ENDOLOGIX INC /DE/
Form 10-Q
August 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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

For the transition period from _____to _____

Commission file number 000-28440

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

Delaware	68-0328265
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2 Musick, Irvine, California 92618
(Address of principal executive offices)
(949) 595-7200
(Registrant's telephone number, including area code)

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

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

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

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

On July 31, 2015, there were 67,781,092 shares outstanding of the registrant's only class of common stock.

ENDOLOGIX, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015

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Part I. Financial Information

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

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$36,269	$26,798
Marketable securities	34,257	59,871
Accounts receivable, net allowance for doubtful accounts of $181 and $185, respectively.	29,138	26,113
Other receivables	121	498
Inventories	30,588	31,325
Prepaid expenses and other current assets	2,592	3,162
Total current assets	$132,965	$147,767
Property and equipment, net	24,808	25,696
Goodwill	28,709	28,866
Intangibles, net	42,702	43,465
Deposits and other assets	2,138	2,415
Total assets	$231,322	$248,209
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$11,760	$11,027
Accrued payroll	11,469	13,337
Accrued expenses and other current liabilities	4,979	5,260
Total current liabilities	$28,208	$29,624
Deferred income tax	879	879
Deferred rent	8,078	8,060
Other liabilities	349	489
Contingently issuable common stock	14,800	14,600
Convertible notes	72,156	70,407
Total liabilities	$124,470	$124,059
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; 100,000,000 shares authorized. 67,947,684 and 67,321,769 shares issued, respectively. 67,767,730 and 67,159,511 shares outstanding, respectively.	68	67
Treasury stock, at cost, 179,954 and 162,258 shares, respectively.	(2,619)	(2,328)
Additional paid-in capital	381,516	372,639
Accumulated deficit	(272,715)	(248,500)
Accumulated other comprehensive income	602	2,272
Total stockholders' equity	$106,852	$124,150
Total liabilities and stockholders' equity	$231,322	$248,209

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	$39,479	$38,327	$76,149	$71,591
Cost of goods sold	15,347	9,820	25,111	18,789
Gross profit	24,132	28,507	51,038	52,802
Operating expenses:				
Research and development	5,993	4,458	12,224	8,563
Clinical and regulatory affairs	3,597	2,722	7,047	4,922
Marketing and sales	19,842	19,167	39,441	35,311
General and administrative	6,850	5,932	14,139	13,094
Total operating expenses	36,282	32,279	72,851	61,890
Loss from operations	(12,150)	(3,772)	(21,813)	(9,088)
Other income (expense):				
Interest income	37	67	82	126
Interest expense	(1,493)	(1,448)	(2,955)	(2,839)
Other income (expense), net	766	(148)	824	211
Change in fair value of contingent consideration related to acquisition	(100)	(3,772)	(200)	8,028
Total other income (expense)	(790)	(5,301)	(2,249)	5,526
Net loss before income tax (expense) benefit	$(12,940)	$(9,073)	$(24,062)	$(3,562)
Income tax (expense) benefit	(61)	80	(153)	(136)
Net loss	$(13,001)	$(8,993)	$(24,215)	$(3,698)
Other comprehensive income (loss) foreign currency translation	84	68	(1,670)	23
Comprehensive loss	$(12,917)	$(8,925)	$(25,885)	$(3,675)
Basic and diluted net loss per share	$(0.19)	$(0.14)	$(0.36)	$(0.06)
Shares used in computing basic and diluted net loss per share	67,615	62,699	67,441	62,403

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

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

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	$(24,215)	$(3,698)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,933	1,213
Stock-based compensation	4,619	3,753
Change in fair value of contingent consideration related to acquisition	200	(8,028)
Accretion of interest on convertible note	1,749	1,622
Amortization of deferred financing costs	232	198
Non-cash foreign exchange gain	(655)	(212)
Changes in operating assets and liabilities:		
Accounts receivable and other receivables	(3,195)	(2,108)
Inventories	739	(8,793)
Prepaid expenses and other current assets	413	(1,283)
Accounts payable	2,692	3,855
Accrued payroll	(1,689)	1,224
Accrued expenses and other liabilities	(207)	2,097
Net cash used in operating activities	$(16,384)	$(10,160)
Cash flows from investing activities:		
Purchases of marketable securities	(37,122)	(74,114)
Maturities of marketable securities	62,690	25,585
Purchases of property and equipment	(3,146)	(5,743)
Net cash provided by (used in) investing activities	$22,422	$(54,272)
Cash flows from financing activities:		
Proceeds from sale of common stock under employee stock purchase plan	1,631	1,446
Proceeds from exercise of stock options	2,628	1,094
Minimum tax withholding paid on behalf of employees for restricted stock units	(291)	(1,395)
Net cash provided by financing activities	$3,968	$1,145
Effect of exchange rate changes on cash and cash equivalents	(535)	(22)
Net increase (decrease) in cash and cash equivalents	$9,471	$(63,309)
Cash and cash equivalents, beginning of period	26,798	95,152
Cash and cash equivalents, end of period	$36,269	$31,843
Supplemental disclosure of cash flow information:		
Cash paid for interest	$973	$1,045
Cash paid for income taxes	$140	$207
Non-cash investing and financing activities:		
Landlord funded leasehold improvements	$46	$3,870
Fair value of Nellix Milestone Shares (note 9)	$—	$38,372
Acquisition of property and equipment included in accounts payable	$71	$1,403

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

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

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

(a) Description of Business

Endologix, Inc. (the "Company") is a Delaware corporation with corporate headquarters and production facilities located in Irvine, California. The Company develops, manufactures, markets, and sells innovative medical devices for the treatment of aortic disorders. The Company's products are intended for the minimally invasive endovascular treatment of abdominal aortic aneurysms ("AAA"). The Company's AAA products 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 Endologix AFX Endovascular AAA System (“AFX”), the VELA Proximal Endograft (“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 U.S. and Europe, and to third-party international distributors, provide the sole source of the Company's reported revenue.
The Company's EVAR products consist of (i) a cobalt chromium alloy stent covered by polytetrafluoroethylene (commonly referred to as "ePTFE") graft material (“Stent Graft”) and (ii) an accompanying delivery system. Once fixed in its proper position within the abdominal aorta, the Company's EVAR device provides a conduit for blood flow, thereby relieving pressure within the weakened or “aneurysmal” section of the vessel wall, which greatly reduces the potential for the AAA to rupture.
The Company's 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. The Company's EVAS product seals the entire aneurysm sac effectively excluding the aneurysm sac reducing the likelihood of future aneurysm rupture. Additionally, it has the potential to reduce post procedural re-interventions.
(b) Basis of Presentation

The accompanying Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). These financial statements include the financial position, results of operations, and cash flows of the Company, including its subsidiaries, all of which are wholly-owned. All inter-company accounts and transactions have been eliminated in consolidation. For the three and six months ended June 30, 2015 and 2014, there were no related party transactions.

