

**DELIVERING  
INNOVATION.  
WHERE IT'S  
NEEDED.**



Dear Fellow Shareholders,

We made great strides throughout 2017 toward our ultimate goal of making localized drug delivery the standard of care for chronic sinusitis sufferers. We drove adoption of our PROPEL® family of products and increased revenue by 22% in 2017. Our gross margin rose to 84% and our cash position remained strong with over \$100 million at year-end. Most importantly, in 2017 we expanded our product offerings significantly by gaining FDA approval of both PROPEL® Contour and the SINUVA™ (mometasone furoate) Sinus Implants.



PROPEL Contour features a low-profile flexible delivery system to make it easier to access tight areas of the sinus anatomy. Our expanded PROPEL family of drug releasing sinus implants, PROPEL, PROPEL® Mini and PROPEL Contour, now enables physicians to choose the “right” PROPEL product suitable for nearly all patients undergoing sinus surgery.

SINUVA, our first product regulated by the FDA as a drug, has been approved for treating recurrent nasal polyp disease in patients who have had previous ethmoid sinus surgery. While PROPEL is used primarily in operating rooms, SINUVA is designed to be placed during a routine physician office visit to expand in the sinus cavity and deliver an anti-inflammatory steroid directly to the site of polyp disease for up to 90 days.

We also expanded upon the strong foundation of clinical evidence for our products with highly visible scientific presentations and the submission of several clinical and health economic data publications. An important highlight was the November publication of the 80-patient PROGRESS study of PROPEL Contour in the Journal of the American Medical Association – Otolaryngology-Head and Neck Surgery. Additionally, the results from RESOLVE II, a 300-patient randomized, blinded, sham-controlled pivotal phase III trial were presented this fall, demonstrating the safety and efficacy of SINUVA.

As we turn the page to 2018, we are excited to be introducing SINUVA for sale in the United States. We plan to market all our products, drug and device alike, through one common sales force, enabling further leverage in our business. We have established the infrastructure needed to commercialize SINUVA, including a network of specialty pharmacies and distributors, to support product access for our customers and patients.

We would like to thank the ENT physician community for their support, including their active involvement in our clinical research. With their partnership, over 200,000 chronic sinusitis patients have been treated with our products. Each day, each month, each year we are taking positive steps towards our goal of improving the quality of care of sinusitis patients.

On behalf of the entire Intersect ENT team, thank you for your continuing confidence in us and our vision.

With kindest regards,

A handwritten signature in cursive script that reads "Lisa Earnhardt".

Lisa Earnhardt  
President & CEO

*The statements in this Annual Report relating to future events or results are forward-looking statements that involve many risks and uncertainties. Our actual results could differ materially from those contained in these forward-looking statements due to a number of factors. These and other risk factors that may cause actual results to differ are discussed in Part I, Item 1A -- “Risk Factors” included in the Form 10-K which is part of this Annual Report.*

Innovative Solutions.  
Clinically Proven.

**PROPEL®**  
MOMETASONE FUROATE SINUS IMPLANTS



Improving Surgical  
Outcomes

**SINUVA™**  
(mometasone furoate) sinus implant



Managing Recurrent  
Disease

**INVITATION TO 2018 ANNUAL MEETING OF STOCKHOLDERS**

**DATE: Tuesday, June 5, 2018**

**TIME: 9:00 a.m.**

**PLACE: Intersect ENT, Inc.'s Corporate Headquarters  
1555 Adams Drive, Menlo Park, California 94025**

April 23, 2018

Dear Stockholders:

Please join me at the Annual Meeting of Stockholders of Intersect ENT, Inc. on June 5, 2018. At the annual meeting, we will ask you to:

(i) elect the Board of Directors' nominees Kieran T. Gallahue, Teresa L. Kline, Cynthia L. Lucchese, Dana G. Mead, Jr., Frederic H. Moll, M.D., W. Anthony Vernon and myself as directors of Intersect ENT, each to serve until the next annual meeting or a successor is duly elected and qualified;

(ii) ratify the selection by the Audit Committee and the Board of Directors of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2018;

(iii) approve an amendment to our 2014 Employee Stock Purchase Plan to increase the number of shares available for issuance by 1,200,000 shares;

(iv) provide an advisory vote on Intersect ENT's executive compensation, as described in the Proxy Statement; and

(v) conduct any other business properly brought before the meeting.

Members of the Board of Directors will also be present.

Whether or not you are able to attend the annual meeting in person, it is important that your shares be represented. We have provided in the accompanying proxy statement instructions on how to vote your shares. Please vote as soon as possible.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Lisa Earnhardt", with a long horizontal flourish extending to the right.

Lisa D. Earnhardt  
*President and Chief Executive Officer*

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**INTERSECT ENT, INC.**

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON JUNE 5, 2018**

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To the Stockholders of Intersect ENT, Inc.:

The annual meeting of stockholders of Intersect ENT, Inc. will be held at our corporate headquarters located at 1555 Adams Drive, Menlo Park, California 94025, on Tuesday, June 5, 2018, at 9:00 a.m., local time, for the following purposes:

1. To elect the seven nominees for director named in the proxy statement accompanying this notice to serve until the next annual meeting or their successors are duly elected and qualified.
2. To ratify the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018.
3. To approve an amendment to our 2014 Employee Stock Purchase Plan to increase the number of shares available for issuance by 1,200,000 shares.
4. To provide an advisory vote on executive compensation, as described in the Proxy Statement accompanying this Notice.
5. To conduct any other business properly brought before the annual meeting.

These items of business are more fully described in the proxy statement accompanying this notice.

The record date for the annual meeting is April 10, 2018. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof.

By Order of the Board of Directors,

/s/ David A. Lehman  
David A. Lehman  
Secretary

Menlo Park, California  
April 23, 2018

**IMPORTANT**

**YOU ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE VOTE OVER THE TELEPHONE OR ON THE INTERNET AS INSTRUCTED IN THESE MATERIALS, OR, IF YOU REQUESTED AND RECEIVED A PRINTED COPY OF THIS PROXY STATEMENT, COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY CARD USING THE ENCLOSED RETURN ENVELOPE OR VOTE OVER THE TELEPHONE OR ON THE INTERNET AS INSTRUCTED IN THESE MATERIALS, AS PROMPTLY AS POSSIBLE IN ORDER TO ENSURE YOUR REPRESENTATION AT THE MEETING. EVEN IF YOU HAVE VOTED BY PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN A PROXY CARD ISSUED IN YOUR NAME FROM THAT RECORD HOLDER.**

**THANK YOU FOR ACTING PROMPTLY.**

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# **INTERSECT ENT, INC.**

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## **PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JUNE 5, 2018**

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### **QUESTIONS AND ANSWERS ABOUT THESE PROXY MATERIALS AND VOTING**

#### **Why are these materials being made available to me?**

Intersect ENT, Inc., or Intersect ENT or the Company, is making these proxy materials available to you because our Board of Directors, or Board, is soliciting your proxy to vote at our 2018 annual meeting of stockholders to be held on Tuesday, June 5, 2018 at 9:00 a.m., local time at our corporate headquarters located at 1555 Adams Drive, Menlo Park, California 94025. Directions to the annual meeting may be found at <https://www.intersectent.com/company/contact/>. You are invited to attend the annual meeting, and we request that you vote on the proposals described in this proxy statement. You do not need to attend the meeting to vote your shares. Instead, you may simply follow the instructions below to submit your proxy on the Internet or by telephone. Alternatively, if you requested and received a printed copy of these materials by mail, you may also complete, sign and return the accompanying proxy card.

We intend to mail a Notice Regarding the Availability of Proxy Materials (sometimes referred to as the “Notice”), to all stockholders of record entitled to vote at the annual meeting on or about April 23, 2018. The Notice will instruct you as to how you may access and review all of the important information contained in the proxy materials. The Notice will also instruct you as to how you may submit your proxy on the Internet. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials included in the Notice. All stockholders will have the ability to access the proxy materials on the website referred to in the Notice or request to receive a printed set of the proxy materials.

#### **What am I voting on?**

There are four matters scheduled for a vote:

- Proposal 1, to elect the seven nominees for director named in Proposal 1;
- Proposal 2, to ratify the selection by the Audit Committee of the Board of Directors of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2018;
- Proposal 3, to approve an amendment to our 2014 Employee Stock Purchase Plan to increase the number of shares available for issuance by 1,200,000 shares; and
- Proposal 4, to provide an advisory vote on executive compensation, as described in this Proxy Statement.

#### **Who can vote at the annual meeting?**

Only stockholders of record at the close of business on April 10, 2018, will be entitled to vote at the annual meeting. On this record date, there were 30,111,867 shares of our common stock outstanding and entitled to vote.

#### **What if another matter is properly brought before the meeting?**

The Board of Directors knows of no other matters that will be presented for consideration at the annual meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on those matters in accordance with their best judgment.

**What is the quorum requirement?**

A quorum of stockholders is necessary to hold a valid annual meeting. A quorum will be present if at least a majority of the outstanding shares are present at the annual meeting or represented by proxy. At the close of business on the record date for the annual meeting, there were 30,111,867 shares outstanding and entitled to vote. Thus 15,055,934 shares must be present at the annual meeting or represented by proxy to have a quorum.

Your shares will be counted towards the quorum only if you submit a valid proxy or vote at the annual meeting. If there is no quorum, either the chairman of the annual meeting or a majority of the votes present at the meeting or represented by proxy may adjourn the annual meeting to another date.

**Am I a stockholder of record?**

If at the close of business on April 10, 2018, your shares were registered directly in your name with our transfer agent, Computershare, Inc., then you are a stockholder of record.

**What if my Intersect ENT shares are not registered directly in my name but are held in street name?**

If at the close of business on April 10, 2018, your shares were held in an account at a brokerage firm, bank or other nominee, then you are the beneficial owner of shares held in “street name” and the Notice is being forwarded to you by that broker, bank or other nominee. The broker, bank or other nominee holding your account is considered the stockholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct the broker, bank or other nominee on how to vote the shares in your account.

If your shares are held in “street name” through a broker, certain rules applicable to brokers will affect how your shares are voted in connection with the election of directors. If you do not provide your broker with instructions on how to vote your shares, your broker may not vote your shares except in connection with routine matters. The election of directors, the approval of an amendment to our 2014 Employee Stock Purchase Plan to increase the number of shares available for issuance thereunder and the advisory vote on executive compensation, are not considered to be routine matters and your broker will not be able to vote on the election of directors or these advisory matters without your instructions. Accordingly, if your broker sends a request for instructions on how to vote, you are requested to provide those instructions to your broker so that your vote can be counted. If you do not instruct your broker as to how to vote your shares with respect to the ratification of our independent registered public accounting firm, this is a routine matter and your broker will be able to vote your shares with respect to this matter.

**If I am a stockholder of record of Intersect ENT shares, how do I cast my vote?**

If you are a stockholder of record, you may vote in person at the annual meeting. We will give you a ballot when you arrive. If you do not wish to vote in person or you will not be attending the annual meeting, you may vote by proxy over the Internet. To vote by proxy on the Internet, go to [www.proxyvote.com](http://www.proxyvote.com) to complete an electronic proxy card. Alternatively, if you request and receive a proxy card, you may complete, sign and return the proxy card using the envelope that will be provided with the proxy card, or you may vote by proxy over the phone by dialing the toll-free number shown on the Notice or proxy card and following the recorded instructions. If you vote by proxy over the phone or the Internet, you will be asked to provide the control number from the Notice. If you vote by proxy, your vote must be received by 11:59 p.m. Eastern Time on June 4, 2018, to be counted.

**We provide Internet proxy voting to allow you to vote your shares online, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. However, please be aware that you must bear any costs associated with your Internet access, such as usage charges from Internet access providers and telephone companies.**

### **If I am a beneficial owner of Intersect ENT shares, how do I vote?**

If you are a beneficial owner of shares held in street name, you should have received the Notice from the broker, bank or other nominee that is the record owner of your shares rather than from us. Beneficial owners that received a Notice by mail from the record owner should follow the instructions included in the Notice to view the proxy statement and transmit their voting instructions to the broker, bank or other nominee or to request that a printed copy of these materials be mailed to them. If you are a beneficial owner of shares held in street name and you have requested hard copies of the proxy statement, you should have received the proxy statement and a voting instruction card from the broker, bank or other nominee that is the record owner of your shares, and follow the instructions on the voting instruction card. For a beneficial owner to vote in person at the annual meeting, you must obtain a valid proxy from the record owner. To request the requisite proxy form, follow the instructions provided by your broker, bank or other nominee or contact them.

### **How many votes do I have?**

On each matter to be voted upon, you have one vote for each share of our common stock that you owned as of the close of business on April 10, 2018.

### **What happens if I do not vote?**

#### *Stockholder of Record: Shares Registered in Your Name*

If you are a stockholder of record and do not vote by completing your proxy card, by telephone, through the Internet or in person at the annual meeting, your shares will not be voted.

#### *Beneficial Owner: Shares Registered in the Name of Broker or Bank*

If on April 10, 2018, your shares were held, not in your name, but in “street name,” only your broker will be able to vote your shares. A “broker non-vote” occurs when a broker or nominee holding shares for a beneficial owner does not vote on a particular “non-routine” proposal, including the election of directors, because the broker or nominee does not have discretionary voting power with respect to that proposal and has not received instructions with respect to that proposal from the beneficial owner (despite voting on at least one other proposal for which it does have discretionary authority or for which it has received instructions). Therefore, if you do not give your broker or nominee specific instructions, your shares will not be voted on with respect to “non-routine” proposals. Proposal 2 constitutes a “routine” management proposal, and thus, if you do not give your broker or nominee specific instructions, your broker or nominee will nevertheless have the authority to vote your shares with respect to this proposal; however, your broker or nominee will not have the authority to vote your shares with respect to Proposals 1, 3 or 4, which are “non-routine” proposals.

### **How many votes are needed to approve each proposal?**

The requisite number of votes to approve the three proposals are as follows:

- For the election of directors, Proposal 1, the seven nominees receiving the most “For” votes from the holders of shares present in person or represented by proxy and entitled to vote on the election of directors will be elected. Only votes “For” will affect the outcome;
- To be approved, Proposal 2, the ratification of the selection of Ernst & Young LLP, must receive a “For” vote from the majority of the shares present in person or by proxy and entitled to vote at the annual meeting. If you “Abstain” from voting, it will have the same effect as an “Against” vote. Broker non-votes will have no effect on the outcome of the vote;
- To be approved, Proposal 3, the amendment to our 2014 Employee Stock Purchase Plan to increase the number of shares available for issuance by 1,200,000 shares, must receive a “For” vote from the

majority of the shares present in person or by proxy and entitled to vote at the annual meeting. If you “Abstain” from voting, it will have the same effect as an “Against” vote. Broker non-votes will have no effect on the outcome of the vote; and

- To be approved, Proposal 4, an advisory vote on executive compensation, must receive a “For” vote from the majority of the shares present in person or by proxy and entitled to vote at the annual meeting. If you “Abstain” from voting, it will have the same effect as an “Against” vote. Broker non-votes will have no effect on the outcome of the vote.

### **How are votes counted?**

Votes will be counted by the inspector of election appointed for the meeting, who will separately count: for the proposal to elect directors, votes “For,” “Withhold” and broker non-votes, and, with respect to other proposals, votes “For” and “Against,” abstentions and, if applicable, broker non-votes.

