2015 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on June 1, 2015).
10.9.2	(1)	Form of Restricted Stock Unit Award Agreement under 2015 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on June 1, 2015).

10.10	(1)	Employment Agreement, dated February 1, 2014, by and between Endologix, Inc. and John McDermott (Incorporated by reference to Exhibit 10.18 to Endologix, Inc. Annual Report on Form 10-K, File No. 000-28440, filed on March 3, 2014).
10.11	(1)	Employment Agreement, dated February 25, 2016, by and between Endologix, Inc. and Vaseem Mahboob (Incorporated by reference to Exhibit 10.12 to Endologix, Inc. Annual Report on Form 10-K, File No. 000-28440, filed on February 29, 2016).
10.12	(1)	Employment Agreement, dated February 1, 2014, by and between Endologix, Inc. and Robert D. Mitchell (Incorporated by reference to Exhibit 10.20 to Endologix, Inc. Annual Report on Form 10-K, File No. 000-28440, filed on March 3, 2014).
10.13	(1)	Employment Agreement, dated February 2, 2014, by and between Endologix, Inc. and Dave Jennings (Incorporated by reference to Exhibit 10.4 to Endologix, Inc. Quarterly Report on Form 10-Q, File No. 000-28440, filed on May 2, 2014)
10.14	(1)	Employment Agreement, dated February 2, 2014, by and between Endologix, Inc. and James Machek (Incorporated by reference to Exhibit 10.5 to Endologix, Inc. Quarterly Report on Form 10-Q, File No. 000-28440, filed on May 2, 2014)
10.15	(1)	Employment Agreement, dated August 18, 2014, by and between Endologix, Inc. and Amanda DePalma (Incorporated by reference to Exhibit 10.14 to Endologix, Inc. Annual Report on Form 10-K, File No. 000-28440, filed on March 2, 2015).
10.16	(1)	Employment Agreement, dated February 1, 2014, by and between Endologix, Inc. and Jose Lima (Incorporated by reference to Exhibit 10.15 to Endologix, Inc. Annual Report on Form 10-K, Filed No. 000-28440, filed on March 2, 2015).
10.17	(1)	Form of Indemnification Agreement entered into with Endologix, Inc. officers and directors (Incorporated by reference to Exhibit 10.23 to Endologix, Inc. Annual Report on Form 10-K, File No. 000-28440, filed on March 3, 2014).
10.18		Standard Industrial/Commercial Single-Tenant Lease - Net, dated November 2, 2004, by and between Endologix, Inc. and Del Monico Investments, Inc. (Incorporated by reference to Exhibit 10.46 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on November 24, 2004).
10.18.1		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, Inc. Quarterly Report on Form 10-Q, File No. 000-28440, filed on November 2, 2009).
10.18.2		Addendum No. 3 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 10.17.2 to Endologix, Inc. Annual Report on Form 10-K, File No. 000-28440, filed on March 2, 2015).
10.18.3		Addendum No. 4 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 10.17.3 to Endologix, Inc. Annual Report on Form 10-K, File No. 000-28440, filed on March 2, 2015).
10.19		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, Inc. Quarterly Report on Form 10-Q, File No. 000-28440, filed on November 2, 2009).
10.19.1		Addendum No. 3 to 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 10.18.1 to Endologix, Inc. Annual Report on Form 10-K, File No. 000-28440, filed on March 2, 2015).
10.20		Standard Industrial/Commercial Multi-Tenant Lease - Net, for 2 Musick, Irvine, California and 35 Hammond, Irvine, dated June 12, 2013, by and between Endologix, Inc. and The Northwestern Mutual Life Insurance Company (Incorporated by reference to Exhibit 10.1 to Endologix, Inc. Quarterly Report on Form 10-Q, File No. 000-28440, filed with on August 5, 2013).
10.21	†	Cross License Agreement dated as of October 26, 2011, by and between Endologix, Inc. and Bard Peripheral Vascular, Inc. (Incorporated by reference to Exhibit 10.19 to Endologix Inc. Annual Report on Form 10-K, File No. 000-28440, filed on March 6, 2012).
10.22	†	Settlement Agreement, dated October 16, 2012 by and among Endologix, Inc., Cook Incorporated, Cook Group and Cook Medical, Inc. (Incorporated by reference to Exhibit 10.22 to Endologix, Inc. Annual Report on Form 10-K, File No. 000-28440, filed with on March 14, 2013).
10.23		Base Capped Call Confirmation, dated December 4, 2013, between Endologix, Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 10.1 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on December 6, 2013).
10.24		Additional Capped Call Confirmation, dated December 5, 2013, between Endologix, Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 10.2 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed on December 6, 2013).
12.1	(2)	Computation of Ratio of Earnings to Fixed Charges.