The interim financial data as of June 30, 2015 is unaudited and is not necessarily indicative of the results for a full year. In the opinion of the Company's management, the interim data includes normal and recurring adjustments necessary for a fair presentation of the Company's financial results for the three and six months ended June 30, 2015. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to SEC rules and regulations relating to interim financial statements.

The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the Company's audited Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on March 2, 2015.

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

On April 7, 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from

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

the debt liability, similar to the presentation of debt discounts. The ASU is effective for the Company on January 1, 2016. Early adoption is permitted. The Company is evaluating the effect that ASU 2015-03 will have on its consolidated financial statements and related disclosures.

On July 22, 2015, the FASB issued ASU No. 2015-11, “Simplifying the Measurement of Inventory,” which requires an entity to measure inventory within the scope of the amendment at the lower of cost and net realizable value. Net realizable value is the estimated selling prices 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.

(c) Operating Segment

The Company has one operating and reporting segment that is focused exclusively on the development, manufacture, marketing, and sale of EVAR and EVAS product for the treatment of aortic disorders. For the three and six months ended June 30, 2015, all of the Company's revenue and related expenses were solely attributable to these activities. Substantially all of the Company's long-lived assets are located in the U.S.

2. Use of Estimates and Summary of Significant Accounting Policies

The preparation of financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosure of contingent liabilities. On an on-going basis, the Company's management evaluates its estimates, including those related to (i) collectibility of customer accounts; (ii) whether the cost of inventories can be recovered; (iii) the value of goodwill and intangible assets; (iv) realization of tax assets and estimates of tax liabilities; (v) likelihood of payment and value of contingent liabilities; and (vi) potential outcome of litigation. Such estimates are based on management's judgment which takes into account historical experience and various assumptions. Nonetheless, actual results may differ from management's estimates.
For a complete summary of our significant accounting policies, please refer to Note 2, "Use of Estimates and Summary of Significant Accounting Policies", in Part II, Item 8, of our 2014 Annual Report on Form 10-K for the year ended December 31, 2014, filed March 2, 2015. There have been no material changes to our significant accounting policies during the three and six months ended June 30, 2015.

3. Balance Sheet Account Detail

(a) Property and Equipment

Property and equipment consisted of the following:

	June 30, 2015	December 31, 2014
Production equipment, molds, and office furniture	$14,054	$12,943
Computer hardware and software	7,075	6,457

Leasehold improvements	16,368	15,729
Construction in progress (software and related implementation, production equipment, and leasehold improvements)	573	2,564
Property and equipment, at cost	$38,070	$37,693
Accumulated depreciation	(13,262)	(11,997)
Property and equipment, net	$24,808	$25,696

Depreciation expense for property and equipment for the three months ended June 30, 2015 and 2014 was $1.1 million and $0.5 million, respectively. For the six months ended June 30, 2015 and 2014 depreciation expense for property and equipment was $2.2 million and $1.0 million, respectively.

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

(b) Inventories

Inventories consisted of the following:

	June 30, 2015	December 31, 2014
Raw materials	$5,973	$6,728
Work-in-process	8,883	5,946
Finished goods	15,732	18,651
Total Inventories	$30,588	$31,325

(c) Goodwill and Intangible Assets

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

	June 30, 2015	December 31, 2014
Goodwill (1)	$28,709	$28,866
Intangible assets:		
Indefinite lived intangibles		
Trademarks and trade names	$2,708	$2,708
Finite lived intangibles		
Developed technology (2)	$40,100	$40,100
Accumulated amortization	(454)	(285)
Developed technology, net	$39,646	$39,815
License	$100	$100
Accumulated amortization	(85)	(71)
License, net	$15	$29
Customer relationships (1)	$438	$480
Accumulated amortization (1)	(438)	(400)
Customer relationships, net	$—	$80
Acquired Shonin approval (3)	$1,000	$1,000
Accumulated amortization	(667)	(167)
Acquired Shonin approval, net	$333	$833
Intangible assets (excluding goodwill), net	$42,702	$43,465

(1) Difference in the value between these dates is solely due to a foreign currency translation adjustment.
(2) Was reclassified in the first quarter of 2013 from in-process research and development to finite lived intangibles, which coincided with the European commercial launch of the product (Nellix EVAS System) associated with this

intangible asset. A significant portion of this intangible asset will not begin amortization until the U.S. launch of this product, currently scheduled for 2016.
(3) Regulatory approval for Intuitrak in Japan acquired through an amendment with a distributor in the fourth quarter of 2014.

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Amortization expense for intangible assets for the three months ended June 30, 2015 and 2014 was $0.4 million and $0.1 million, respectively. For the six months ended June 30, 2015 and 2014 amortization expense for intangible assets was $0.8 million and $0.2 million, respectively.