### **What if I vote by proxy but do not make specific choices?**

If you complete the proxy voting procedures, but do not specify how you want to vote your shares, your shares will be voted “For” Proposal 1, the election of all nominees for director named therein, “For” Proposal 2, the ratification of the selection of Ernst & Young LLP, “For” Proposal 3, approving the amendment to our 2014 Employee Stock Purchase Plan to increase of the number of shares available for issuance by 1,200,000 shares, and “For” Proposal 4, an advisory vote approving executive compensation. Your proxy will vote your shares using his or her best judgment with respect to any other matters properly presented for a vote at the meeting.

### **Can I change my vote after submitting my proxy?**

Yes. You can revoke your proxy at any time before the final vote at the annual meeting. If you are the record holder of your shares, you may revoke your proxy in any one of the following ways:

- You may send a written notice that you are revoking your proxy to our Secretary (Intersect ENT, Inc., Attn: Investor Relations, 1555 Adams Drive, Menlo Park, California 94025).
- You may submit a properly completed proxy card with a later date.
- You may grant a subsequent proxy by telephone or through the Internet.
- You may attend the annual meeting and vote in person. Simply attending the annual meeting will not, by itself, revoke your proxy. Remember that if you are a beneficial owner of Intersect ENT shares and wish to vote in person at the annual meeting, you must obtain a valid proxy from the organization that is the record owner of your shares (such as your broker).
- If your shares are held by your broker or bank as a nominee or agent, you should follow the instructions provided by your broker or bank.

### **What does it mean if I receive more than one Notice?**

If you received more than one Notice, your shares are registered in more than one name or are registered in different accounts. Please follow the voting instructions included in **each** Notice to ensure that all of your shares are voted.

### **How can I find out the results of the voting at the annual meeting?**

Preliminary voting results will be announced at the annual meeting. In addition, final voting results will be published in a current report on Form 8-K that we expect to file within four business days after the Annual Meeting. If final voting results are not available to us in time to file a Form 8-K within four business days after the meeting, we intend to file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an additional Form 8-K to publish the final results.

**When are stockholder proposals due for the next annual meeting?**

To be considered for inclusion in the proxy materials for our 2019 annual meeting, your proposal must be submitted in writing to our Secretary (Intersect ENT, Inc., Attn: Investor Relations, 1555 Adams Drive, Menlo Park, California 94025) by December 24, 2018; provided, however, that, in the event that the date of the annual meeting is advanced more than thirty (30) days prior to or delayed by more than thirty (30) days after the first anniversary of the preceding year's annual meeting, for your notice to be timely, it must be so received by the Secretary a reasonable time before we begin to print and mail the proxy statement. Stockholders wishing to submit proposals or director nominations that are not to be included in our proxy materials for our 2019 annual meeting must do so no earlier than the close of business on February 5, 2019, and no later than the close of business on March 7, 2019; provided, however, that, in the event that the date of the annual meeting is advanced more than thirty (30) days prior to or delayed by more than thirty (30) days after the first anniversary of the preceding year's annual meeting, for your notice to be timely, it must be so received by the Secretary not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made.

You are advised to review our Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations.

**Who is paying for this proxy solicitation?**

We will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

**Whom should I contact if I have additional questions or would like additional copies of the proxy materials?**

If you would like additional copies of this proxy statement (which copies will be provided to you without charge) or if you have questions, including the procedures for voting your shares, you should contact:

Intersect ENT, Inc.  
Attn: Investor Relations  
1555 Adams Drive  
Menlo Park, CA 94025

## CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

*This proxy statement contains forward-looking statements concerning our business, operations, and financial performance and condition as well as our plans, objectives, and expectations for business operations and financial performance and condition, including, without limitation, —“Compensation Discussion and Analysis.” Any statements contained herein that are not of historical facts may be deemed to be forward-looking statements. You can identify these statements by words such as “anticipate,” “assume,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “should,” “will,” “would,” and other similar expressions that are predictions of or indicate future events and future trends. These forward-looking statements are based on current expectations, estimates, forecasts, and projections about our business and the industry in which we operate and management’s beliefs and assumptions and are not guarantees of future performance or development and involve known and unknown risks, uncertainties, and other factors that are in some cases beyond our control. As a result, any or all of our forward-looking statements in this proxy statement may turn out to be inaccurate. Factors that could materially affect our business operations and financial performance and condition include, but are not limited to, those risks and uncertainties described in our Annual Report on Form 10-K for the year ended December 31, 2017 under “Item 1A—Risk Factors.” You are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on the forward-looking statements. The forward-looking statements are based on information available to us as of the filing date of this proxy statement. Unless required by law, we do not intend to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. You should, however, review the factors and risks we describe in the reports we will file from time to time with the Securities and Exchange Commission after the date of this proxy statement.*

## PROPOSAL 1

### ELECTION OF DIRECTORS

Our Board of Directors currently consists of seven directors: Kieran T. Gallahue, Lisa D. Earnhardt, Teresa L. Kline, Cynthia L. Lucchese, Dana G. Mead, Jr., Frederic H. Moll, M.D. and W. Anthony Vernon.

The nominees proposed for election as directors are listed below. Directors elected at the annual meeting will hold office until the next annual meeting or until his or her successor is elected, or until the director's death, resignation or removal.

Each individual nominated for election has agreed to serve if elected. We have no reason to believe that any nominee will be unable to serve if elected.

The Board of Directors does not have a formal policy regarding the attendance of directors at meetings of stockholders, but it encourages directors to attend each meeting of stockholders.

The following table sets forth the names and certain other information for the nominees for election as a director as of the date of this proxy statement. The following key biographical information for each of these individuals was provided by the nominees:

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
Kieran T. Gallahue (1)	54	Lead Director
Lisa D. Earnhardt	48	President, Chief Executive Officer and Director
Teresa L. Kline (2)	59	Director
Cynthia L. Lucchese (1c)(3)	57	Director
Dana G. Mead, Jr. (1)(2c)	59	Director
Frederic H. Moll, M.D. (3)	66	Director
W. Anthony Vernon (2)(3c)	62	Director

- 
- (1) Member of the Audit Committee.  
(2) Member of the Compensation Committee.  
(3) Member of the Nominating and Corporate Governance Committee.  
c Chair

#### Nominees

**Kieran T. Gallahue** has served as our Lead Director and a member of our Board of Directors since April 2015. Mr. Gallahue served as Chairman and Chief Executive Officer of CareFusion Corporation, a global healthcare company from February 2011 until its sale in March 2015. From January 2008 through January 2011, Mr. Gallahue served as Chief Executive Officer and as a Director of ResMed Inc., a medical device company. Since February 2015, Mr. Gallahue has also served as a member of the Board of Directors of Edwards Lifesciences Corporation, a cardiovascular device company. We believe Mr. Gallahue's extensive executive management experience at medical device companies, including his most recent position as Chief Executive Officer of CareFusion, as well as leadership experience enable him to make valuable contributions to our Board of Directors.

**Lisa D. Earnhardt** has served as our President and Chief Executive Officer and as a member of our Board of Directors since March 2008. Ms. Earnhardt also has served on the Board of Directors of Nevro Corp. since June 2015, and Kensey Nash Corporation from September 2011 until June 2012, both medical device companies. We believe Ms. Earnhardt's experience in the industry, her role as our President and Chief Executive Officer and her knowledge of our company enable her to make valuable contributions to our Board of Directors.

***Teresa L. Kline*** has served as a member of our Board of Directors since August 2017. Since November 2016, Ms. Kline has been the Executive Vice President of Henry Ford Health System, or HFHS, a health care provider, and President and Chief Executive Officer of Health Alliance Plan, a health insurance company and subsidiary of HFHS. From July 2014 to November 2016, Ms. Kline provided health care consulting services. Ms. Kline served as Senior Vice President and Chief Health Care Management Officer of Health Care Service Corporation from March 2010 to March 2014, a health insurance company. Since April 2016, Ms. Kline has served as a member of the Board of Directors of LaunchPoint Ventures LLC, a health payment integrity company. Since October 2015, Ms. Kline has also served as a member of the Board of Directors of Presbyterian Health Plan, Inc., a health insurer, and as Vice Chairman since January 2017. We believe Ms. Kline's extensive experience in the healthcare and insurance industries, and experience as a chief executive officer, enable her to make valuable contributions to our Board of Directors.

***Cynthia L. Lucchese*** has served as a member of our Board of Directors since July 2014. Since November 2014, Ms. Lucchese has been the Chief Administrative Officer and Chief Financial Officer of Hulman & Company, a diversified company primarily focused on sports, production and food manufacturing. From February 2008 to March 2014, Ms. Lucchese served as Senior Vice President and Chief Financial Officer of Hillenbrand, Inc., a manufacturing company. Ms. Lucchese served as Senior Vice President and Chief Financial Officer of Thoratec Corporation from 2005 to 2007, and in various senior financial roles for Guidant Corporation from 1995 to 2005. Since May 2015, Ms. Lucchese has served as a member of the Board of Directors of Hanger, Inc., a provider of orthotic and prosthetic services and products. From August 2009 to October 2012, Ms. Lucchese served as a member of the Board of Directors of Brightpoint Inc., a logistical services company. We believe Ms. Lucchese's extensive experience in the medical device industry and experience as a chief financial officer and other senior financial roles, enable her to make valuable contributions to our Board of Directors.

***Dana G. Mead, Jr.*** has served as a member of our Board of Directors since June 2007. Since November 2016, Mr. Mead has served as the President and Chief Executive Officer of Beaver-Visitec International, a medical device company located in Waltham, MA. Previously, Mr. Mead was a Strategic Advisor and Partner at Kleiner Perkins Caufield & Byers, having joined the firm in May 2005. Mr. Mead was at Guidant Corporation from 1992 to 2005, most recently as President, Guidant Vascular Intervention. Mr. Mead has served on the Board of Directors of Teladoc, Inc., a telehealth platform company, from August 2011 to December 2016. We believe Mr. Mead's experience with medical device companies and role in the venture capital industry enable him to make valuable contributions to our Board of Directors.

***Frederic H. Moll, M.D.*** has served as a member of our Board of Directors since March 2006. Dr. Moll has been Chief Executive Officer and Chairman of Auris Surgical Robotics, Inc. since August 2012 and June 2011, respectively. Dr. Moll has served on the Board of Directors of Biolase, Inc., a dental laser company, from June 2013 until November 2017, and on the Board of Directors of Hansen Medical, Inc., or Hansen, a surgical robotics company, from September 2002 until December 2011. Dr. Moll also served as Executive Chairman of the Board of Hansen from June 2010 until December 2011, as Chief Executive Officer from September 2002 until June 2010, and President from March 2009 until June 2010. Dr. Moll was a director of MAKO Surgical Corp. until its acquisition in December 2013. We believe Dr. Moll's experience as a physician, chief executive officer of medical technology companies and his knowledge of our company and the industry enable him to make valuable contributions to our Board of Directors.

***W. Anthony Vernon*** has served as a member of our Board of Directors since April 2015. From October 2012 to December 2014, he served as Chief Executive Officer of Kraft Foods Group, Inc., a food company, and he previously served as Executive Vice President and President at Kraft Foods of North America since 2009, where he led its \$24 billion business in the United States and Canada. From 2006 to 2009, Mr. Vernon was the Healthcare Industry Partner at Ripplewood Holdings, Inc., a private equity firm. Mr. Vernon had previously led a number of Johnson & Johnson's largest franchises during his 23-year career at Johnson & Johnson, a company engaged in the research and development, manufacture and sale of products in the healthcare field. While with

Johnson & Johnson, Mr. Vernon was most recently employed as Company Group Chairman of Depuy Inc., an orthopedics company which is a subsidiary of Johnson & Johnson, from 2004 until 2005, and from 2001 until 2004, he served as President and Chief Executive Officer of Centocor, Inc., a biomedicines company which is a division of Johnson & Johnson. Mr. Vernon has been a member of the Board of Directors of McCormick Foods Inc. since May 2017 and NovoCure Ltd., a medical device company, since 2006, and was a member of the Board of Directors of Axovant Sciences Ltd., a clinical-stage biopharmaceutical company, from April 2017 until February 2018, Medivation, Inc., a biopharmaceutical company, from July 2006 until October 2016, Kraft Foods Group, Inc. from September 2012 until May 2015 and of WhiteWave Foods Company, a packaged food and beverage company, from January 2016 until April 2017. We believe Mr. Vernon's executive management, commercialization, business development and financial experience at a large, multinational pharmaceutical company enables him to make valuable contributions to our Board of Directors.

## **Board Independence**

Under the listing requirements and rules of The NASDAQ Global Market, independent directors, as affirmatively determined by our Board of Directors, must compose a majority of our Board of Directors. Under the rules of The NASDAQ Global Market, a director will only qualify as an "independent director" if, in the opinion of that company's Board of Directors, that person does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Our Board of Directors consults with the company's counsel to ensure that our Board of Directors' determinations are consistent with relevant securities and other laws and regulations regarding the definition of "independent," including those set forth in pertinent listing standards of The NASDAQ Global Market, as in effect from time to time.

In addition, the rules of The NASDAQ Global Market require that each member of a listed company's audit, compensation and nominating and corporate governance committee be independent. Audit committee members must also satisfy the independence criteria set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. To be considered independent for purposes of Rule 10A-3, a member of an audit committee of a listed company may not, other than in his or her capacity as a member of our Audit Committee, our Board of Directors, or any other Board committee: (1) accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the listed company or any of its subsidiaries; or (2) be an affiliated person of the listed company or any of its subsidiaries.

Our Board of Directors has undertaken a review of its composition, the composition of its committees, and the independence of each director. Based upon information requested from and provided by each director concerning his or her background, employment, and affiliations, including family relationships, our Board of Directors has determined that each member of our Board of Directors, except Ms. Earnhardt, does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is "independent" as that term is defined under the applicable rules and regulations of the Securities and Exchange Commission, or SEC, and the listing requirements and rules of The NASDAQ Global Market. In making this determination, our Board of Directors considered the current and prior relationships that each non-employee director has with our Company and all other facts and circumstances our Board of Directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director. Our Board of Directors also determined that each member of our Audit Committee satisfies the independence standards for the Audit Committee established by applicable SEC rules, the listing standards of The NASDAQ Global Market and Rule 10A-3 of the Exchange Act. Our Board of Directors also determined that each member of our Compensation Committee are "outside directors" as that term is defined in Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code. Our Board of Directors also determined that each member of the Nominating and Corporate Governance Committee is independent within the meaning of the applicable NASDAQ listing standards, is a non-employee director and is free from any relationship that would interfere with the exercise of his or her independent judgment.

**Required Vote and Board Recommendation**

Directors are elected by a plurality of the votes of the holders of shares present in person or represented by proxy and entitled to vote for the election of directors. Accordingly, the seven nominees receiving the highest number of “For” votes will be elected. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the seven nominees named above. If any nominee becomes unavailable for election as a result of an unexpected occurrence, shares that would have been voted for that nominee will instead will be voted for the election of a substitute nominee proposed by us. Each person nominated for election has agreed to serve if elected. Our management has no reason to believe that any nominee will be unable to serve.

**THE BOARD OF DIRECTORS  
RECOMMENDS A VOTE “FOR” EACH NAMED NOMINEE.**

## **CORPORATE GOVERNANCE**

We have a set of basic beliefs to guide our actions, including the belief that business should be conducted with the highest standards of ethical behavior. This belief governs our interaction with our customers, suppliers, employees and investors. We are committed to continuously improve our governance process to meet and exceed all regulatory requirements.

### **Board Composition**

The primary responsibilities of our Board of Directors are to provide oversight, strategic guidance, counseling and direction to our management. Our Board of Directors meets on a regular basis and additionally as required. Our Board of Directors currently consists of seven directors. The members of our Board of Directors were elected in compliance with the provisions of our amended and restated certificate of incorporation. Each director serves until the next annual meeting. At each annual meeting of stockholders, directors will be elected to serve from the time of election and qualification until the next annual meeting following election. Our amended and restated certificate of incorporation provides that the authorized number of directors may be changed only by resolution of the Board of Directors.