14		Code of Ethics for Chief Executive Officer and Principal Financial Officers (Incorporated by reference to Exhibit 14 to Endologix, Inc. Annual Report on Form 10-K, File No. 000-28440, filed on March 26, 2004).
21.1	(2)	List of Subsidiaries.
23.1	(2)	Consent of Independent Registered Public Accounting Firm (KPMG LLP).
24.1	(2)	Power of Attorney (included on signature page hereto).
31.1	(2)	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
31.2	(2)	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
32.1	(3)	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	(3)	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.
101.INS	(2)	XBRL Instance Document
101.SCH	(2)	XBRL Taxonomy Extension Schema Document
101.CAL	(2)	XBRL Taxonomy Extension Calculation Link Base Document
101.DEF	(2)	XBRL Taxonomy Extension Definition Link Base Document
101.LAB	(2)	XBRL Taxonomy Extension Label Link Base Document
101.PRE	(2)	XBRL Taxonomy Extension Presentation Link Base Document

† 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, as amended.

- (1) These exhibits are identified as management contracts or compensatory plans or arrangements of Endologix pursuant to Item 15(a)(3) of Form 10-K.
- (2) Filed herewith
- (3) Furnished herewith and not “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Endologix, Inc.
Computation of Ratios of Earnings to Fixed Charges
(in thousands)

Year Ended December 31,

	2016	2015	2014	2013	2012	2011
EARNINGS:						
Loss before income taxes	\$ (154,179)	\$ (59,761)	\$ (32,480)	\$ (16,078)	\$ (35,243)	\$ (28,816)
Plus: Fixed charges (see below)	\$ 16,954	\$ 8,229	\$ 6,617	\$ 521	\$ 203	\$ 305
Total earnings/(loss) to cover fixed charges	<u>\$ (137,225)</u>	<u>\$ (51,532)</u>	<u>\$ (25,863)</u>	<u>\$ (15,557)</u>	<u>\$ (35,040)</u>	<u>\$ (28,511)</u>
FIXED CHARGES:						
Interest expense	\$ 15,841	\$ 7,476	\$ 5,709	\$ 321	\$ 7	\$ 32
Interest portion of rental expense (1)	\$ 1,113	\$ 753	\$ 908	\$ 200	\$ 196	\$ 273
Total Fixed charges	\$ 16,954	\$ 8,229	\$ 6,617	\$ 521	\$ 203	\$ 305
Preferred stock dividends	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Combined fixed charges and preferred stock dividends	\$ 16,954	\$ 8,229	\$ 6,617	\$ 521	\$ 203	\$ 305
RATIO OF EARNINGS TO FIXED CHARGES						
	--	--	--	--	--	--
RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS						
	--	--	--	--	--	--
DEFICIENCY OF EARNINGS TO COVER FIXED CHARGES						
	<u>\$ (154,179)</u>	<u>\$ (59,761)</u>	<u>\$ (32,480)</u>	<u>\$ (16,078)</u>	<u>\$ (35,243)</u>	<u>\$ (28,816)</u>
DEFICIENCY OF EARNINGS TO COVER COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS						
	<u>\$ (154,179)</u>	<u>\$ (59,761)</u>	<u>\$ (32,480)</u>	<u>\$ (16,078)</u>	<u>\$ (35,243)</u>	<u>\$ (28,816)</u>

(1) Amounts represent those portions of rent expense (one-third) that are reasonable approximations of interest costs.