Estimated amortization expense for the five succeeding years and thereafter (which includes amortization of intangible assets which commenced in February 2013 with the commercial launch of the Nellix System in Europe) is as follows:

Remainder of 2015	$517
2016	949
2017	2,213
2018	3,693
2019	4,750
2020	5,416
2021 & Thereafter	22,456
Total	$39,994

(d) Marketable securities

Investments in held-to-maturity marketable securities consist of the following at June 30, 2015 and December 31, 2014:

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Asset backed securities	$857	$—	$—	$857
Agency bonds	3,000	—	—	3,000
Corporate bonds	2,658	—	(1)	2,657
Commercial paper	22,781	5	(1)	22,785
Government securities	4,961	2	—	4,963
Total	$34,257	$7	$(2)	$34,262

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Asset backed securities	$3,633	$—	$—	$3,633
Corporate bonds	15,707	—	(8)	15,699
Commercial paper	40,531	5	—	40,536
Total	$59,871	$5	$(8)	$59,868

At June 30, 2015, the Company’s investments included 6 held-to-maturity debt securities in unrealized loss positions with a total unrealized loss of approximately $2 thousand and a total fair market value of approximately $4.7 million. All investments with gross unrealized losses have been in unrealized loss positions for less than 4 months. The unrealized losses were caused by interest rate fluctuations. There was no change in the credit risk of the securities.

The Company does not intend to sell the securities and it is not likely that the Company will be required to sell the securities before the expected recovery of their amortized cost bases. There were no realized gains or losses on the investments for the three and six months ended June 30, 2015. All of the Company's investments of held-to-maturity securities will mature within less than 12 months with an average maturity of 3 months.

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

The following fair value hierarchy table presents information about each major category of the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014:

	Fair value measurement at reporting date using:			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
At June 30, 2015				
Cash and cash equivalents	$36,269	$—	$—	$36,269
Contingently issuable common stock	$—	$—	$14,800	$14,800
At December 31, 2014				
Cash and cash equivalents	$26,798	$—	$—	$26,798
Contingently issuable common stock	$—	$—	$14,600	$14,600

There were no re-measurements to fair value during the three months ended June 30, 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 three months ended June 30, 2015.

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

We measure the fair value of our 2.25% Convertible Senior Notes due 2018 ("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 $82.8 million as of June 30, 2015 and $84.5 million as of December 31, 2014.

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

4. Stock-Based Compensation

The Company classifies stock-based compensation expense in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss, based on the department to which the recipient belongs. Stock-based compensation expense included in cost of goods sold and operating expenses during the three and six months ended June 30, 2015 and 2014, was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014

Cost of goods sold	$226	$197	$474	$404
Operating expenses:				
Research and development	258	185	486	335
Clinical and regulatory affairs	243	365	428	262
Marketing and sales	839	645	1,587	1,194
General and administrative	842	748	1,644	1,558
Total operating expenses	$2,182	$1,943	$4,145	$3,349
Total	$2,408	$2,140	$4,619	$3,753

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

5. Net Loss Per Share

Net loss per share was calculated by dividing net loss by the weighted average number of common shares outstanding for the three and six months ended June 30, 2015 and 2014.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net loss	$(13,001)	$(8,993)	$(24,215)	$(3,698)
Shares used in computing basic and diluted net loss per share	67,615	62,699	67,441	62,403
Basic and diluted net loss per share	$(0.19)	$(0.14)	$(0.36)	$(0.06)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Common stock options	1,812	1,813	1,812	1,917
Restricted stock awards	139	420	137	422
Restricted stock units	269	143	257	202
Total	2,220	2,376	2,206	2,541

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 “Senior Notes”) in an underwritten public offering. Upon any conversion, 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 impact of these securities would be anti-dilutive. The potential dilutive effect of these securities is shown in the chart below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Conversion of the Notes	3,588	3,588	3,588	3,588

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

6. Credit Facilities

2.25% Convertible Senior Notes

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

The Senior Notes are governed by the terms of a base indenture (the "Base Indenture"), as supplemented by the first supplemental indenture relating to the Senior Notes (the "First Supplemental Indenture," and together with the Base Indenture,

the "Indenture"), between the Company and Wells Fargo Bank, National Association (the "Trustee"), each of which were entered into on December 10, 2013.

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

The Company may not redeem the 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 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 Senior Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the Senior Notes.

Holders may convert their 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 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 Senior Notes for each such trading day was less than 98% of the closing sale price of the Company's common stock on such date multiplied by the then-current conversion rate; (3) if the Company calls all or any portion of the notes for redemption, at any time prior to the close of business on the second scheduled trading day prior to the redemption date; or (4) upon the occurrence of specified corporate events. On or after September 15, 2018 until the close of business on the second scheduled trading day immediately preceding the stated maturity date, holders may surrender their Senior Notes for conversion at any time, regardless of the foregoing circumstances.

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

The initial conversion rate of the Senior Notes will be 41.6051 shares of the Company's common stock for each $1,000 principal amount of 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 Senior Notes in connection with such a corporate transaction.

If a fundamental change (as defined in the Indenture) occurs prior to the stated maturity date, holders may require the Company to purchase for cash all or any portion of their Senior Notes at a fundamental change purchase price

equal to 100% of the principal amount of the Senior Notes to be purchased, plus accrued and unpaid interest to, but excluding, the fundamental change purchase date.

The Indenture contains customary terms and covenants and events of default with respect to the Senior Notes. If an event of default (as defined in the Indenture) occurs and is continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Senior Notes may declare the principal amount of the Senior Notes to be due and payable immediately by notice to the Company (with a copy to the Trustee). If an event of default arising out of certain events of bankruptcy, insolvency or reorganization involving the Company or a significant subsidiary (as set forth in the Indenture) occurs with respect to us, the principal amount of the 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 Senior Notes under ASC 815, "Derivatives and Hedging", and has the ability to settle the 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 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 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 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 Senior Notes, and $0.8 million attributable to the equity component was recorded as a reduction to additional paid-in-capital in stockholders' equity.

As of June 30, 2015, the Company had outstanding borrowings of $72.2 million, and deferred financing costs of $2.2 million, related to the Senior Notes. There are no principal payments due during the term. Annual interest expense on these notes will range from $5.7 million to $6.9 million through maturity.

Capped Call Transactions

On December 10, 2013, in connection with the pricing of the 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 Senior Notes. The Company used approximately $7.4 million of the net proceeds from the 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 Senior Notes and will not change the holders' rights under the Senior Notes. The Capped Call Transactions have anti-dilution adjustments substantially similar to those applicable to the Senior Notes. The Capped Call Transactions are derivative instruments that are recorded within stockholders' equity because they meet an exemption from mark-to-market derivative accounting.