### **Board Leadership Structure**

Intersect ENT does not have a chairman of the board, and our Board determined that it was appropriate to have a lead independent director. The Board has appointed Mr. Gallahue as its Lead Independent Director. As Lead Independent Director, Mr. Gallahue: presides at all Board meetings, including executive sessions of the Board's independent directors; acts as a liaison to stockholders who request direct communication with the Board; consults with our Chief Executive Officer in setting the agenda for Board meetings and on matters relating to corporate governance and Board performance; and performs such other duties as the Board may delegate to him from time to time.

### **Periodic Performance Evaluations**

Our Corporate Governance Guidelines provide that the Nominating and Governance Committee shall conduct periodic evaluations of the Board to determine, among other matters, whether the Board and the Committees are functioning effectively. The Audit Committee, Compensation Committee and Nominating and Governance Committee are also required to each conduct an annual self-evaluation. The Nominating and Governance Committee is responsible for overseeing this self-evaluation process. The Board, Audit Committee, Compensation Committee and Nominating and Governance Committee each conducted an annual self-evaluation process during 2017.

### **Role of the Board in Risk Oversight**

Our Board of Directors, in exercising its overall responsibility to oversee the management of our business, considers risks when reviewing our strategic plan, financial results, merger and acquisition related activities, legal and regulatory matters and our public filings with the SEC. The Board is also engaged in our Enterprise Risk Management, or ERM, program and has received briefings on the outcomes of our ERM program and the steps we are taking to mitigate risks identified through the ERM program.

The Board's oversight of risk management includes full and open communications with management to review the adequacy and functionality of our risk management processes. In addition, the Board uses its committees to assist in its risk oversight responsibility as follows:

- The Audit Committee assists the Board in its oversight of the integrity of our financial reporting and compliance with applicable legal and regulatory requirements. It oversees our internal controls and

compliance activities except as related to healthcare compliance. The Committee discusses our major financial risk exposures and certain contingent liabilities and the steps we have undertaken to monitor and control such exposures. It also meets privately with representatives from our independent registered public accounting firm;

- The Compensation Committee assists the Board in its oversight of risk relating to our assessment of our compensation policies and practices; and
- The Nominating and Corporate Governance Committee assists the Board in its oversight of compliance related to healthcare compliance rules and regulations. The Committee periodically discusses policies with respect to risk assessment and risk management, including appropriate guidelines and policies to govern the process.

### **Code of Business Conduct and Ethics and Corporate Governance Guidelines**

We have adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including those officers responsible for financial reporting. The code of business conduct and ethics is available on our website at [www.intersectent.com](http://www.intersectent.com). We intend to disclose any amendments to the code, or any waivers of its requirements, on our website to the extent required by the applicable rules and exchange requirements. The inclusion of our website address in this proxy statement does not incorporate by reference the information on or accessible through our website into this proxy statement.

The Board of Directors documented the governance practices followed by the Company by adopting the Corporate Governance Guidelines to assure that the Board will have the necessary authority and practices in place to review and evaluate the Company's business operations as needed and to make decisions that are independent of the Company's management. The guidelines are also intended to align the interests of directors and management with those of the Company's stockholders. The Corporate Governance Guidelines set forth the practices the Board intends to follow with respect to Board composition and selection, Board meetings and involvement of senior management, Chief Executive Officer's performance evaluation and succession planning, and Board and committees' compensation. The Corporate Governance Guidelines, as well as the charters for each committee of the Board, may be viewed at [www.intersectent.com](http://www.intersectent.com).

### **BOARD COMMITTEES AND MEETINGS**

Our Board of Directors has established an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. Our Board of Directors may establish other committees to facilitate the management of our business. The composition and functions of each committee are described below. Members serve on these committees until their resignation or until otherwise determined by our Board of Directors.

During the fiscal year ended December 31, 2017, our Board of Directors held six meetings. Our Audit Committee met ten times, our Compensation Committee met eight times, and our Nominating and Corporate Governance Committee met four times during 2017. Each of our directors attended at least 75% of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings held by all committees of the Board on which such member served.

#### ***Audit Committee***

Our Audit Committee consists of Cynthia L. Lucchese, Kieran T. Gallahue and Dana G. Mead, Jr. The Board of Directors has determined that each member of our Audit Committee meets the applicable NASDAQ Global Market rules and regulations regarding "independence" and each Audit Committee member is free of any relationship that would impair his or her individual exercise of independent judgment with regard to the Company. The Chair of our Audit Committee is Ms. Lucchese, who our Board of Directors has determined is an

“audit committee financial expert” as that term is defined under the SEC rules implementing Section 407 of the Sarbanes-Oxley Act of 2002, and possesses financial sophistication, as defined under the listing standards of The NASDAQ Global Market. Our Board of Directors has also determined that each member of our Audit Committee can read and understand fundamental financial statements in accordance with applicable requirements. In arriving at these determinations, the Board of Directors has examined each Audit Committee member’s scope of experience and the nature of their experience in the corporate finance sector. Our Board of Directors has adopted a written audit committee charter, which our Audit Committee reviews annually, that is available to stockholders on our website at [www.intersectent.com](http://www.intersectent.com).

The primary purpose of the Audit Committee is to discharge the responsibilities of our Board of Directors with respect to our accounting, financial and other reporting and internal control practices and to oversee our independent registered public accounting firm. Specific responsibilities of our Audit Committee include:

- selecting a qualified firm and lead partner to serve as the independent registered public accounting firm to audit our financial statements;
- helping to ensure the independence and performance of the independent registered public accounting firm;
- discussing the scope and results of the audit with the independent registered public accounting firm and reviewing, with management and the independent accountants, our interim and year-end operating results;
- developing procedures for employees to submit concerns anonymously about questionable accounting or audit matters;
- reviewing our financial statements and critical accounting policies and estimates;
- reviewing the adequacy and effectiveness of our internal controls;
- reviewing our policies on risk assessment and risk management;
- reviewing related-party transactions;
- obtaining and reviewing a report by the independent registered public accounting firm, at least annually, that describes our internal quality-control procedures, any material issues with such procedures and any steps taken to deal with such issues when required by applicable law; and
- pre-approving all audit and all permissible non-audit services and fees, other than de minimis non-audit services, to be performed by the independent registered public accounting firm.

Each year, the Audit Committee, along with our Company’s management, reviews the audit firm’s performance as part of the Audit Committee’s consideration of whether or not to reappoint the audit firm as our independent auditors. As part of this review, the Audit Committee considers (i) the continued independence of the audit firm, (ii) evaluations of the audit firm by our management, (iii) the audit firm’s effectiveness of communications and working relationships with the Audit Committee, our management and internal auditors, (iv) the length of time the audit firm has served as our independent auditors, (v) the quality and depth of the audit firm, lead partner and the audit team’s expertise and experience in our industry in light of the breadth, complexity and global reach of our businesses, (vi) potential impact of selecting a different independent public accounting firm, and (vii) what is in the best interest of the Company and its stockholders.

### **Report of the Audit Committee of the Board of Directors**

The Audit Committee is comprised solely of independent directors, in accordance with NASDAQ listing standards, and operates under a written charter, adopted by the Board of Directors, which it reviews and assesses on an annual basis. The Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2017 with management of our Company. The Audit Committee has discussed

with Ernst & Young LLP, our independent registered public accounting firm, the matters required to be discussed by Auditing Standard No. 1301, *Communications with Audit Committees*, as adopted by the Public Company Accounting Oversight Board (the “PCAOB”). The Audit Committee has also received the written disclosures regarding the accounting firm’s independence from Ernst & Young LLP as required by Rule 3526, *Communication with Audit Committees Concerning Independence*, of the PCAOB, and has discussed with Ernst & Young LLP the accounting firm’s independence. Based on the foregoing, the Audit Committee has recommended to the Board of Directors that the audited financial statements be included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Ms. Cynthia L. Lucchese (Chair)  
Mr. Kieran T. Gallahue  
Mr. Dana G. Mead Jr.

### ***Compensation Committee***

Our Compensation Committee consists of Dana G. Mead, Jr., Teresa L. Kline and W. Anthony Vernon. The Chair of our Compensation Committee is Mr. Mead. All members of our Compensation Committee are independent, as independence is currently defined in NASDAQ listing standards. Our Board of Directors has adopted a written compensation committee charter that is available to stockholders on our website at [www.intersectent.com](http://www.intersectent.com).

The primary purpose of our Compensation Committee is to discharge the responsibilities of our Board of Directors to oversee our compensation policies, plans and programs and to review and determine the compensation to be paid to our executive officers, directors and other senior management, as appropriate. Specific responsibilities of our Compensation Committee include:

- reviewing and approving, or recommending that our Board of Directors approve, the compensation of our executive officers;
- reviewing and recommending to our Board of Directors the compensation of our directors;
- administering our stock and equity incentive plans;
- selecting independent compensation consultants and assessing whether there are any conflicts of interest with any of the committee’s compensation advisers;
- reviewing management succession plans;
- reviewing and approving, or recommending that our Board of Directors approve, incentive compensation and equity plans, severance agreements, change-in-control protections and any other compensatory or terms of compensatory arrangements for our executive officers and other senior management, as appropriate; and
- reviewing and establishing general policies relating to compensation and benefits of our employees and reviewing our overall compensation philosophy.

### ***Compensation Committee Processes and Procedures***

Typically, the Compensation Committee meets at least four times annually and with greater frequency if necessary. The agenda for each meeting is usually developed by the Chair of the Compensation Committee. The Compensation Committee meets regularly in executive session. However, from time to time, various members of management and other employees as well as outside advisors or consultants may be invited by the Compensation Committee to make presentations, to provide financial or other background information or advice or to otherwise participate in Compensation Committee meetings. The Chief Executive Officer may not participate in, or be present during, any deliberations or determinations of the Compensation Committee regarding her compensation or individual performance objectives. The charter of the Compensation Committee grants the Compensation Committee full access to all our books, records, facilities and personnel.

In addition, under the charter, the Compensation Committee has the authority to obtain, at the expense of Intersect ENT, advice and assistance from compensation consultants and internal and external legal, accounting or other advisors and other external resources that the Compensation Committee considers necessary or appropriate in the performance of its duties. The Compensation Committee takes into consideration factors prescribed by the SEC and NASDAQ that bear upon the adviser's independence; however, there is no requirement that any adviser be independent. The Compensation Committee has direct responsibility for the oversight of the work of such consultants or advisers.

During the past year, the Compensation Committee engaged Radford, an Aon Hewitt Consulting Company, as a compensation consultant. The Compensation Committee requested that Radford:

- evaluate the efficacy of our existing compensation strategy and practices in supporting and reinforcing our long-term strategic goals;
- assist in refining our compensation strategy and in developing and implementing an executive compensation program to execute that strategy; and
- assist in developing our non-employee director compensation plan.

In addition, as part of its engagement, Radford was requested by the Compensation Committee to develop a comparative group of companies and to perform analyses of competitive performance and compensation levels for that group. Although our Board and Compensation Committee consider the advice and recommendations of such independent compensation consultants as to our executive and non-employee director compensation program, the Board and Compensation Committee ultimately make their own decisions regarding these matters.

#### ***Nominating and Corporate Governance Committee***

Our Nominating and Corporate Governance Committee consists of W. Anthony Vernon, Cynthia L. Lucchese and Frederic H. Moll. The Chair of our Nominating and Corporate Governance Committee is Mr. Vernon. Our Board of Directors has adopted a written nominating and corporate governance committee charter that is available to stockholders on our website at [www.intersectent.com](http://www.intersectent.com). Specific responsibilities of our Nominating and Corporate Governance Committee include:

- identifying, evaluating and selecting, or recommending that our Board of Directors approve, nominees for election to our Board of Directors;
- evaluating the performance of our Board of Directors and of individual directors;
- considering and making recommendations to our Board of Directors regarding the composition of the committees of the Board of Directors;
- reviewing developments in corporate governance practices;
- evaluating the adequacy of our corporate governance practices and reporting;
- developing and making recommendations to our Board of Directors regarding corporate governance guidelines and matters; and
- overseeing an annual evaluation of the Board of Directors' performance.

The Nominating and Corporate Governance Committee believes that candidates for director should have certain minimum qualifications, including the ability to read and understand basic financial statements, being over 21 years of age and having the highest personal integrity and ethics. The Nominating and Corporate Governance Committee also intends to consider such factors as possessing relevant expertise upon which to be able to offer advice and guidance to management, having sufficient time to devote to the affairs of the Company, demonstrated excellence in his or her field, having the ability to exercise sound business judgment and having the commitment to rigorously represent the long-term interests of the Company's stockholders. However, the

Nominating and Corporate Governance Committee retains the right to modify these qualifications from time to time. Candidates for director nominees are reviewed in the context of the current composition of the Board, the operating requirements of the Company and the long-term interests of stockholders. In conducting this assessment, the Nominating and Corporate Governance Committee typically considers diversity, skills and such other factors as it deems appropriate, given the current needs of the Board and the Company, to maintain a balance of knowledge, experience and capability.

In the case of incumbent directors whose terms of office are set to expire, the Nominating and Corporate Governance Committee reviews these directors' overall service to the Company during their terms, including the number of meetings attended, level of participation, quality of performance and any other relationships and transactions that might impair the directors' independence. The committee also takes into account the results of the Board's self-evaluation, conducted annually on a group and individual basis. In the case of new director candidates, the Nominating and Corporate Governance Committee also determines whether the nominee is independent for NASDAQ purposes, which determination is based upon applicable NASDAQ listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary. The Nominating and Corporate Governance Committee then uses its network of contacts to compile a list of potential candidates, but may also engage, if it deems appropriate, a professional search firm. The Nominating and Corporate Governance Committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the Board. The Nominating and Corporate Governance Committee meets to discuss and consider the candidates' qualifications and then selects a nominee for recommendation to the Board by majority vote.

#### *Nomination Process*

Our Nominating and Corporate Governance Committee is responsible for identifying, recruiting, evaluating and recommending to our Board of Directors nominees for membership on the Board of Directors and committees of our Board of Directors. The goal of this process is to maintain and further develop a highly qualified Board of Directors consisting of members with experience and expertise in areas of importance to our Company. Candidates may come to our attention through current members of our Board of Directors, professional search firms, stockholders or other persons.

The Nominating and Corporate Governance Committee recommends to the Board of Directors for selection all nominees to be proposed by the Board of Directors for election by the stockholders, including approval or recommendation of a slate of director nominees to be proposed by our Board of Directors for election at each annual or special meeting of stockholders, and recommends all director nominees to be appointed by our Board of Directors to fill director vacancies. Our Board of Directors is responsible for nominating members for election to the Board of Directors and for filling vacancies on the Board of Directors that may occur between annual meetings of stockholders.

#### *Evaluation of Director Candidates*

In its evaluation of director candidates, the Nominating and Corporate Governance Committee will consider a candidate's skills, characteristics and experience, taking into account a variety of factors, including the candidate's:

- understanding of our business, industry and technology;
- history with our Company;
- personal and professional integrity;
- general understanding of marketing, finance and other disciplines relevant to the success of a publicly traded company;
- ability and willingness to devote the time and effort necessary to be an effective director;

- commitment to acting in the best interest of our Company and its stockholders; and
- educational and professional background.

The Nominating and Corporate Governance Committee will also consider the current size and composition of the Board of Directors, the needs of the Board of Directors, its committees, and the potential independence of director candidates under relevant NASDAQ and SEC rules.