LIST OF SUBSIDIARIES

1. CVD/RMS Acquisition Corp., a Delaware corporation.
2. Nellix, Inc., a Delaware corporation.
3. ELGX International Holdings GP, a Cayman Islands company.
4. Endologix International Holdings B.V., a Dutch corporation.
5. Endologix International B.V., a Dutch corporation.
6. Endologix New Zealand Co., a New Zealand unlimited liability company.
7. Endologix Bermuda L.P., a Bermuda partnership.
8. Endologix Italia S.r.l., an Italian corporation.
9. Endologix Singapore Private Limited, a Singaporean limited private company.
10. Endologix Poland sp. zo.o, a Polish limited company.
11. TriVascular Technologies, Inc., a Delaware corporation.
12. TriVascular, Inc., a California corporation.
13. TriVascular Sales LLC, a Texas limited liability company.
14. TriVascular Germany GmbH, a German limited liability company.
15. TriVascular Switzerland Sarl, a Swiss limited liability company.
16. TriVascular Italia Sarl, an Italian limited liability company.
17. TriVascular Canada, LLC, a Delaware limited liability company.

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Endologix, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-214537, 333-206208, 333-190393, 333-187258, 333-168465, 333-160317, 333-152774, 333-136370, 333-122491, 333-114465, 333-52482, 333-72531, 333-59305, 333-42161, and 333-07959) on Form S-8, and (Nos. 333-207615, 333-181762, 333-171639, 333-159078, 333-133598, 333-107286, 333-35343, 333-33997, 333-71053, 333-52474, 333-90960, 333-126710, and 333-114140) on Form S-3 of Endologix, Inc. of our reports dated March 1, 2017, with respect to the consolidated balance sheets of Endologix, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, the related consolidated financial statement schedule, and the effectiveness of internal control over financial reporting as of December 31, 2016, which reports appear in the December 31, 2016 annual report on Form 10-K of Endologix, Inc.

Our report dated March 1, 2017, on the effectiveness of internal control over financial reporting as of December 31, 2016, contains an explanatory paragraph that states Endologix, Inc. acquired TriVascular Technologies, Inc. on February 3, 2016, and management excluded from its assessment of the effectiveness of Endologix, Inc.'s internal control over financial reporting as of December 31, 2016, TriVascular Technologies, Inc.'s internal control over financial reporting associated with 5% of total assets and 2% of total net sales included in the consolidated financial statements of Endologix, Inc. and subsidiaries as of and for the year ended December 31, 2016. Our audit of internal control over financial reporting of Endologix, Inc. also excluded an evaluation of the internal control over financial reporting of TriVascular Technologies, Inc.

/s/ KPMG LLP

March 1, 2017
Irvine, California

Certification

I, John McDermott, certify that:

1. I have reviewed this Annual Report on Form 10-K of Endologix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principals;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 1, 2017

By: /s/ JOHN MCDERMOTT

John McDermott
Chief Executive Officer

Certification

I, Vaseem Mahboob, certify that:

1. I have reviewed this Annual Report on Form 10-K of Endologix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principals;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 1, 2017

By: /s/ VASEEM MAHBOOB

Vaseem Mahboob
Chief Financial Officer

CERTIFICATION

In connection with the Annual Report of Endologix, Inc. (the "Company") on Form 10-K for the period ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John McDermott, Chief Executive Officer and Chairman of the Board, 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 1, 2017

CERTIFICATION

In connection with the Annual Report of Endologix, Inc. (the "Company") on Form 10-K for the period ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vaseem Mahboob, Chief Financial 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/ VASEEM MAHBOOB

Vaseem Mahboob

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 1, 2017