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

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

For any conversions of Senior Notes prior to the close of business on the 55th scheduled trading day immediately preceding the stated maturity date of the 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.

Wells Fargo line of credit

In October 2009, the Company entered into a revolving credit facility with Wells Fargo Bank (“Wells”), which was last amended on February 3, 2015, whereby the Company may borrow up to $20.0 million, subject to the calculation and limitation of a borrowing base (the “Wells Credit Facility”). All amounts owing under the Wells Credit Facility will become due and payable upon its expiration on November 15, 2015. A sub-feature in the line of credit allows for the issuance of up to $7.5 million in letters of credit. As of June 30, 2015, the Company had no outstanding letters of credit issued. The Wells Credit Facility is collateralized by all of the Company's assets, except its intellectual property.

The Wells Credit Facility contains financial covenants requiring the Company to (i) maintain a minimum current ratio of 2.0 , equal to the quotient of modified current assets to current liabilities, as defined in the Wells Credit Facility (the "Current Ratio Covenant"), and (ii) not to exceed pre-tax net loss (excluding non-cash contingent consideration associated with the acquisition of Nellix) of $13.5 million for the three months ended March 31, 2015; $23.0 million for the six months ended June 30, 2015; and $35.0 million for the nine months ended September 30, 2015; (the "Net Loss Covenant"). The Wells Credit Facility also includes negative covenants limiting capital expenditures in 2015 to an aggregate of $6.0 million as well as limiting operating lease expenses to $3.0 million in any calendar year. As of June 30, 2015, the Company was not in compliance with the Net Loss Covenant. The financial covenants as of and for the three and six months ended June 30, 2015 are no longer applicable due to the termination of the Wells Credit Facility on July 21, 2015.

The Wells Credit Facility also contains a “material adverse change” clause (“MAC”). If the Company encounters difficulties that would qualify as a MAC in its (i) operations, (ii) condition (financial or otherwise), or (iii) ability to repay amounts outstanding under the Wells Credit Facility, it could be canceled at Wells' sole discretion. Wells could then elect to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable and proceed against any collateral securing such indebtedness. No borrowings were outstanding at June 30, 2015 and 2014. On July 21, 2015, the Company terminated the credit facility. As of the termination date, the Company had no outstanding borrowings or letters of credits issued under the Wells Credit Facility.

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 may borrow up to $20.0 million (the “BOA Credit Facility”). All amounts owing under the BOA Credit Facility will become due and payable upon its expiration on July 21, 2017. A sub-feature in the line of credit allows for the issuance of up to $10.0 million in letters of credit. The BOA Credit Facility is collateralized by all of the Company's assets, except its intellectual property. The BOA Credit Facility can be terminated at any time during the two years by Company upon three business day notice. The BOA Credit Facility usage is priced at a spread over the one, two, three and six month LIBOR rates, and is subject to a covenants related to timely providing of publicly reported information, other indebtedness and a liquidity covenant tied to “Unencumbered Liquid Assets” ("ULA") - (as defined here) of not less than $30.0 million. ULA means the following assets (excluding assets of any retirement plan)

which (i) are held in the United States at BOA and/or its affiliates, (ii) are not the subject of any lien, pledge, security interest or other arrangement with any creditor (other than BOA or one of BOA's affiliates) to have his claim satisfied out of the asset (or proceeds thereof) prior to the general creditors of the owner of the asset, (iii) are held solely in the name of one or more credit parties subject to this covenant (with no other persons or entities having ownership rights therein), (iv) may be converted to cash within five (5) days, and (v) are not being counted or included to satisfy any other liquidity requirement under any other obligation, whether with BOA or any other lender, unless otherwise expressly agreed by BOA in writing: (a) cash and cash equivalents; (b) marketable securities invested in accordance with the Company's investment policy and (c) marketable securities invested in accordance with any update to the Company's investment policy so long as such update been approved by BOA in its reasonable discretion.

If not in default, the Company has 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.

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7. Revenue by Geographic Region

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
United States	$28,776	72.9%	$27,992	73.0%	$53,910	70.8%	$51,980	72.6%
Europe	$7,888	20.0%	$7,816	20.4%	$15,134	19.9%	$14,401	20.1%
Rest of World ("ROW"):								
Latin America	$1,221	3.1%	$1,309	3.4%	$3,260	4.3%	$2,226	3.1%
Asia/Pacific	1,594	4.0%	1,210	3.2%	3,845	5.0%	2,984	4.2%
Total ROW	$2,815	7.1%	$2,519	6.6%	$7,105	9.3%	$5,210	7.3%
Revenue	$39,479	100.0%	$38,327	100.0%	$76,149	100.0%	$71,591	100.0%

8. Commitments and Contingencies

(a) Leases

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

Future minimum payments by year under non-cancelable leases with initial terms in excess of one year were as follows as of June 30, 2015:

Remainder of 2015	$1,271
2016	2,363
2017	2,331
2018	2,258
2019	2,296
2020	2,388
2021 and thereafter	22,884
Total	$35,791

Facilities rent expense for the three months ended June 30, 2015 and 2014 was $0.6 million and $0.7 million, respectively. For the six months ended June 30, 2015 and 2014 facilities rent expense was $1.2 million and $1.3 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 five 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 existing 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 leased two adjacent facilities aggregating approximately 57,000 square feet in Irvine, California, under separate lease agreements where manufacturing was held. The Company exited one of these leases in December 2014 and the

other lease in April 2015. The Company's Rosmalen facility is an administrative office of approximately 2,900 square feet with lease expiration in December 2015 and renewal at its 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.

LifePort Sciences LLC v. Endologix, Inc.