Although the Board of Directors does not maintain a specific policy with respect to board diversity, the Nominating and Corporate Governance Committee considers each candidate in the context of the membership of the Board as a whole, with the objective of including an appropriate mix of viewpoints and experience among members of the Board reflecting differences in professional background, education, skill and other individual qualities and attributes. In making determinations regarding nominations of directors, the Nominating and Corporate Governance Committee may take into account the benefits of diverse viewpoints to the extent it deems appropriate.

#### *Stockholder Recommendations for Nomination to the Board of Directors*

The Nominating and Corporate Governance Committee will consider properly-submitted stockholder recommendations for candidates for our Board. The Nominating and Corporate Governance Committee does not intend to alter the manner in which it evaluates candidates, including the criteria described above, based on whether or not the candidate was recommended by a stockholder.

Any stockholder recommendations proposed for consideration by the Nominating and Corporate Governance Committee should be in writing and delivered to Intersect ENT, Inc., Attn: Investor Relations, 1555 Adams Drive, Menlo Park, CA 94025. Submissions must include the following information:

- full name and address of the proposed nominee;
- the number and class of our shares beneficially owned, directly or indirectly, by the proposed nominee;
- all information regarding the proposed nominee required to be disclosed in a proxy statement pursuant to Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder;
- the consent of the nominee to be named in the proxy statement and consent to serve as a director if elected; and
- a description of all material relationships, including (i) compensation and other material monetary agreements, arrangements and understandings during the past three years, between the proposed nominee and the stockholder making the proposal and (ii) any relationship between the proposing stockholder and the proposed nominee that would be required to be disclosed under the SEC's related party transactions disclosure rules if the proposing stockholder were a "registrant" under those rules.

In addition, any stockholder wishing to recommend a nominee to our Board of Directors must provide a questionnaire regarding the proposed nominee, information regarding any arrangement or agreement with respect to such nominee's voting while a member of our Board of Directors and information regarding equity ownership of the Company (including derivative ownership) by the proposing stockholder and the proposed nominee.

### **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

As noted above, our Compensation Committee consists of Mr. Mead, Ms. Kline and Mr. Vernon. None of the members of our Compensation Committee has at any time during the past three years been one of our officers or employees. None of our executive officers currently serves or in the prior three years has served as a member of the Board of Directors or Compensation Committee of any entity that has one or more executive officers serving on our Board of Directors or Compensation Committee.

## STOCKHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS

Stockholders wishing to communicate with our Board of Directors may send a written communication addressed to the Secretary at our principal executive offices. The Secretary will promptly forward the communication to the Board or member to whom it is addressed, as appropriate, unless it is unduly hostile, threatening, illegal or similarly unsuitable. Historically, we have not provided a formal process related to stockholder communications with the Board. Nevertheless, every effort has been made to ensure that the views of stockholders are heard by the Board or individual directors, as applicable, and that appropriate responses are provided to stockholders in a timely manner. The Company believes its responsiveness to stockholder communications to the Board has been excellent.

## COMPENSATION OF NON-EMPLOYEE BOARD MEMBERS

Our non-employee directors received an annual retainer of \$40,000 and our lead director received an additional annual retainer of \$30,000. In addition, all non-employee directors who serve on one or more committees will receive the following annual committee fees:

<u>Committee</u>	<u>Chair</u>	<u>Member</u>
Audit	\$20,000	\$10,000
Compensation	15,000	7,500
Nominating and Corporate Governance	10,000	5,000

Other than the annual retainers and committee fees described above, non-employee directors are not entitled to receive any cash fees in connection with their service on our Board. Each non-employee director is granted an equity grant for a fair value of \$120,000, consisting of an equal amount of stock options and RSUs, at each annual stockholders' meeting, provided the non-employee director has served since March 1<sup>st</sup> of the year the annual meeting was held and continued to serve. The stock option grants have an exercise price equal to the fair market value of our common stock on the date of grant and vest monthly over one year from the date of grant. The RSU awards cliff vest 100%, one year from the date of grant. New non-employee directors receive an initial stock option grant for a fair value of \$180,000. The initial grants have an exercise price equal to the fair market value of our common stock on the date of grant and vest 25% in one year and monthly thereafter over the next three years, provided the non-employee director continues to serve. All of the Board stock options and RSUs described in this paragraph become fully vested upon a change in control.

Prior to the beginning of each year, each non-employee director may elect to receive their annual retainer for the following year in the form of a stock option that vests monthly over one year from the beginning of the year. The option is granted at the first Board or Compensation Committee meeting of the year for a fair value equivalent to their annual retainer with an exercise price equal to the fair market value of our common stock on the date of grant. These options are not subject to vesting acceleration upon a change in control.

We have a policy of reimbursing our directors for their reasonable out-of-pocket expenses in connection with attending Board of Directors and committee meetings.

## Non-Employee Director Compensation

The following table sets forth information concerning the compensation earned by our non-employee directors during the fiscal year ended December 31, 2017:

Name	Fees Earned or Paid in Cash (1)	Options in Lieu of Annual Retainer (2)(3)	Options Granted (2)(4)	Stock Awards (2)(5)	Total
Kieran T. Gallahue	\$10,000	\$72,819	\$ 66,326	\$66,323	\$215,468
Teresa L. Kline (6)	19,749	—	173,478	—	193,227
Cynthia L. Lucchese	25,000	41,609	66,326	66,323	199,258
Dana G. Mead, Jr.	65,000	—	66,326	66,323	197,649
Frederic H. Moll, M.D.	5,000	41,609	66,326	66,323	179,258
Casey M. Tansey (7)	4,158	41,609	66,326	66,323	178,416
W. Anthony Vernon	17,500	41,609	66,326	66,323	191,758

- (1) Amounts are prorated for the periods of service.
- (2) The amounts in this column reflect the aggregate grant date fair value of each option award granted during the fiscal year, computed in accordance with FASB ASC Topic 718. The valuation assumptions used in determining such amounts are described in Note 6 to our financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.
- (3) Represents an option to purchase 7,570 shares of our common stock that was granted to each director, except for Mr. Gallahue, on January 18, 2017 under our 2014 Equity Incentive Plan. Mr. Gallahue's option represents 13,248 share of our common stock, taking into account his lead director retainer.
- (4) Represents an option to purchase 6,035 shares of our common stock that was granted to each director, except for Ms. Kline, on June 1, 2017 under our 2014 Equity Incentive Plan. Ms. Kline's option represents 13,787 shares of our common stock that was granted on August 1, 2017, representing her new non-employee director grant.
- (5) Represents RSUs for 2,546 shares of our common stock that was granted to each director, except for Ms. Kline, on June 1, 2017 under our 2014 Equity Incentive Plan.
- (6) Appointed as a member of our Board of Directors in July 2017.
- (7) Resigned from our Board of Directors in July 2017.

**PROPOSAL 2**  
**RATIFICATION OF SELECTION OF**  
**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board of Directors has selected Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018, and has further directed us to submit the selection of this firm for ratification by the stockholders at the annual meeting. We engaged Ernst & Young LLP in 2008 to audit our financial statements dating back to our inception, fiscal year ended December 31, 2003, and they have continued to audit our financial statements since then. Representatives of Ernst & Young LLP are expected to be present at the annual meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither our Bylaws nor other governing documents or law require stockholder ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm. However, the Audit Committee is submitting the selection of Ernst & Young LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in our best interests and the best interests of our stockholders.

**PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following tables set forth the aggregate fees, including related expenses, for professional services rendered by our principal accountants, Ernst & Young LLP (in thousands):

<u>Fees</u>	<u>Fiscal Years Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Audit (1)	\$1,152	\$1,106
Audit-Related	—	—
Tax	—	—
All Other (2)	2	2
	<u>\$1,154</u>	<u>\$1,108</u>

- (1) The Audit fees consist of professional services in connection with the integrated audit of our annual financial statements, including the audit of internal control over financial reporting, review of our quarterly financial statements presented in our Quarterly Reports on Form 10-Q and review of audited financial statements presented in our Annual Report on Form 10-K, irrespective of the period in which the related services were rendered or billed. This category also includes technical advice on various accounting matters related to the financial statements. Fees also consisted of professional services rendered in connection with our Form S-8 registration statement related to additional shares authorized for issuance under our 2014 Equity Incentive Plan, including delivery of consent and review of documents.
- (2) The All Other fees consist of a subscription to Ernst & Young Atlas Online, a proprietary knowledge management and research system.

All fees described above were pre-approved by the Audit Committee.

**Pre-Approval Policies and Procedures**

Our Audit Committee has adopted a policy and procedures for the pre-approval and negotiation of all audit and non-audit services and fees to be rendered by our independent registered public accounting firm, Ernst &

Young LLP. During the fiscal years ended 2017 and 2016, the Audit Committee pre-approved all audit and non-audit services performed by Ernst & Young LLP. Under the policy, the Audit Committee generally pre-approves specified services in defined categories up to specified amounts. Pre-approval may also be given as part of the Audit Committee's approval of the scope of the engagement of our independent registered public accounting firm or on a case-by-case basis for specific tasks before an engagement.

The Audit Committee has determined that the rendering of services other than audit services by Ernst & Young LLP is compatible with maintaining the principal accountant's independence.

#### **Required Vote and Audit Committee and Board Recommendation**

Approval of Proposal 2 requires the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote at the annual meeting. Abstentions will be counted toward the tabulation of votes cast on the proposal and will have the same effect as "Against" votes. Broker non-votes will have no effect on the outcome of the vote.

**THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS AND THE BOARD OF DIRECTORS  
RECOMMENDS A VOTE "FOR" PROPOSAL 2.**

## **PROPOSAL 3**

### **APPROVAL OF AMENDED AND RESTATED 2014 EMPLOYEE STOCK PURCHASE PLAN**

In December 2017, the Board of Directors approved an amendment and restatement of the 2014 Employee Stock Purchase Plan (the “ESPP”) to increase the number of shares of Common Stock that we may issue under the ESPP by 1,200,000 shares and directed that the matter be submitted to the stockholders of Intersect ENT for their approval. The proposal would amend the ESPP to increase the number of shares of Common Stock reserved for issuance from 496,092 shares to 1,696,092 shares.

As of March 31, 2018, an aggregate of 343,025 shares of common stock have been purchased under the ESPP, and only 153,067 shares remain available for future purchases under the ESPP. The closing price of our common stock as reported on NASDAQ as of April 10, 2018 was \$37.85 per share.

The Board of Directors believes that it is important to provide eligible employees the opportunity to acquire an ownership interest in Intersect ENT and thereby provide employees with an additional incentive to contribute to Intersect ENT’s long-term profitability and success. The Board believes the number of shares currently remaining available for future purchases under the ESPP to be inadequate to provide such incentives of the ESPP in the future.

We refer to the ESPP, as amended and restated by the Board in December 2017, as the “Restated ESPP” throughout this Proposal 3. Stockholders are requested in this Proposal 3 to approve the Restated ESPP. The affirmative vote of the holders of a majority of the votes cast in person or by proxy at the annual meeting will be required to approve the Restated ESPP. Abstentions and broker non-votes are not counted for the purpose of determining the number of votes cast and will therefore not have any effect on the outcome of the vote on this Proposal 3.

#### **Reasons to Approve the Restated ESPP**

The Board of Directors believes that the approval of the Restated ESPP is necessary to enable Intersect ENT to grant purchase rights to its employees, which can be useful to Intersect ENT in attracting, retaining and motivating qualified employees and in aligning their long-term interests with those of our stockholders.

#### **Description of the Restated ESPP**

The material features of the Restated ESPP are outlined below. Except with respect to the 1,200,000 share increase to the share reserve that is part of the Restated ESPP, all the material terms of the Restated ESPP are the same as those in the ESPP previously approved by the stockholders. This summary is qualified in its entirety by reference to the complete text of the Restated ESPP. Stockholders are urged to read the actual text of the Restated ESPP in its entirety, which is appended to this proxy statement as Appendix A.

#### **Purpose**

The purpose of the Restated ESPP is to provide a means by which our employees may be given an opportunity to purchase our common stock through payroll deductions, to assist us in retaining the services of our employees, to secure and retain the services of new employees, and to provide incentives for such persons to exert maximum efforts for our success. As of March 31, 2018, approximately 344 of our 346 employees were eligible to participate in the ESPP.

The rights to purchase common stock granted under the Restated ESPP are intended to qualify as options issued under an “employee stock purchase plan” as that term is defined in Section 423(b) of the Internal Revenue Code of 1986, as amended, or the Code.

## **Administration**

The Restated ESPP is administered by our Board, which may in turn delegate authority to administer the Restated ESPP to a committee, and may abolish any such committee at any time and revert in itself the administration of the Restated ESPP. The Board has delegated administration of the Restated ESPP to the Compensation Committee. The Compensation Committee has the power to construe and interpret the Restated ESPP and the rights granted under it. The Compensation Committee has the power, subject to the provisions of the Restated ESPP, to determine when and how rights to purchase our common stock will be granted, the provisions of each offering of such rights (which need not be identical), and whether any parent or subsidiary of ours shall be eligible to participate in the Restated ESPP.

## **Offerings**

Shares of common stock are offered under the Restated ESPP through a series of offerings of such duration as determined by the Compensation Committee provided that in no event may an offering have a duration that exceeds 27 months. Each offering may consist of one or more purchase periods with purchase dates as determined by the Compensation Committee prior to the commencement of that offering. The current offerings are six months in duration with a new offering commencing every six months. Each new offering will automatically begin on May 16<sup>th</sup> and November 16<sup>th</sup> of each year, or the next trading day if the 16<sup>th</sup> is not a trading day, and will consist of one purchase period that is six months in duration. Accordingly, under the terms of our current offerings, shares of common stock are purchased on November 15<sup>th</sup> and May 15<sup>th</sup> of each year, or the previous trading day if the 15<sup>th</sup> is not a trading day, with the payroll deductions collected from the participants for the offering ending with each such purchase date.

## **Eligibility**

Any person who is customarily employed at least 20 hours per week and five months per calendar year by us (or by any parent or subsidiary of ours designated from time to time by the Compensation Committee) on the first day of an offering period is eligible to participate in that offering under the Restated ESPP, provided such employee was in our employ, or in the employ of one of our subsidiaries as designated from time to time by the Compensation Committee, as of the date immediately prior to the first day of the offering.

Notwithstanding the foregoing, no employee is eligible for the grant of any rights under the Restated ESPP if, immediately after such grant, the employee would own, directly or indirectly, stock possessing 5% or more of the total combined voting power or value of all classes of our stock or of any parent or subsidiary of ours (including any stock which such employee may purchase under all outstanding rights and options), nor will any employee be granted rights that would permit the employee to buy more than \$25,000 worth of our stock, as determined at the fair market value of the shares at the time such rights are granted, under all employee stock purchase plans of ours in any calendar year.

## **Participation in the Plan**

Eligible employees become participants in the Restated ESPP by delivering to us, prior to the date selected by the Compensation Committee as the offering date for the offering, an agreement authorizing payroll deductions of up to a maximum of 15% of such employees' total eligible compensation during the offering.

## **Purchase Price**

The purchase price per share at which shares are sold in an offering under the Restated ESPP is the lower of

- (i) 85% of the fair market value of a share of common stock on the date of commencement of the offering or
- (ii) 85% of the fair market value of a share of common stock on the purchase date.

**Payment of Purchase Price, Payroll Deductions**

The purchase price of the shares is accumulated by payroll deductions over an offering. At any time during the offering, a participant may discontinue his or her payroll deductions or terminate his or her participation in the offering. If permitted in the offering, a participant may increase or decrease such payroll deductions after the beginning of any offering period. Currently, a participant may decrease such payroll deductions no more than twice during an offering, and the second decrease must be to zero percent and a participant may increase such payroll deductions only as of the start of the next offering. All payroll deductions made for a participant are credited to his or her account under the Restated ESPP and deposited with our general funds. A participant may not make any additional payments into such account.