On December 28, 2012, LifePort Sciences, LLC ("LifePort") filed a complaint against us in the U.S. District Court, District of Delaware, alleging that certain of our products infringe U.S. Patent Nos. 5,489,295, 6,117,167, 6,302,906, 5,993,481 and 5,676,696, which are alleged to be owned by LifePort. LifePort is seeking an unspecified amount of monetary damages for sale of our products and injunctive relief. We do not believe that we infringe on any of these patents and we intend to vigorously defend against this matter. The case is currently scheduled for trial in April 2016. We do believe, however, that the outcome will not have a material adverse effect on our financial position, results of operations, or cash flows. However, in order to avoid further legal costs and diversion of management resources, it is reasonably possible that we may reach a settlement with LifePort, which could result in a liability. However, we cannot presently estimate the amount, or range, of reasonably possible losses due to the nature of this potential litigation settlement.

9. Contingently Issuable Common Stock

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

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

The Merger Agreement provides that, in addition to the shares of common stock of the Company (the “Common Stock”) issued to the former Nellix stockholders at the closing of the Merger, the former Nellix stockholders were entitled to receive shares of the Common Stock if the Company’s sales of a Nellix product (the “Nellix Product”) outside of the United States exceeded $10.0 million within a certain time period following the Company’s receipt of CE mark approval for the Nellix Product

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(the “OUS Milestone”). The aggregate dollar value of the shares of the Common Stock to be issued upon achievement of the OUS Milestone ranged from a high of $24.0 million, or 6.9 million shares, to a low of $10.0 million, or 1.3 million shares. The price per share of the Common Stock to be issued upon achievement of the OUS Milestone was subject to a floor of $3.50 per share and a ceiling of $7.50 per share.

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

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

As of June 30, 2015 the Company's stock price last closed at $15.34 per share. Thus, had the PMA Milestone been achieved on June 30, 2015 the Contingent Payment would have comprised 0.9 million shares (based on the 30-day average closing stock price ending 5 days prior to the announcement), representing a value of $13.8 million.

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

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

	Fair Value of Contingently Issuable Common Stock
December 31, 2014	$14,600
Fair Value Adjustment of Contingent Payment for the six months ended June 30, 2015	200
June 30, 2015	$14,800

10. Income Tax Expense

The Company applied an estimated annual effective tax rate ("ETR") approach for calculating a tax provision for interim periods. The Company recorded a provision for income taxes of $0.1 million and $0.2 million for the three and six months ended June 30, 2015, respectively. The Company's ETR was (0.5)% and (0.7)% for the three and six months ended June 30, 2015, respectively. The Company's ETR for the three and six months ended June 30, 2015 differs from the U.S. federal statutory tax rate of 34% primarily as a result of nondeductible expenses (including the Nellix Contingent Payment), state income taxes, foreign income taxes, and the impact of a full valuation allowance on its deferred tax assets.

The Company has evaluated the available evidence supporting the realization of its deferred tax assets, including the amount and timing of future taxable income, and has determined that it is more likely than not that its net deferred tax assets will not be

realized in the U.S. and certain foreign jurisdictions. Due to uncertainties surrounding the realization of the deferred tax assets, the Company maintains a full valuation allowance against substantially all deferred tax assets. If/when the Company determines that it will be able to realize some portion or all of its deferred tax assets, an adjustment to its valuation allowance on its deferred tax assets would have the effect of increasing net income in the period(s) such determination is made.

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

Cautionary Note Concerning Forward-Looking Statements

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

- continued market acceptance 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 successfully commercialize products which incorporate the technology obtained in our acquisition of Nellix, Inc. ("Nellix");
- our ability to effectively develop new or complementary 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 legislative, regulatory and other legal requirements that apply to us, our products, our suppliers and our competitors;
- the timing of and our ability to obtain and maintain any required regulatory clearances and approvals;
- our ability to protect our intellectual property rights and proprietary technologies;
- our ability to operate our business without infringing the intellectual property rights and proprietary technology of third parties;
- product liability claims and litigation expenses;
- reputational damage to our products caused by mis-use or off-label use or government or voluntary product recalls;
- our utilization of a single source supplier for specialized components of our product lines;
- our ability to attract, retain, and motivate qualified personnel;
- our ability to make future acquisitions and successfully integrate any such future-acquired businesses;
- our ability to maintain adequate liquidity to fund our operational needs and research and developments expenses; and

- general macroeconomic and world-wide business conditions.

Our actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied from such forward-looking statements. Important factors that could cause our actual results, performance or achievements to differ materially from our expectations are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 2, 2015, including but not limited to those factors discussed in “Management's Discussion and Analysis of Financial Condition and Results of Operations,” “Risk Factors,” “Consolidated Financial Statements” and “Notes to Consolidated Financial Statements.” All subsequent written and oral forward-looking statements attributable to us or by persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. We expressly disclaim any intent or obligation to update information contained in any forward-looking statement after the date thereof to conform such information to actual results or to changes in our opinions or expectations.

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

Overview

Our Business

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

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

See Item 1. of our Annual Report on Form 10-K for the year ended December 31, 2014, entitled "Business," for a discussion of:

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

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

Nellix

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

- EVAS FORWARD IDE - Pivotal clinical trial to evaluate the safety and effectiveness of the Nellix EVAS System. The study is a prospective single arm registry which enrolled 179 patients at centers in the U.S. and Europe. In November 2014, we completed enrollment in the EVAS FORWARD IDE. The patients in this study will be followed for one-year, after which we will submit the final module of the PMA to the FDA. FDA approval is anticipated by the end of 2016.
- 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. This registry is designed to include 300 patients enrolled in up to 30 international centers. The first patient in the registry was treated in October 2013. The study utilizes an independent core lab and includes follow-up to five years. In September 2014, we announced completion of patient enrollment in the Nellix EVAS FORWARD Global Registry.

AFX

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

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Characteristics of Our Revenue and Expenses

Revenue

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

Cost of Goods Sold

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

Research and Development

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

Clinical and Regulatory

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

Marketing and Sales

Marketing and Sales expenses primarily consist of compensation (including stock-based compensation) and benefits for our sales force, clinical 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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. While management believes these estimates are reasonable and consistent, they are by their very nature, estimates of amounts that will depend on future events. Accordingly, actual results could differ from these estimates. Our Audit Committee periodically reviews our significant accounting policies.

For a description of our critical accounting policies and estimates, please refer to the “Critical Accounting Policies and Estimates” section in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, in our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes in any of our critical accounting policies and estimates during the three months ended June 30, 2015.