**Purchase of Stock**

By participating in the Restated ESPP, an employee is entitled to purchase shares under such plan. In connection with offerings made under the Restated ESPP, the Compensation Committee may specify a maximum number of shares any employee may be granted the right to purchase and the maximum aggregate number of shares that may be purchased pursuant to such offering by all participants. If the aggregate number of shares to be purchased upon exercise of rights granted in the offering would exceed the maximum aggregate number, the Compensation Committee would make a pro rata allocation of shares available in a uniform and equitable manner. Currently, the maximum number of shares that may be purchased by a participant on a purchase date is 500 shares. Unless the employee's participation is discontinued, his or her right to purchase shares is exercised automatically at the end of the offering at the applicable price. See "Withdrawal" below.

**Withdrawal**

While each participant in the Restated ESPP is required to authorize payroll deductions, the participant may withdraw from a given offering by terminating his or her payroll deductions and by notifying us of withdrawal from the Restated ESPP. Such withdrawal may be elected at any time prior to the end of the applicable offering, subject to any advance notification requirements specified in the offering.

Upon any withdrawal from an offering by the employee, we will distribute to the employee his or her accumulated payroll deductions without interest, and such employee's interest in the offering will be automatically terminated. The employee is not entitled to again participate in such offering. An employee's withdrawal from an offering will not have any effect upon such employee's eligibility to participate in subsequent offerings under the Restated ESPP.

**Termination of Employment**

Rights granted pursuant to any offering under the Restated ESPP terminate immediately upon cessation of an employee's employment for any reason. Following the employee's termination date, we will distribute to such employee all of his or her accumulated payroll deductions, less any accumulated deductions previously applied to the purchase of stock on the employee's behalf during such offering, without interest.

**Restrictions on Transfer**

Rights granted under the Restated ESPP are not transferable, except by will, the laws of descent and distribution, or, if permitted by us, by a beneficiary designation. During the lifetime of the participant, such rights may be exercised only by the person to whom such rights are granted.

**Duration, Amendment and Termination**

The Compensation Committee may suspend, terminate or amend the Restated ESPP at any time. Except in regard to certain capitalization adjustments, any amendment of the Restated ESPP must be approved by the

stockholders within twelve months of its adoption by the Compensation Committee if any amendment either (i) materially increases the number of shares of common stock available for issuance under the Restated ESPP, (ii) materially expands the class of individuals eligible to become participants and receive purchase rights under the Restated ESPP, (iii) materially increases the benefits accruing to participants or materially reduces the price at which shares of common stock may be purchased under the Restated ESPP, (iv) materially extends the term of the Restated ESPP or (v) expands the types of awards available for issuance, but only to the extent stockholder approval is required by applicable law or listing requirements.

Purchase rights granted before amendment or termination of the Restated ESPP will not be altered or impaired by any amendment or termination of such plan without consent of the person to whom such purchase rights were granted, unless such amendment is necessary to comply with applicable legal requirements or as necessary to obtain or maintain favorable tax, listing or regulatory treatment.

### **Changes in Capitalization**

In the event that there occurs a change in our capital structure through such actions as a stock split, merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, large nonrecurring cash dividend, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or similar transaction, the Compensation Committee will make appropriate adjustments to (i) the class(es) and maximum number of shares subject to the Restated ESPP, (ii) the class(es) and number of shares, subject to, and the purchase price applicable to outstanding offerings and purchase rights and (iii) the class(es) and number of shares that are the subject of purchase limits under each ongoing offering.

### **Effect of Corporate Transactions**

In the event of certain significant corporate transactions, as defined in the Restated ESPP, any then outstanding rights to purchase our stock under the Restated ESPP may be assumed, continued or substituted for by any surviving or acquiring entity, or its parent company. If the surviving or acquiring entity, or its parent company, elects not to assume, continue or substitute for such purchase rights, then the participants' accumulated payroll contributions will be used to purchase shares of our common stock within 10 business days prior to such corporate transaction, and such purchase rights will terminate immediately.

### **Stock Subject to Restated ESPP**

If rights granted under the Restated ESPP expire, lapse or otherwise terminate without being exercised, the common stock not purchased under such rights again becomes available for issuance under the Restated ESPP.

### **Federal Income Tax Information**

The following is a summary of the principal U.S. Federal income taxation consequences to us and our employees with respect to participation in the Restated ESPP. This summary is not intended to be exhaustive and does not discuss the income tax laws of any state, local or foreign jurisdictions. The information is based upon current federal income tax rules and therefore is subject to changes when those rules change. Each participant should consult the participant's tax advisor regarding the tax consequences of the grant of a purchase right or the purchase of shares or the disposition of shares acquired under the Restated ESPP. The Restated ESPP is not qualified under the provisions of Section 401(a) of the Code and is not subject to any of the provisions of the Employee Retirement Income Security Act of 1974, as amended.

Generally, the Restated ESPP is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Code, so that purchase rights exercised under the Restated ESPP may qualify for favorable tax treatment under Section 423 of the Code. Under such an arrangement, no taxable income will be recognized by a participant, upon either the grant or the exercise of the purchase rights. Taxable income will not be recognized until there is a sale or other disposition of the shares of common stock acquired under the Restated ESPP.

If the shares are sold or otherwise disposed of more than two years after the beginning of an offering and more than one year after the shares are transferred to the participant, then the lesser of the following will be treated as ordinary income: (i) the excess of the fair market value of the shares at the time of such disposition over the exercise price or (ii) the excess of the fair market value of the shares as of the beginning of the offering over the exercise price, as determined as of the beginning of the offering,. Any further gain or any loss will be taxed as a long-term capital gain or loss. Long-term capital gains currently are generally subject to lower tax rates than ordinary income.

If the shares are sold or otherwise disposed of before the expiration of either of the holding periods described above, then the excess of the fair market value of the shares on the purchase date over the purchase price will be treated as ordinary income at the time of such sale or other disposition. The balance of any gain will be treated as short-term or long-term capital gain, depending upon the length of the period that the shares were held prior to sale. Even if the shares are later sold or otherwise disposed of for less than their fair market value on the exercise date, the same amount of ordinary income is attributed to the participant, and a capital loss is recognized equal to the difference between the sales price and the fair market value of the shares on such purchase date.

There are no federal income tax consequences to us by reason of the grant or exercise of rights under the Restated ESPP. We are entitled to a deduction to the extent amounts are taxed as ordinary income to a participant for shares sold or otherwise disposed of before the expiration of the holding periods described above, subject to the requirement of reasonableness and the satisfaction of tax reporting obligations.

### **Restated ESPP Plan Benefits**

Participation in the Restated ESPP is voluntary and each eligible employee will make his or her own decision whether and to what extent to participate in the plan. In addition, we have not approved any grants of purchase rights that are conditioned on stockholder approval of this Proposal 3. Accordingly, we cannot determine the benefits or amounts that will be received in the future by individual employees or groups of employees under the Restated ESPP.

### **ESPP Plan Benefits**

The following table sets forth, for each of the individuals and groups indicated, the total number of shares of our common stock previously purchased under the ESPP as of March 31, 2018.

<u>Name and Principal Position</u>	<u>Shared Purchased</u>
Lisa D. Earnhardt <i>President and Chief Executive Officer</i>	—
Jeryl L. Hilleman <i>Chief Financial Officer</i>	—
Richard E. Kaufman <i>Senior Vice President and Chief Operating Officer</i>	—
David A. Lehman <i>General Counsel</i>	—
Drake R. Parker <i>Chief Business Officer</i>	—
All executive officers as a group	—
All directors who are not executive officers as a group	—
All employees as a group	343,025

**Required Vote and Compensation Committee and Board Recommendation**

The affirmative vote of a majority of the shares of our common stock present or represented by proxy and voting at the annual meeting is required for approval of this proposal. If you own shares through a bank, broker or other holder of record, you must instruct your bank, broker or other holder of record how to vote in order for them to vote your shares so that your vote can be counted on this proposal.

**THE BOARD OF DIRECTORS  
RECOMMENDS A VOTE “FOR” PROPOSAL 3.**

## **PROPOSAL 4**

### **ADVISORY VOTE ON EXECUTIVE COMPENSATION**

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), Intersect ENT’s stockholders are entitled to cast an advisory vote at the annual meeting to approve the compensation of our named executive officers, or NEOs, as disclosed in this proxy statement. Pursuant to the Dodd-Frank Act, the stockholder vote is an advisory vote only and is not binding on Intersect ENT or its Board of Directors.

Although the vote is non-binding, the Compensation Committee and the Board of Directors value your opinions and will consider the outcome of the vote in establishing compensation philosophy and making future compensation decisions.

#### **Pay-for-Performance Philosophy**

As described more fully in the Compensation Discussion & Analysis section and in the Summary Compensation Table, our executive officers are compensated in a manner consistent with our business strategy, competitive practice, sound compensation governance principles, and stockholder interests and concerns. Our compensation policies and decisions are focused on pay-for-performance.

#### **Business Results**

The compensation of our NEOs during the fiscal year ended December 31, 2017, is consistent with significant business achievements and financial performance.

In the fiscal year ended December 31, 2017, we achieved several positive business results including:

- Annual revenues of \$96.3 million, up 22% year over year;
- Gross Margins of 84% compared with 83% in 2016; and
- Over 200,000 patients treated with the PROPEL family of products since our commercial launch in 2011.

In addition, we continued to drive innovation by advancing our clinical pipeline including:

- In December 2017, we received the U.S. Food and Drug Administration’s, or FDA’s, approval to market SINUVA, a bioabsorbable sinus implant designed to treat patients who have had functional endoscopic sinus surgery, or FESS, but continue to suffer recurring symptoms of chronic sinusitis;
- In November 2017, we commenced the ENCORE study, a 50 patient prospective, multicenter, open-label study focused on evaluation of the safety of repeat placement of SINUVA in chronic sinusitis patients with nasal polyps, and enrollment was completed in January 2018;
- In November 2017, the *Journal of the American Medical Association — Otolaryngology-Head & Neck Surgery* published a pivotal study of PROPEL Contour steroid releasing sinus implant, concluding that frontal sinus surgery followed by placement of PROPEL Contour significantly minimizes scarring and inflammation, reducing the need for post-operative surgical and medical interventions compared to standard frontal sinus surgery;
- In October 2017, the results of RESOLVE II, a randomized, blinded, sham-controlled pivotal phase III study evaluating the safety and efficacy of SINUVA, were presented by the co-principal investigator, Robert C. Kern, M.D., Chairman of Otolaryngology — Head and Neck Surgery at Northwestern University Feinberg School of Medicine. The study met the co-primary efficacy endpoints and four pre-specified secondary efficacy endpoints and was subsequently published in the *International Forum of Allergy & Rhinology* in January 2018; and

- In February 2017, we received the FDA’s approval to market PROPEL Contour, for treatment of patients undergoing endoscopic sinus surgery.

We also have several compensation governance programs and policies in place as described in the Compensation Discussion and Analysis section to manage compensation risk and align our executive compensation with long-term stockholder interests.

In accordance with Section 14A of the Exchange Act, we are requesting your non-binding vote on the following resolution:

“RESOLVED, that the stockholders of Intersect ENT approve, on an advisory basis, the compensation of Intersect ENT’s NEOs, as disclosed pursuant to Item 402 of Regulation S-K, including the “Compensation Discussion and Analysis”, compensation tables and narrative discussion set forth in this Proxy Statement.”

#### **Required Vote and Compensation Committee and Board Recommendation**

The affirmative vote of a majority of the shares of Intersect ENT common stock present or represented by proxy and voting at the annual meeting, is required for approval of this proposal. If you own shares through a bank, broker or other holder of record, you must instruct your bank, broker or other holder of record how to vote in order for them to vote your shares so that your vote can be counted on this proposal.

**THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS AND THE BOARD OF DIRECTORS  
RECOMMENDS A VOTE “FOR” PROPOSAL 4.**

## MANAGEMENT

The following table shows information for our current executive officers as of the date of this proxy statement. Biographical information for our President, Chief Executive Officer and Director Ms. Earnhardt is included above with the Director biographies under the caption “Nominees.”

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
Lisa D. Earnhardt	48	President, Chief Executive Officer and Director
Jeryl L. Hilleman	60	Chief Financial Officer
Gwen R. Carscadden	56	Chief People Officer
Richard E. Kaufman	56	Senior Vice President, Chief Operating Officer
David A. Lehman	57	General Counsel
Drake R. Parker	54	Chief Business Officer

### Executive Officers

**Jeryl L. Hilleman** has served as our Chief Financial Officer since June 2014. From September 2013 to May 2014, Ms. Hilleman served as Chief Financial Officer and Secretary of Ocera Therapeutics, Inc., or Ocera, a biopharmaceutical company, where she was responsible for managing Ocera’s financial and accounting operations. From 2012 to 2013, Ms. Hilleman provided independent financial and strategic consulting for biotech and cleantech companies. From January 2008 to May 2012, she served as Chief Financial Officer of Amyris, Inc., or Amyris, a multinational, renewable products company based in California and Brazil, where she was responsible for managing Amyris’ financial and accounting operations. From January 2005, Ms. Hilleman served as a member of the Board of Directors of Xenoport, Inc., a biopharmaceutical company, until it was acquired in July 2016.

**Gwen R. Carscadden** has served as our Chief People Officer since June 2016. From August 2012 to June 2016, Ms. Carscadden served most recently as Senior Vice President of Human Resources and Facilities of CardioDx, Inc., a private cardiovascular genomic diagnostics company in California, where she was responsible for strategic human resources and facilities direction. From November 2010 to August 2012, she provided consulting services to various life sciences companies. From January 2008 to October 2010, Ms. Carscadden served as Vice President of Human Resources of Facet Biotech Corporation, a public biotechnology spin-off from PDL BioPharma, Inc. and subsequently acquired by Abbott Laboratories in April 2010.

**Richard E. Kaufman** has served as our Senior Vice President of R&D and Operations and Chief Operating Officer since January 2007. From 1998 to December 2006, Mr. Kaufman held several R&D and Operations leadership positions at Guidant, through its acquisition by Abbott Laboratories in 2006, where he was most recently the Vice President and General Manager of Abbott Bioabsorbable Vascular Solutions, a subsidiary of Abbott Laboratories.

**David A. Lehman** has served as our General Counsel since February 2016. From May 2003 to October 2015, Mr. Lehman served most recently as Senior Vice President, General Counsel and Secretary of Thoratec Corporation, or Thoratec, a cardiology-focused medical device company, where he was responsible for managing Thoratec’s internal legal and healthcare compliance functions.

**Drake R. Parker** has served as our Advisor – Strategic Initiatives since April 2018 and Chief Business Officer from July 2017 to April 2018. From April 2016 to June 2017, Mr. Parker was the Chief Business Officer of Berkeley Lights Inc., an oncology cellular therapeutics company. From May 2013 to January 2016, Mr. Parker was at Merck Pharmaceuticals, Inc., where he was promoted through several assignments to Associate Vice President Oncology for Keytruda. From September 2010 to May 2013, Mr. Parker was the Executive Director of Oncology at Quest Diagnostics, Inc. From June 2004 to August 2010, Mr. Parker was at Roche Pharmaceuticals Inc. (Genentech in the U.S.), where he served in a variety of roles including Group Marketing Director for Oncology.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

In this section we provide an explanation and analysis of the material elements of compensation provided to our President and Chief Executive Officer, our Chief Financial Officer and our three other most highly compensated executive officers who were serving as of December 31, 2017, referred to as the Named Executive Officers, or NEOs. For 2017, those NEOs were:

- Lisa D. Earnhardt, President and Chief Executive Officer;
- Jeryl L. Hilleman, Chief Financial Officer;
- Richard E. Kaufman, Senior Vice President, Chief Operating Officer;
- David A. Lehman, General Counsel; and
- Drake R. Parker, Chief Business Officer.