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Results of Operations

Operations Overview - Three and Six Months Ended June 30, 2015 versus 2014

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Revenue	$39,479	100.0%	$38,327	100.0%	$76,149	100.0%	$71,591	100.0%
Cost of goods sold	15,347	38.9%	9,820	25.6%	25,111	33.0%	18,789	26.2%
Gross profit	24,132	61.1%	28,507	74.4%	51,038	67.0%	52,802	73.8%
Operating expenses:								
Research and development	5,993	15.2%	4,458	11.6%	12,224	16.1%	8,563	12.0%
Clinical and regulatory affairs	3,597	9.1%	2,722	7.1%	7,047	9.3%	4,922	6.9%
Marketing and sales	19,842	50.3%	19,167	50.0%	39,441	51.8%	35,311	49.3%
General and administrative	6,850	17.4%	5,932	15.5%	14,139	18.6%	13,094	18.3%
Total operating expenses	36,282	91.9%	32,279	84.2%	72,851	95.7%	61,890	86.4%
Loss from operations	(12,150)	(30.8)%	(3,772)	(9.8)%	(21,813)	(28.6)%	(9,088)	12.7%
Total other income (expense)	(790)	(2.0)%	(5,301)	(13.8)%	(2,249)	(3.0)%	5,526	7.7%
Net loss before income tax (expense) benefit	(12,940)	(32.8)%	(9,073)	(23.6)%	(24,062)	(31.6)%	(3,562)	(5.0)%
Income tax (expense) benefit	(61)	(0.1)%	80	0.2%	(153)	(0.2)%	(136)	(0.2)%
Net loss	$(13,001)	(32.9)%	$(8,993)	(23.4)%	$(24,215)	(31.8)%	$(3,698)	(5.2)%

Comparison of the Three Months Ended June 30, 2015 versus 2014

Revenue

	Three Months Ended June 30,			
	2015	2014	Variance	Percent Change
	(in thousands)			
Revenue	$39,479	$38,327	$1,152	3.0%

Our 3.0% revenue increase of $1.2 million over the prior year period primarily resulted from:

(i) a $0.8 million increase in U.S. sales procedures due to continued physician adoption of AFX;

(ii) a $0.3 million increase in ROW sales volume driven by our Asia/Pacific markets; and

(iii) a $0.1 million increase in European sales volume due to strong direct sales growth related to Nellix offsetting unfavorable foreign currency.

Our 2015 revenue includes an unfavorable foreign currency impact of $1.7 million when compared to 2014, representing revenue growth of 7.6% on a constant currency basis.

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Cost of Goods Sold, Gross Profit, and Gross Margin

	Three Months Ended June 30,			
	2015	2014	Variance	Percent Change
	(in thousands)			
Cost of goods sold	$15,347	$9,820	$5,527	56.3 %
Gross profit	24,132	28,507	(4,375)	(15.3)%
Gross margin percentage (gross profit as a percent of revenue)	61.1 %	74.4 %		

The $5.5 million increase in cost of goods sold was driven by our revenue increase of $1.2 million and $4.3 million inventory reserve in the second quarter of 2015.

Gross margin for the three months ended June 30, 2015 decreased to 61.1% from 74.4% for the three months ended June 30, 2014. The increase in cost of goods sold, and corresponding decrease to gross margin, is largely due to a $4.3 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 the current AFX product in anticipation of FDA approval of AFX2 by the end of 2015 and a provision for Nellix inventory that will become obsolete due to quality and process improvements. Gross margin is also impacted by product mix with a greater proportion of sales from Nellix which has a higher cost to produce compared to AFX.

Operating Expenses

	Three Months Ended June 30,			
	2015	2014	Variance	Percent Change
	(in thousands)			
Research and development	$5,993	$4,458	$1,535	34.4%
Clinical and regulatory affairs	3,597	2,722	875	32.1%
Marketing and sales	19,842	19,167	675	3.5%
General and administrative	6,850	5,932	918	15.5%

Research and Development. The $1.5 million increase in research and development expenses was primarily attributable to increased product development investments related to Nellix and AFX.

Clinical and Regulatory Affairs. The $0.9 million increase in clinical and regulatory affairs expenses is due to increased regulatory fees and patient and outside services costs to support ongoing clinical activities, such as EVAS FORWARD IDE and LEOPARD.

Marketing and Sales. The $0.7 million increase in marketing and sales expenses for the three months ended June 30, 2015, as compared to the prior year period, was primarily related to increased investments in our European sales force and marketing activities. Our 2015 marketing and sales expenses include a favorable foreign currency impact of $1.0 million when compared to 2014.

General and Administrative. The $0.9 million increase in general and administrative expenses is primarily attributable to an increase in professional fees, litigation costs and stock-based compensation.

Other income (expense), net

	Three Months Ended June 30,			
	2015	2014	Variance	Percent Change
	(in thousands)			
Other income (expense), net	$(790)	$(5,301)	$4,511	(85.1)%

Other Income (Expense), Net. Other expense for the three months ended June 30, 2015 includes interest expense associated with our convertible note of $1.5 million, foreign currency gains of $0.8 million and a non-cash expense of $0.1 million which reflects an increase in the fair value of the Nellix Contingent consideration. Other expense for the

three months ended June 30,

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2014 includes non-cash expense of $3.8 million which reflects an increase in the fair value of the Nellix Contingent consideration, interest expense of $1.4 million and foreign currency loss.

Provision for Income Taxes

	Three Months Ended June 30,			
	2015	2014	Variance	Percent Change
	(in thousands)			
Income tax (expense) benefit	$(61)	$80	$(141)	>(100%)

Our income tax expense was $0.1 million and our effective tax rate was (0.5)% for the three months ended June 30, 2015 due to our tax positions in various jurisdictions. During the three months ended June 30, 2015 and 2014, we had operating legal entities in the U.S., Italy, New Zealand, Switzerland and the Netherlands (including registered sales branches in certain countries in Europe).