### *Executive Summary*

We align our executive compensation practices with the success of our business. We do this by providing short-term cash bonuses tied to our financial and operating performance and by granting long-term equity awards. Since our IPO in 2014, we have continued to update our executive compensation program to match the maturity, size, scale and growth of our business. We operate in a highly competitive and rapidly evolving market, and our ability to compete and succeed in this dynamic environment is directly correlated to our ability to recruit, incentivize and retain talented and seasoned medical technology leaders.

### *2017 Business Highlights*

We are a commercial drug delivery company committed to improving the quality of life for patients with ear, nose and throat conditions. Our approved products are steroid releasing implants designed to treat the spectrum of needs among patients who are managed by ENT physicians for chronic sinusitis, one of the most prevalent chronic diseases in the United States and one of the most costly conditions for U.S. employers. We are currently marketing our PROPEL® family of products, consisting of PROPEL®, PROPEL® Mini and PROPEL® Contour, which are used following sinus surgery to deliver steroid locally to treat inflammation and improve surgical outcomes. In addition, we received FDA approval in December 2017 for our SINUVA™ Sinus Implant, a new targeted approach to treating nasal polyp disease in patients who have had previous ethmoid sinus surgery. Through our approved and in-development products, we aspire to deliver treatments to address a spectrum of needs for the estimated 3.5 million U.S. patients who are managed by ENT physicians for chronic sinusitis in the U.S. each year. Chronic sinusitis is one of the most prevalent chronic diseases in the U.S. and one of the most costly conditions for U.S. employers.

In the fiscal year ended December 31, 2017, we achieved several positive business results including:

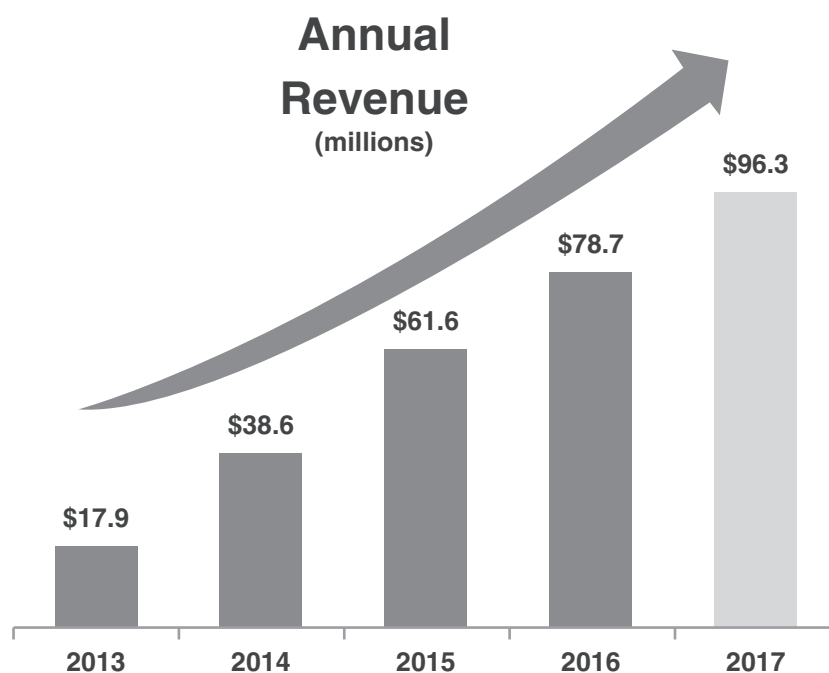
- Annual revenues of \$96.3 million, up 22% year over year;
- Gross Margins of 84% compared with 83% in 2016; and
- Over 200,000 patients treated with the PROPEL family of products since our commercial launch in 2011.

In addition, we continued to drive innovation by advancing our clinical pipeline including:

- In December 2017, we received the FDA's approval to market SINUVA, a bioabsorbable sinus implant designed to treat patients who have had functional endoscopic sinus surgery, or FESS, but continue to suffer recurring symptoms of chronic sinusitis;

- In November 2017, we commenced the ENCORE study, a 50 patient prospective, multicenter, open-label study focused on evaluation of the safety of repeat placement of SINUVA in chronic sinusitis patients with nasal polyps, and enrollment was completed in January 2018;
- In November 2017, the *Journal of the American Medical Association—Otolaryngology-Head & Neck Surgery* published a pivotal study of PROPEL Contour steroid releasing sinus implant, concluding that frontal sinus surgery followed by placement of PROPEL Contour significantly minimizes scarring and inflammation, reducing the need for post-operative surgical and medical interventions compared to standard frontal sinus surgery;
- In October 2017, the results of RESOLVE II, a randomized, blinded, sham-controlled pivotal phase III study evaluating the safety and efficacy of SINUVA, were presented by the co-principal investigator, Robert C. Kern, M.D., Chairman of Otolaryngology—Head and Neck Surgery at Northwestern University Feinberg School of Medicine. The study met the co-primary efficacy endpoints and four pre-specified secondary efficacy endpoints and was subsequently published in the *International Forum of Allergy & Rhinology* in January 2018; and
- In February 2017, we received the FDA’s approval to market PROPEL Contour, for treatment of patients undergoing endoscopic sinus surgery.

The following chart shows the top line revenue growth we have achieved since fiscal year 2013:



### ***Executive Compensation Programs***

Consistent with our general compensation philosophy throughout the Company, the Compensation Committee strives to provide a compensation package to each executive officer that is competitive, rewards achievement of our business objectives, drives the development of a successful and growing business, and aligns the interests of our executive officers with our stockholders through equity ownership in the Company. The Compensation Committee’s 2017 compensation actions and decisions reflect our financial results and business performance, and our executive officers’ accomplishments that helped achieve these results and performance.

### ***Stockholder Advisory Vote to Approve Executive Compensation***

We conducted our second advisory vote on executive compensation, or say-on-pay vote, at our annual meeting of stockholders in 2017. Approximately 98% of the votes cast on the say-on-pay proposal supported the proposal. Our Board and our Compensation Committee value the opinions of our stockholders, and we believe that it is important for our stockholders to have an opportunity to vote on this proposal annually, which is consistent with the frequency preferred by our stockholders who voted on the preferred frequency in 2016. Our Compensation Committee's decisions regarding compensation for 2017 reflected our say-on-pay vote in 2016, which was supported by approximately 99% of the votes cast on the proposal.

Our Compensation Committee has considered the results of the advisory vote in the context of our overall compensation philosophy, policies and decisions. Our Compensation Committee believes that, similar to our 2016 say-on-pay vote, the 2017 stockholder vote endorsed our compensation philosophy and the decisions we made for 2016. After discussing the levels of support, our Compensation Committee decided to generally maintain a consistent course for 2017 compensation decisions.

### **Discussion of our 2017 Executive Compensation Program**

This section provides an overview of our executive compensation philosophy, the overall objectives of our executive compensation program and each component of our executive compensation program. In addition, we explain how and why our Compensation Committee arrived at the specific compensation policies and decisions involving our executive officers during 2017.

The compensation provided to our NEOs for 2017 is set forth in detail in the Summary Compensation Table and other tables following this section as well as in the accompanying footnotes and narratives relating to those tables. This section also discusses our executive compensation philosophy, objectives and design and how and why the Compensation Committee of our Board of Directors arrived at the specific compensation policies and decisions involving our executive team, including our NEOs, during 2017.

### ***Philosophy and Objectives***

The goals of our executive compensation program are to align our executive officers' compensation with our business objectives, and to incentivize our executive officers to achieve these results. Our Compensation Committee believes that it is critical that our executive management team work together to achieve these goals and, as a result, our compensation philosophy also seeks to provide internal equity and promote cooperation among executives and across the Company. In addition, because our headquarters is located in the San Francisco Bay Area, our executive compensation program must also be highly competitive not only with our pharmaceutical, biotechnology and medical device peers, but also with other sectors, especially technology, with which we compete for executive talent.

To achieve these objectives, our Compensation Committee has designed our executive compensation program to contain short- and long-term components, cash and equity and fixed and contingent payments, in proportions that it believes are the most appropriate to incentivize and reward our executive officers for achieving our business objectives. By providing competitive compensation packages that will attract and retain talented executive officers, as well as highly-skilled employees at other levels, we believe that stockholder value will be enhanced over the long term.

The objectives of our executive compensation program include the following:

- Recruit, incentivize and retain highly qualified executive officers who possess the skills and leadership necessary to grow our business;
- Reward our executive officers for achieving or exceeding our strategic and financial goals;

- Align the interests of our executive officers with those of our stockholders;
- Reflect our long-term strategy;
- Promote a healthy approach to risk and be sensitive to underperformance as well as outperformance; and
- Provide compensation packages that are competitive, reasonable and fair relative to peers and the overall market.

### ***Decision-Making Process***

Compensation decisions for our executive officers are made by our Compensation Committee, with input from Radford, our independent compensation consultant, as well as from Ms. Earnhardt (except with respect to her own compensation) and management. Our Compensation Committee reviews the cash and equity compensation of our executive officers to ensure that our executive officers are properly incentivized and makes adjustments as necessary.

We use compensation data from our peer group as general guidance, to aid our Compensation Committee's assessment of executive officer compensation and as one of several factors that inform our judgment of appropriate compensation parameters for target compensation levels. We generally seek to provide total targeted direct compensation that is competitive and, depending on Company and individual performance, may pay above or below median.

Our Compensation Committee makes compensation decisions after consideration of many different factors, including the following:

- The performance and experience of each executive officer;
- The scope and strategic impact of the executive officer's responsibilities;
- Our past business performance and future expectations;
- Our long-term goals and strategies;
- The performance of our executive team as a whole;
- For each executive officer, other than our CEO, the evaluation and recommendation of our CEO;
- The difficulty and cost of replacing high-performing leaders with in-demand skills;
- The past compensation levels of each individual;
- The relative compensation among the executive officers; and
- The competitiveness of compensation relative to data from our peer group.

### ***Role of Compensation Committee***

Pursuant to its charter, our Compensation Committee is primarily responsible for establishing, approving and adjusting compensation arrangements for our NEOs, including our CEO, and for reviewing and approving corporate goals and objectives relevant to these compensation arrangements, evaluating executive performance and considering factors related to the performance of the Company, including accomplishment of our long-term business and financial goals. For additional information about our Compensation Committee, see "Corporate Governance—Board Committees and Meetings—Compensation Committee" elsewhere in this proxy statement.

Our Compensation Committee has the authority to engage its own advisors to assist it in carrying out its responsibilities. Our Compensation Committee has retained Radford, an AON Hewitt Company, to review and assess our current executive employee compensation practices relative to market compensation practices. For additional information on Radford's engagement, see "*Role of Compensation Consultant*" below.

### ***Role of Management***

Our Compensation Committee works with members of our management, including Ms. Earnhardt (except with respect to her own compensation) and our human resources, finance and legal professionals. Typically, our management assists the Compensation Committee by providing information on corporate and individual performance and management's perspective and recommendations on compensation matters for each executive officers. Ms. Earnhardt makes recommendations, based on her assessment of performance for each executive officer, to our Compensation Committee regarding compensation matters, including the compensation of our NEOs (other than herself). While our Compensation Committee solicits and reviews Ms. Earnhardt's recommendations and proposals with respect to compensation-related matters, our Compensation Committee uses these recommendations and proposals as one of several factors in making compensation decisions.

### ***Role of Compensation Consultant***

Our Compensation Committee has the authority to retain the services and obtain the advice of external advisors, including compensation consultants, legal counsel or other advisors to assist in the evaluation of executive officer compensation. Annually, our Compensation Committee engages Radford to review our executive compensation policies and practices and to conduct an executive compensation market analysis. For 2017, Radford reviewed and advised on all principal aspects of our executive compensation program, including:

- assisting in developing a peer group of publicly traded companies to be used to help assess executive compensation;
- assisting in developing a competitive compensation strategy and consistent executive compensation assessment practices relevant to a public company, including review and recommendation of the equity strategy for the Company covering dilution, grant levels and type of equity;
- meeting regularly with the Compensation Committee to review all elements of executive compensation including the competitiveness of the executive compensation program against approved peer companies covering salary, incentives and equity; and
- assisting in the risk assessment of our compensation program.

During 2017, management also accessed the Radford survey database to gather reference points for non-executive compensation decisions.

Based on the consideration of the various factors as set forth in the rules of the SEC, the Compensation Committee does not believe that its relationship with Radford and the work of Radford on behalf of the Compensation Committee and management has raised any conflict of interest. The Compensation Committee reviews these factors on an annual basis and receives written confirmation from Radford stating its belief that it remains an independent compensation consultant to the Compensation Committee.

### ***Peer Group Considerations***

Our Compensation Committee reviews market data of companies that are comparable to us. With Radford's assistance, our Compensation Committee established our peer group for 2017 compensation decisions, which consists of 20 companies that operate in the medical device, drug delivery and diagnostics industries. In general, these companies had commercial product revenue of less than \$200 million and market capitalization from \$200 million to \$1.5 billion. Our peer group for 2016 consisted of 22 companies meeting the same criteria except that they had market capitalization from \$200 million to \$2 billion. The Compensation Committee changed these metrics to better align with our market capitalization and the companies with whom we compete for employees. As a result, the Compensation Committee added Glaukos and Otonomy to the peer group and removed Cutera, DURECT, LDR Holdings and Ocular Therapeutix from the peer group. The 2017 peer group comprised the following companies:

AtriCure	Glaukos	STAAR Surgical Company
Cardiovascular Systems	Inogen	SurModics
Cerus Corporation	LeMaitre Vascular	Tandem Diabetes Care
Endologix	Nevro	Vascular Solutions
Entellus Medical	Otonomy	Veracyte
Foundation Medicine	Revance Therapeutics	ZELTIQ Aesthetics
GenMark Diagnostics	Spectranetics	

Our Compensation Committee believes that peer group comparisons are useful guidelines to measure the competitiveness of our compensation practices. Our Compensation Committee has not adopted any formal benchmarking guidelines and maintains discretion to set levels of executive compensation above or below peer levels. This determination is generally based upon distinguishing factors such as our internal pay equity and compensation budget, individual performance and contribution to the Company, an executive's level of experience and responsibilities and comparability of roles within other peer companies.