Comparison of the Six Months Ended June 30, 2015 versus 2014

Revenue

	Six Months Ended June 30,			
	2015	2014	Variance	Percent Change
	(in thousands)			
Revenue	$76,149	$71,591	$4,558	6.4%

Our 6.4% revenue increase of $4.6 million over the prior year period primarily resulted from:

(i) a $1.9 million increase in U.S. sales procedures due to continued physician adoption of AFX;

(ii) a $1.9 million increase in sales volume to our ROW markets; and

(iii) a $0.7 million increase in European sales volume due to strong direct sales growth related to Nellix offsetting unfavorable foreign currency.

Our 2015 revenue includes an unfavorable foreign currency impact of $3.2 million when compared to 2014, representing revenue growth of 10.8% on a constant currency basis.

Cost of Goods Sold, Gross Profit, and Gross Margin

	Six Months Ended June 30,			
	2015	2014	Variance	Percent Change
	(in thousands)			
Cost of goods sold	$25,111	$18,789	$6,322	33.6 %
Gross profit	51,038	52,802	(1,764)	(3.3)%
Gross margin percentage (gross profit as a percent of revenue)	67.0 %	73.8 %		

The $6.3 million increase in cost of goods sold was driven by our revenue increase of $4.6 million and $4.3 million inventory reserve in the second quarter of 2015.

Gross margin for the six months ended June 30, 2015 decreased to 67.0% from 73.8% for the six months ended June 30, 2014. The increase in cost of goods sold, and corresponding decrease to gross margin, is largely due to a $4.3 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 the current AFX product in anticipation of FDA approval of AFX2 by the end of 2015 and a provision for Nellix inventory that will become obsolete due to quality

and process improvements. Gross margin is also impacted by product mix with a greater proportion of sales from Nellix which has a higher cost to produce compared to AFX.

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Operating Expenses

	Six Months Ended June 30,			
	2015	2014	Variance	Percent Change
	(in thousands)			
Research and development	$12,224	$8,563	$3,661	42.8%
Clinical and regulatory affairs	7,047	4,922	2,125	43.2%
Marketing and sales	39,441	35,311	4,130	11.7%
General and administrative	14,139	13,094	1,045	8.0%

Research and Development. The $3.7 million increase in research and development expenses was primarily attributable to increased product development investments related to Nellix and AFX.

Clinical and Regulatory Affairs. The $2.1 million increase in clinical and regulatory affairs expenses is due to increased regulatory fees and patient and outside services costs to support ongoing clinical activities, such as EVAS FORWARD IDE and LEOPARD.

Marketing and Sales. The $4.1 million increase in marketing and sales expenses for the six months ended June 30, 2015, as compared to the prior year period, was primarily related to increased investments in our European sales force and global marketing activities. Our 2015 marketing and sales expenses include a favorable foreign currency impact of $1.9 million when compared to 2014.

General and Administrative. The $1.0 million increase in general and administrative expenses is primarily attributable to increases in professional fees, litigation costs, stock-based compensation and investment in information technology projects.

Other income (expense), net

	Six Months Ended June 30,			
	2015	2014	Variance	Percent Change
	(in thousands)			
Other income (expense), net	$(2,249)	$5,526	(7,775)	>100%

Other Income (Expense), Net. Other expense for the six months ended June 30, 2015 includes interest expense associated with our convertible note of $3.0 million, foreign currency gains of $0.7 million and a non-cash expense of $0.2 million related to the fair value of the Nellix contingent consideration. Other income for the six months ended June 30, 2014 includes $8.0 million non-cash income which was related to the fair value of the Nellix contingent consideration. Partially offsetting this fair value adjustment is interest expense associated with our convertible notes of $2.8 million.

Provision for Income Taxes

	Six Months Ended June 30,			
	2015	2014	Variance	Percent Change
	(in thousands)			
Income tax expense	$(153)	$(136)	$(17)	12.5 %

Our income tax expense was $0.2 million and our effective tax rate was (0.7)% for the six months ended June 30, 2015. During the six months ended June 30, 2015 and 2014, we had operating legal entities in the U.S., Italy, New Zealand, Switzerland and the Netherlands (including registered sales branches in certain countries in Europe). We have certain minimum tax liabilities attributable to our operations in these countries and in the U.S (see Note 10).

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Liquidity and Capital Resources

The chart provided below summarizes selected liquidity data and metrics as of June 30, 2015, December 31, 2014, and June 30, 2014:

	June 30, 2015	December 31, 2014	June 30, 2014
	(in thousands, except financial metrics data)		
Cash and cash equivalents	$36,269	$26,798	$31,843
Marketable securities	$34,257	$59,871	$78,941
Accounts receivable, net	$29,138	$26,113	$26,714
Total current assets	$132,965	$147,767	$170,719
Total current liabilities	$28,208	$29,624	$28,589
Working capital surplus (a)	$104,757	$118,143	$142,130
Current ratio (b)	4.7	5.0	6.0
Days sales outstanding ("DSO") (c)	67	62	63
Inventory turnover (d)	1.9	1.6	1.5

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

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

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

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

Operating Activities

Cash used in operating activities was $16.4 million for the six months ended June 30, 2015 as compared to cash used in operating activities of $10.2 million in the prior year period. The increase in cash usage was primarily due to (i) funding the net loss of $24.2 million, (ii) an increase in accounts receivable and other receivables of $3.2 million and (iii) a decrease in accrued payroll of $1.7 million. These increases in cash usage were partially offset by non-cash stock-based compensation of $4.6 million, depreciation and amortization of $2.9 million, an increase in accounts payable of $2.7 million and non-cash accretion of interest on convertible note of $1.7 million. Cash used in operating activities for the six months ended June 30, 2014 was $10.2 million and consisted of (i) a change in the fair value of the Nellix contingent consideration of $8.0 million and (ii) inventory purchases of $8.8 million, offset by an increase in accounts payable of $3.9 million.

During the six months ended June 30, 2015 and 2014, our cash collections from customers totaled $73.9 million and $70.9 million, respectively, representing 97.0% and 99.0% of reported revenue for the same periods.