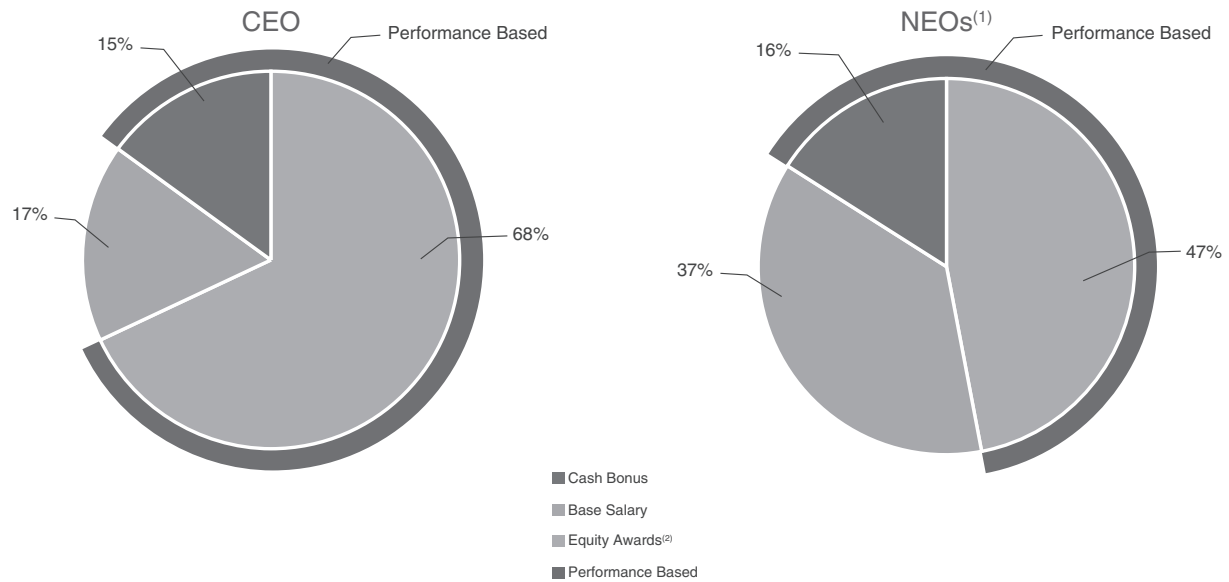
### **Components of Compensation Program and 2017 Compensation**

Our executive compensation program consists of the following primary components:

- base salary;
- cash bonuses;
- long-term equity compensation; and
- severance and change-in-control related benefits.

We also provide our executive officers, including our NEOs, comprehensive employee benefit programs such as medical, dental and vision insurance, a 401(k) plan, life and disability insurance, flexible spending accounts, an employee stock purchase plan program and other plans and programs made available to eligible employees.

We believe these elements provide a compensation package that helps attract and retain qualified individuals, links individual performance to Company performance, focuses the efforts of our executive officers, including our NEOs, on the achievement of both our short- and long-term objectives and aligns the interests of our executive officers, including our NEOs, with those of our stockholders. The chart below shows the pay mix of our CEO and NEOs who were employed during 2017:



(1) Excludes CEO as well as Mr. Parker who joined the Company in July 2017.

(2) Service based vesting.

### ***Base Salaries***

We pay base salaries to our NEOs to compensate them for their day-to-day services. The salaries typically are used to recognize the experience, skills, knowledge and responsibilities of each NEO, although competitive market conditions also play a role in setting salary levels. The salaries of our NEOs are reviewed on an annual basis by Ms. Earnhardt (other than with respect to her own salary which is reviewed and determined by our Compensation Committee) and our Compensation Committee. This review is supplemented by market data, as well as assessments of the performance of our executive officers, including our NEOs, by Ms. Earnhardt and our Compensation Committee.

### **2017 Base Salaries**

At the beginning of 2017, our Compensation Committee reviewed and revised the base salaries of all of our NEOs. These changes were made in consultation with Ms. Earnhardt, other than with respect to her own salary, and after consideration of peer group data provided by Radford, an independent compensation consulting firm, as well as the long-term equity compensation and existing equity holdings of each NEO at that time, in order to be competitive with our peers and to properly motivate and incentivize our management team. The table below sets forth the annual base salaries for our NEOs for 2017. Based on the recommendation from Radford, the Compensation Committee determined to adjust the NEO's base salary to align with the 50<sup>th</sup> percentile for their respective positions.

<u>Name</u>	<u>2017 Base Salary</u>	<u>Increase</u>
Lisa D. Earnhardt	\$540,000	2.9%
Jeryl L. Hilleman	367,900	3.5
Richard E. Kaufman	342,900	3.5
David A. Lehman	350,200	3.0
Drake R. Parker (1)	330,000	N/A

(1) Joined the Company in July 2017

### **Cash Bonuses**

A key compensation objective is to have a significant portion of each NEO's compensation tied to performance. To help accomplish this objective, we provide for performance-based cash bonus opportunities for our NEOs, based solely on achievement against annual corporate performance objectives.

At the end of 2016, our Board of Directors approved our 2017 operating plan, which included performance objectives that our Compensation Committee used to design our NEOs' cash bonus opportunity for 2017. Pursuant to our executive bonus plan, the Compensation Committee considered a number of factors in determining the performance objectives applicable to our NEOs' cash bonus opportunities and determined that, as in prior years, objectives for our NEOs related to sales and advancement of our clinical pipeline continued to be appropriate and aligned to the Company's growth strategy. Our Compensation Committee, in an effort to continue to motivate Ms. Earnhardt and our other NEOs to further grow and develop our business, established financial and clinical milestone objectives for 2017 that it considered aggressive and attainable only with focused effort and execution by our NEOs. These objectives were identified as those that our Compensation Committee felt would increase stockholder value consistent with our overall growth strategy.

### **2017 Target Cash Bonus**

As in prior years, the target annual cash bonus opportunities for our NEOs were expressed as a percentage of their respective base salaries. For 2017, the Compensation Committee sought to set the target bonus opportunity for our NEOs to be generally consistent with the 50<sup>th</sup> percentile of our compensation peer group. The table below shows the target bonus amount for each NEO as a percentage of base salary and as a corresponding cash amount:

<u>Name</u>	<u>2017 Target Bonus</u>		<u>2016 Target Bonus</u>
	<u>Annual Cash</u>	<u>Percent of Salary</u>	<u>Percent of Salary</u>
Lisa D. Earnhardt	\$405,000	75.0%	75.0%
Jeryl L. Hilleman	165,555	45.0	40.0
Richard E. Kaufman (1)	131,178	40.0	35.0
David A. Lehman	140,080	40.0	40.0
Drake R. Parker (2)	45,313	35.0	N/A

- (1) In May 2017, Mr. Kaufman's target bonus was increased from 35% to 40% to reflect his expanded responsibilities to include oversight of regulatory affairs and quality assurance and his annual cash target bonus has been prorated accordingly.
- (2) Annual cash target bonus is prorated from date of hire in July 2017.

For 2017, we established goals regarding revenue (40% of target bonus), other financial performance measures (10% of target bonus), meeting product candidate progress milestones (40% of target bonus) and peer publication targets (10% of target bonus). These targets had a minimum threshold below which a reduced bonus could not be earned for a component. These components also had upside recognition, with the bonus increasing with overachievement to a total maximum bonus of 200%. The target levels for the components were set to be aggressive, yet achievable with diligent effort. The revenue related goals were to achieve \$87 million in revenue and to have 500 or more accounts reorder PROPEL Contour, both of which we exceeded. The other financial performance measures were to achieve an 84% or higher gross margin and to manage operating expenses to within 5% of plan, both of which we achieved. The product candidate progress milestones were to submit our New Drug Application for SINUVA to the FDA by a certain date, to achieve a successful pre-approval inspection for SINUVA and a clinical readiness review or design review for a product candidate, which we achieved overall. An additional goal was to achieve a certain minimum number of peer publications, which we did not achieve. In addition, we had a 20% outperform target goal to obtain FDA approval for SINUVA in 2017, which we achieved and is included in the product candidate progress goal in the table below. In May 2017, in addition to Mr. Kaufman's target bonus, we established a \$100,000 bonus for Mr. Kaufman, to be earned upon the FDA's New Drug Application approval of SINUVA, together with the achievement of a SINUVA manufacturing goal. This bonus was not earned.

Following the close of 2017, the Compensation Committee reviewed our performance against the goals set at the beginning of the year and determined that we had achieved 132.1% of the established goals as set forth in the table below. The Compensation Committee then approved payment of the bonuses to our NEOs based on these results.

Goals	Percent Achieved	
	Goal	Bonus
Revenue targets	155.3%	62.1%
Other financial performance	100.0	10.0
Product candidates progress (1)	150.0	60.0
Peer publication targets	—	—
		<u>132.1%</u>

- (1) Includes the achievement of a 20% outperform target for obtaining FDA approval for SINUVA in 2017.

The chart below summarizes the total amount of cash bonuses awarded to our NEOs for 2017 performance, relative to the target award opportunity established for each executive officer at the beginning of the year.

Name	2017 Annual Cash Bonus	
	Target	Earned
Lisa D. Earnhardt	\$405,000	\$534,729
Jeryl L. Hilleman	165,555	218,587
Richard E. Kaufman (1)	131,178	173,634
David A. Lehman	140,080	184,947
Drake R. Parker (2)	45,313	59,859

- 
- (1) In May 2017, Mr. Kaufman's target bonus was increased from 35% to 40% to reflect his expanded responsibilities to include oversight of regulatory affairs and quality assurance and his annual cash bonus has been prorated accordingly.
  - (2) Annual cash bonus is prorated from date of hire in July 2017.

### ***Long-Term Equity Compensation***

We believe that strong, long-term corporate performance is achieved with a corporate culture that encourages a long-term focus by our executive officers, including our NEOs, as well as by all of our other employees. We believe that the use of stock-based awards, the value of which depends on our stock performance, is an important tool to achieve strong long-term performance. Since our IPO in 2014 and through the end of 2016, the only equity awards we have granted to our executive officers are stock options, which vest over four years. In 2017, we began granting a combination of stock options and restricted stock units to be consistent with market practice and to attract, motivate and retain top talent. We believe stock options and restricted stock units promote alignment of the interests of our executive officers with the long-term interests of our stockholders and are consistent with market practices. Stock options provide an important tool for us to attract, motivate and retain our highly sought after NEOs since the value of the awards is delivered to our NEOs over a four-year period subject to continued service with us and will only have value if the stock price increases. Awards of restricted stock units align the interests of NEOs with the interests of stockholders through stock ownership, increase the reward to the NEOs when our stock price increases and serve as a retention tool for the NEOs.

The value of the stock options and restricted stock units awarded to each NEO in 2017 was determined based on the Compensation Committee's assessment of a number of factors, including the role and responsibility of the NEO, Company and individual performance, external market data and the expected contribution of the executive to future results, in order to be competitive with our peers and to properly motivate and incentivize our management team. The Compensation Committee also considered the value of the NEO's equity holdings and previously granted equity awards in determining these awards, but did not directly increase or decrease awards based on these other holdings. The Compensation Committee believes that these goals serve to attract and retain top talent and at the same time provide that a significant proportion of our executives' compensation is aligned with the incentives of our stockholders.

After its analysis and review of these factors, our Compensation Committee approved grants of stock options and restricted stock units to our NEOs for 2017 as set forth in the table below.

Name	2017	
	Stock Options Granted	Stock Awards Granted
Lisa D. Earnhardt	252,000	54,000
Jeryl L. Hilleman	70,000	15,000
Richard E. Kaufman	42,000	9,000
David A. Lehman	42,000	9,000
Drake R. Parker (1)	50,000	—

- 
- (1) Mr. Parker's option awards were awards associated with his joining the Company.

### ***Severance and Change-in-Control Related Benefits***

We provide change-in-control, or CIC, severance benefits to each of our NEOs to provide protections in the event of their termination of employment following a CIC of our Company. The Compensation Committee believes that these protections serve our retention objectives by helping our NEOs maintain continued focus and dedication to their responsibilities to maximize stockholder value, including in the event of a transaction that

could result in a CIC of our Company. For a summary of the material terms and conditions of these severance and CIC arrangements, see the section entitled “Potential Change-in-Control and Severance Benefits” in this proxy statement.

## **Other Compensation Policies and Information**

### ***Policy Against Speculative Transactions***

We maintain an Insider Trading Policy that, among other things, prohibits our officers, including our NEOs, directors and employees from engaging in, among other things, short sales, hedging of stock ownership positions, and transactions involving derivative securities relating to our common stock.

### ***Equity Grant Timing***

Our long-term equity incentive awards are granted from our 2014 Equity Incentive Plan. We generally grant stock options to newly hired employees shortly after the employee’s start date, and subject to prior approval of the Compensation Committee or our CEO pursuant to the authority delegated to her, as appropriate. We generally grant merit based equity grants on an annual basis in the first quarter of each new year, with the grant date occurring at a regularly scheduled meeting of our Compensation Committee or a date agreed upon in advance with the Compensation Committee. We do not time the granting of equity awards to coordinate with the release of material non-public information.

### ***Stock Ownership Guidelines***

We have considered, but have not adopted, stock ownership guidelines for our NEOs nor our directors, and this is consistent with the practice of a majority of our peer group companies. We do expect to consider adopting stock ownership guidelines again in the future.

### ***Compensation Recovery Policy***

As a public company subject to Section 304 of the Sarbanes-Oxley Act of 2002, if we are required to restate our financial results as the result of misconduct or due to our material noncompliance with any financial reporting requirements under the federal securities laws, our CEO and CFO may be legally required to reimburse us for any bonus or incentive-based or equity-based compensation they receive during the relevant period. In addition, we will comply with the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act and will evaluate adopting a compensation recovery policy once final regulations on the subject have been adopted.

## **Impact of Accounting and Tax Requirements on Compensation**

### ***Deductibility of Executive Compensation***

Section 162(m) of the Code generally limits the deductibility of compensation paid by a public company to certain of its executive officers to \$1.0 million per executive per year, unless specified requirements are met. Under a transition rule that applies to newly-public companies, we are currently exempt from this limitation during a reliance period that will end at our 2018 annual meeting. As a result, our Compensation Committee did not consider the impact of Code Section 162(m) on compensation granted to our executive officers during 2017, including the NEOs, but it expects to do so in the future. The exemption from the deduction limit under Section 162(m) of the Code for “performance-based compensation” has been repealed, effective for taxable years beginning after December 31, 2017, such that compensation paid to our “covered employees” in excess of \$1 million after the end of the reliance period following our IPO will not be deductible unless it qualifies for transition relief applicable to certain arrangements in place as of November 2, 2017. Our Compensation Committee will monitor the applicability of Section 162(m) of the Code to its ongoing compensation

arrangements. Because of ambiguities and uncertainties as to the application and interpretation of Section 162(m) of the Code and the regulations issued thereunder, including the uncertain scope of the transition relief under the legislation repealing the “performance-based compensation” exemption from the deduction limit, no assurance can be given that any compensation will be eligible for the exemption. In determining the form and amount of compensation for our NEOs, our Compensation Committee may continue to consider all elements of the cost of such compensation, including the potential impact of Section 162(m). While the Compensation Committee may consider the deductibility of awards as one factor in determining executive compensation, the Compensation Committee may also look at other factors in making its decisions and retains the flexibility to award compensation that it determines to be consistent with the goals of our executive compensation program, even if the awards are not deductible by us for tax purposes.

### ***Accounting Considerations***

The accounting impact of our executive compensation program is one of many factors that the Compensation Committee considers in determining the size and structure of that program. Under Financial Accounting Standard Board ASC Topic 718, or ASC 718, we are required to estimate and record an expense for each award of equity compensation over the vesting period of the award. We record share-based compensation expense on an ongoing basis according to ASC 718. The Compensation Committee has considered, and may in the future consider, the grant of performance-based or other types of stock awards to executive officers in lieu of or in addition to stock option and restricted stock unit award grants in light of the accounting impact of ASC 718 and other considerations.

### ***Taxation of “Parachute” Payments and Deferred Compensation***

We did not provide any executive officer, including any NEO, with a “gross-up” or other reimbursement payment for any tax liability that he or she might owe as a result of the application of Sections 280G, 4999, or 409A of the Code during 2017, and we have not agreed and are not otherwise obligated to provide any NEO with such a “gross-up” or other reimbursement. Sections 280G and 4999 of the Code provide that executive officers and directors who hold significant equity interests and certain other service providers may be subject to an excise tax if they receive payments or benefits in connection with a CIC that exceeds certain prescribed limits, and that the Company, or a successor, may forfeit a deduction on the amounts subject to this additional tax. Section 409A also imposes additional significant taxes on the individual in the event that an executive officer, director or other service provider receives “deferred compensation” that does not meet the requirements of Section 409A of the Code.