Investing Activities

Cash provided by investing activities for the six months ended June 30, 2015 was $22.4 million, as compared to cash used in investing activities of $54.3 million in the prior year period. For the six months ended June 30, 2015, cash provided by investing activities consisted of $62.7 million in maturities of marketable securities, offset by $3.1 million used for machinery and equipment purchases and $37.1 million used to purchase marketable securities. For the six months ended June 30, 2014, cash used in investing was $54.3 million and consisted of $5.7 million used for machinery and equipment purchases and $74.1 million used to purchase marketable debt securities; offset by $25.6 million in maturities of marketable securities.

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Financing Activities

Cash provided by financing activities was $4.0 million for the six months ended June 30, 2015, as compared to cash used in financing activities $1.1 million in the prior year period. For the six months ended June 30, 2015 cash provided by financing activities consisted of $4.3 million from the exercise of stock options and proceeds from sale of common stock under our employee stock purchase plan, offset by $0.3 million used to pay minimum tax withholdings on behalf of employees for restricted stock units vested during the period. For the six months ended June 30, 2014, cash provided by financing activities consisted of proceeds of $2.5 million from the exercise of stock options and proceeds from our employee stock purchase plan, offset by $1.4 million used to pay minimum tax withholdings on behalf of employees for restricted stock units vested during the period.

Credit Arrangements

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

Future Capital Requirements

We believe that the future growth of our business will depend upon our ability to successfully develop new technologies for the treatment of aortic disorders and successfully bring these technologies to market. We expect to incur significant expenditures in completing product development and clinical trials for the Nellix System. The timing and amount of our future capital requirements will depend on many factors, including:

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

We believe that our world-wide cash resources are adequate to operate our business. We presently have several operating subsidiaries and branches outside of the U.S. As of June 30, 2015, these subsidiaries and branches hold an aggregate $6.8 million in foreign bank accounts to fund their local operations. A portion of these balances relate to undistributed earnings, and are deemed by management to be permanently reinvested in the corresponding country in which our subsidiary operates. Management has no present or planned intention to repatriate foreign earnings into the U.S. However, in the event that we required additional funds in the U.S. 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 June 30, 2015 (in thousands):

	Payments due by period							
Contractual Obligations	Total	Remainder of 2015	2016	2017	2018	2019	2020	2021 and thereafter
Long-term debt obligations	$86,250	$—	$—	$—	$86,250	$—	$—	$—
Interest on debt obligations	6,793	970	1,941	1,941	1,941	$—	$—	$—
Operating lease obligations	35,791	1,271	2,363	2,331	2,258	2,296	2,388	22,884

Total	$128,834	$2,241	$4,304	$4,272	$90,449	$2,296	$2,388	$22,884

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

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Off-Balance Sheet Arrangements

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

As of June 30, 2015, we did not have any relationships with unconsolidated entities or financial partnerships, often referred to as "structured finance" or "special purpose entities," established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not subject to any material financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

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

We generally place our marketable security investments in high quality credit instruments, as specified in our investment policy guidelines. A hypothetical 100 basis point decrease in interest rates would result in an approximate $27 thousand increase in the fair value of our investments as of June 30, 2015. We believe, however, that the conservative nature of our investments mitigates our interest rate exposure, and our investment policy limits the amount of our credit exposure to any one issue, issuer (with the exception of U.S. agency obligations) and type of instrument. We do not expect any material loss from our marketable security investments and therefore believe that our potential interest rate exposure is limited. We intend to hold the majority of our investments to maturity, in accordance with our business plans.

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

We are exposed to market risk for changes in interest rates on the BOA Credit Facility. All outstanding amounts under the BOA Credit Facility bear interest at a variable rate equal to LIBOR, plus 2.50%, which is payable on a monthly basis. As of June 30, 2015 and through termination on July 21, 2015, we had no amounts outstanding under the Wells Credit Facility. If we draw down the BOA Credit Facility, we may be exposed to market risk due to changes in the rate at which interest accrues.

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 U.S. dollar, a portion of our revenue and expenses are denominated in foreign currencies. Fluctuations in the rate of exchange between the U.S. dollar and the Euro or the British Pound Sterling may affect our results of operations and the period-to-period comparisons of our operating results. Foreign currency transaction gains and losses are caused by transactions

denominated in a currency other than the functional currency and must be remeasured at each balance sheet date or upon settlement. Foreign currency transaction realized and unrealized gains and losses resulted in approximately $0.8 million and $0.7 million of gains during the three and six months ended June 30, 2015, respectively, primarily related to intercompany payables and receivables associated with our European operations. We expect to reduce our exposure through future settlements.

Item 4. CONTROLS AND PROCEDURES.

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

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information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the second quarter of 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information

Item 1. LEGAL PROCEEDINGS.

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

Item 6. EXHIBIT INDEX.

The following exhibits are filed or furnished herewith:

Exhibit 10.1	(2)	2015 Stock Incentive Plan and forms of stock option award agreement and restricted stock unit award agreement. (Incorporated by reference to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, filed June 1, 2015).
Exhibit 10.2	(2)	Amended and Restated 2006 Employee Stock Purchase Plan, as amended. (Incorporated by reference to Exhibit10.2 to Endologix, Inc. Current Report on Form 8-K, File No. 000-28440, Filed June 1, 2015).
Exhibit 31.1		Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
Exhibit 31.2		Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
Exhibit 32.1	(1)	Certification of Chief Executive Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
Exhibit 32.2	(1)	Certification of Chief Financial Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
Exhibit 101.INS		XBRL Instance Document
Exhibit 101.SCH		XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL		XBRL Taxonomy Extension Calculation Lin Base Document
Exhibit 101.DEF		XBRL Taxonomy Extension Definition Link Base Document
Exhibit 101.LAB		XBRL Taxonomy Extension Label Link Base Document
Exhibit 101.PRE		XBRL Taxonomy Extension Presentation Link Base Document

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

(2) These exhibits are identified as management contracts or compensatory plans or arrangements of Endologix.

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SIGNATURES

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

ENDOLOGIX, INC.

Date: August 5, 2015

/s/ John McDermott
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

Date: August 5, 2015

/s/ Shelley B. Thunen
Chief Financial Officer (Principal Financial and Accounting Officer)