### ***Compensation Risk Assessment***

Our Compensation Committee assesses and considers potential risks when reviewing and approving our compensation policies and practices for our executive officers and our employees. We have designed our compensation programs, including our incentive compensation plans, with features to address potential risks while rewarding employees for achieving financial and strategic objectives through prudent business judgment and appropriate risk taking. Based upon its assessment, our Compensation Committee believes that any risks arising from our compensation programs do not create disproportionate incentives for our NEOs to take risks that could have a material adverse effect on us in the future.

### ***Insider Trading Policy***

We recognize that our employees and directors may sell shares from time to time in the open market, particularly in connection with exercises of stock options. All such transactions are required to comply with our insider trading policy. Under our insider trading policy, employees and directors may only purchase or sell our securities during “window” periods, which begin on the third business day following the date of each annual or quarterly earnings announcement and end two weeks before the end of the next fiscal quarter. The only

exceptions to this are for purchases under our Employee Stock Purchase Plan, automatic sell-to-cover provisions of restricted stock units where the insider has no discretion in directing the sale, and for employees and directors who have entered into a trading plan pursuant to Rule 10b5-1 of the Exchange Act. Our insider trading policy also prohibits our employees and directors from engaging in hedging transactions in our common stock or from holding our common stock in a margin account or pledging it as collateral for a loan.

## Report of the Compensation Committee

The Compensation Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Mr. Dana G. Mead, Jr. (Chair)

Ms. Teresa L. Kline

Mr. W. Anthony Vernon

## Summary Compensation Table

The following table provides certain information concerning the compensation earned by each of the following individuals (the “NEOs”): our President and Chief Executive Officer, our Chief Financial Officer and our three other most highly compensated executive officers who were serving as of December 31, 2017:

Name and Principal Position	Year	Salary	Bonus	Stock Options (1)	Stock Awards (1)	Non-Equity Incentive Plan Compensation (2)	All Other Compensation	Total
Lisa D. Earnhardt <i>President and Chief Executive Officer</i>	2017	\$539,721	\$ —	\$1,483,701	\$704,700	\$534,729	\$2,045 (3)	\$3,264,896
	2016	523,551	—	1,861,256	—	385,988	2,030	2,772,825
	2015	442,436	—	1,498,469	—	229,845	1,559	2,172,309
Jeryl L. Hilleman <i>Chief Financial Officer</i>	2017	367,713	—	412,139	195,750	218,587	3,386 (4)	1,197,575
	2016	355,354	—	620,419	—	139,725	3,486	1,118,984
	2015	357,882	—	499,490	—	148,736	3,011	1,009,119
Richard E. Kaufman <i>Senior Vice President and Chief Operating Officer</i>	2017	342,686	—	247,284	117,450	173,634	1,500 (5)	882,554
	2016	331,013	—	413,612	—	113,885	1,500	860,010
	2015	324,086	—	249,745	—	117,854	1,125	692,810
David A. Lehman <i>General Counsel</i>	2017	350,014	—	247,284	117,450	184,947	1,500 (5)	901,195
	2016	277,245	—	1,021,086	—	109,013	1,500	1,408,844
Drake R. Parker (6) <i>Chief Business Officer</i>	2017	129,467	40,000	624,535	—	59,859	1,500 (5)	855,361

(1) The amounts represent the grant date fair value of stock options granted, calculated in accordance with ASC Topic 718. The valuation assumptions used in determining such amounts are described in Note 6 to our financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

(2) Represents payments pursuant to our corporate bonus plan. At the beginning of each year, the Compensation Committee approves specific Company performance milestones. Bonuses are determined at year-end based upon the level of achievement of the milestones. Approved bonuses are paid by March of the following year.

(3) Consists of (a) \$1,500 for 401(k) plan matching contribution and (b) \$545 for life insurance premiums paid by us.

(4) Consists of (a) \$1,500 for 401(k) plan matching contribution and (b) \$1,886 for life insurance premiums paid by us.

(5) Represents 401(k) plan matching contribution paid by us.

(6) Joined the Company in July 2017. In connection with his offer of employment, he received a \$40,000 sign-on bonus which is reflected in the Bonus column.

## Grants of Plan-Based Awards

The following table provides information regarding grants of plan-based awards to the NEOs during the fiscal year ended December 31, 2017:

Name	Grant Date	Estimated Future Payouts of Non-Equity Incentive Plan (1)			All Other Stock Options (2)	Exercise Price	All Other Stock Awards (3)	Grant Date Fair Value of Options and Awards (4)
		Threshold	Target	Maximum				
Lisa D. Earnhardt	1/18/2017	\$—	\$405,000	\$810,000	252,000	\$13.05	54,000	\$2,188,401
Jeryl L. Hilleman	1/18/2017	—	165,555	331,110	70,000	13.05	15,000	607,889
Richard E. Kaufman	1/18/2017	—	131,178	262,356	42,000	13.05	9,000	364,734
David A. Lehman	1/18/2017	—	140,080	280,160	42,000	13.05	9,000	364,734
Drake R. Parker (5)	7/27/2017	—	45,313	90,626	50,000	27.30	—	624,535

- (1) The target incentive plan amounts represent the payouts that would have occurred based on the 100% achievement of 2017 performance goals. No minimum threshold amount was established and a maximum amount of 200% of target was established. Actual cash incentive bonus plan payouts are reflected in the Non-Equity Incentive Plan Compensation column of the “Summary Compensation Table.”
- (2) The shares subject to each option vest commencing January 1, 2017 in equal monthly installments over four years following a six month cliff vesting period, except for Mr. Parker’s, of which 25% of the shares subject to the option will vest on the one year anniversary from the grant date and 1/48th of the shares subject to the option vest monthly thereafter over the remaining three years.
- (3) The shares subject to each RSU vest commencing January 1, 2017 in equal annual installments over three years, except for Mr. Parker.
- (4) The amounts represent the grant date fair value of stock options granted, calculated in accordance with ASC Topic 718. The valuation assumptions used in determining such amounts are described in Note 6 to our financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.
- (5) Target incentive plan amounts are prorated from date of hire in July 2017.

## Offer Letters

We extended offer letters to each of our NEOs in connection with their employment. The letters generally provide for at-will employment and set forth the NEO’s initial base salary, initial equity grant amount and eligibility for employee benefits. In addition, each of our NEOs has executed a form of our standard confidential information and invention assignment agreement. The key terms of the offer letters extended to our NEOs that continue to be in effect are described below.

### *Lisa D. Earnhardt*

In January 2008, we extended an offer letter to Ms. Earnhardt to be our President and Chief Executive Officer. The letter was subsequently amended in July 2013. Pursuant to her offer letter, as amended, if, within 12 months following a CIC, Ms. Earnhardt’s employment is terminated without “cause” or she resigns for “good reason,” all unvested shares subject to her outstanding options shall accelerate in full. In addition, in the event of Ms. Earnhardt’s death, permanent disability, resignation for “good reason” or termination without “cause,” (1) all unvested shares subject to her outstanding options shall accelerate in full, (2) she shall receive a lump sum payment equal to her annual target bonus and (3) she shall receive 12 months of her base salary, to be paid monthly. This letter was again amended in January 2015, pursuant to which Ms. Earnhardt will be entitled to 18 months of salary continuation and 18 months of COBRA reimbursement if, within 12 months after a CIC, her employment is terminated by the Company without “cause” or she resigns for “good reason.” The amendment also provides that if, other than in connection with a CIC, Ms. Earnhardt’s employment is terminated by the Company without “cause” or she resigns for “good reason,” she will also be entitled to 12 months of COBRA reimbursement. In addition, the amendment provides that, upon a CIC, the vesting of all outstanding options held by Ms. Earnhardt shall accelerate in full.

***Jeryl L. Hilleman***

In May 2014, we extended an offer letter to Ms. Hilleman to be our Chief Financial Officer. Pursuant to her offer letter, as amended, upon her death, permanent disability, termination or in connection with a CIC, Ms. Hilleman's employment is terminated without "cause" or she resigns for "good reason," and provided such termination constitutes a "separation from service," (1) all unvested shares subject to her outstanding options shall accelerate in full, (2) she shall receive a prorated, lump sum payment equal to her annual target bonus and (3) she shall receive 12 months of her base salary, to be paid monthly. This letter was subsequently amended in January 2015, pursuant to which Ms. Hilleman will also be entitled to 12 months of COBRA reimbursement if her employment is terminated by the Company without "cause" or she resigns for "good reason," whether or not such termination is in connection with or following a CIC. In addition, the amendment provides that, upon a CIC, the vesting of all outstanding options held by Ms. Hilleman shall accelerate in full.

***Richard E. Kaufman***

In December 2006, we extended an offer letter to Mr. Kaufman to be our Vice President and Chief Operating Officer. The letter was subsequently amended in November 2013 and January 2015. Pursuant to his offer letter, as amended, upon the occurrence of a CIC, all outstanding stock options held by Mr. Kaufman shall be accelerated such that 50% of the unvested shares shall be fully vested. In addition, if, within 12 months following a CIC, Mr. Kaufman's employment is terminated without "cause" or he resigns for "good reason," and provided such termination is in connection with such CIC and constitutes a "separation from service," (1) all unvested shares subject to his outstanding options shall accelerate in full, (2) he shall receive a prorated, lump sum payment equal to his annual target bonus, (3) he shall receive six months of his base salary, to be paid monthly and (4) he will also be entitled to six months of COBRA reimbursement. If, other than in connection with a CIC, Mr. Kaufman's employment is terminated by the Company without "cause" or he resigns for "good reason," he will also be entitled to six months of salary continuation and six months of COBRA reimbursement. This letter was again amended in May 2017, pursuant to which if Mr. Kaufman's employment is terminated without "cause", or if Mr. Kaufman resigns for "good reason" within 12 months of a CIC, in exchange for a release in favor of the Company, Mr. Kaufman will be entitled to (i) a severance payment, equal to 12 months of his base salary, and (ii) 12 months of COBRA reimbursement.

***David A. Lehman***

In February 2016, we extended an offer letter to Mr. Lehman to be our General Counsel. Pursuant to his offer letter, if Mr. Lehman's employment is terminated without "cause" or he resigns for "good reason," whether or not such termination is in connection with or following a CIC, and provided such termination constitutes a "separation from service," (1) he shall receive 12 months of his base salary, to be paid monthly, (2) he shall receive a prorated, lump sum payment equal to his annual target bonus, (3) all unvested shares subject to his outstanding options shall accelerate in full, and (4) he shall be entitled to 12 months of COBRA reimbursement. In addition, upon a CIC, the vesting of all outstanding options held by Mr. Lehman shall accelerate in full.

***Drake R. Parker***

In July 2017, we extended an offer letter to Mr. Parker to be our Chief Business Officer. Pursuant to his offer letter, if Mr. Parker's employment is terminated without "cause" or he resigns for "good reason," whether or not such termination is in connection with or following a CIC, and provided such termination constitutes a "separation from service," (1) he shall receive 12 months of his base salary, to be paid monthly, (2) he shall receive a prorated, lump sum payment equal to his annual target bonus, and (3) he shall be entitled to 12 months of COBRA reimbursement. In addition, if Mr. Parker's employment is terminated without "cause" or he resigns for "good reason," in connection with or following a CIC, then 100% of the then unvested shares subject to stock options and restricted stock units held shall be fully vested. We entered into a separation agreement with Mr. Parker, effective April 2, 2018. Under this separation agreement, Mr. Parker will serve as an Advisor — Strategic Initiatives until July 31, 2018. Subject to Mr. Parker's timely execution and non-revocation of a waiver

and release of claims on the last day of his employment, we will provide Mr. Parker with the following benefits: (1) cash severance of eight months of Mr. Parker's annual base salary plus 25% of Mr. Parker's target annual bonus; and (2) Mr. Parker will be eligible to receive COBRA reimbursement until April 30, 2019, so long as he timely elects such continued coverage. The foregoing description of the separation agreement is qualified in its entirety by reference to the full text of the separation agreement, which will be filed as an exhibit to our Quarterly Report on Form 10-Q for the second quarter ended June 30, 2018.

As set forth in these offer letters: (1) "cause" includes commissions of crimes or other material acts of dishonesty, engagement in any activity the executive officer knows could materially harm our business or reputation, material failure to adhere to our corporate codes, policies or procedures, material violation of any statutory, contractual, or common law duty or obligation to us or material breach of the executive officer's confidentiality agreement with us, or the failure to substantially perform assigned duties or responsibilities after notice and opportunity to cure; and (2) "good reason" includes a relocation of the office where the executive officer is assigned to a location of more than 35 miles away (50 miles in the case of Ms. Earnhardt), a material decrease in base salary (except for salary decreases generally applicable to our other executive employees), or a material reduction in the scope of duties or responsibilities, in each case without the executive officer's written consent; *provided, however*, with the exception of Ms. Earnhardt, to resign for Good Reason the executive officer must provide notice to us and give us 30 days to cure the event giving rise to Good Reason, and if not cured then must resign within 90 days of the expiration of the cure period.

### Potential Change-in-Control and Severance Benefits

The following table provides information regarding the approximate amount of the benefits to which each of our NEOs would have been entitled to, had their employment terminated under the circumstances described in the preceding paragraphs on December 31, 2017:

Name	Event	Salary Continuation (1)	Maximum Bonus (2)	COBRA Reimbursement (3)	Option and Stock Award Acceleration (4)	Total (5)
Lisa D. Earnhardt	At CIC (6)	\$ —	\$ —	\$ —	\$7,551,063	\$7,551,063
	Qualified termination (7)	540,000	405,000	26,226	7,551,063	8,522,289
	Qualified termination with CIC (8)	810,000	405,000	39,339	7,551,063	8,805,402
Jeryl L. Hilleman	At CIC (6)	—	—	—	2,676,504	2,676,504
	Qualified termination (7)	367,900	165,555	25,942	2,676,504	3,235,901
	Qualified termination with CIC (8)	367,900	165,555	25,942	2,676,504	3,235,901
Richard E. Kaufman	At CIC (6)	—	—	—	673,203	673,203
	Qualified termination (7)	171,450	—	13,113	—	184,563
	Qualified termination with CIC (8)	342,900	131,178	26,226	1,346,406	1,846,710
David A. Lehman	At CIC (6)	—	—	—	1,932,061	1,932,061
	Qualified termination (7)	350,200	140,080	26,226	1,932,061	2,448,567
	Qualified termination with CIC (8)	350,200	140,080	26,226	1,932,061	2,448,567
Drake R. Parker (9)	At CIC (6)	—	—	—	—	—
	Qualified termination (7)	330,000	45,313	—	—	375,313
	Qualified termination with CIC (8)	330,000	45,313	—	255,000	630,313

- (1) Pursuant to the NEOs' offer letters, as amended, to be paid monthly over their respective number of months.
- (2) Pursuant to the NEOs' offer letters, as amended, to be prorated over the portion of the year, except for Ms. Earnhardt who will receive her full annual bonus.
- (3) Pursuant to the NEOs' offer letters, as amended, to be reimbursed over their respective number of months, based on health plan(s) the NEO is participating in at December 31, 2017.
- (4) Pursuant to the NEOs' offer letters, as amended, the vesting of all outstanding options and RSUs will be accelerated by their respective percentages. The dollar amounts represent the difference in the closing price of our common stock on December 29, 2017, \$32.40, with respect to the outstanding unvested options, minus the exercise price of the outstanding unvested options, and closing price multiplied by the unvested RSUs.
- (5) Total does not include amounts earned or benefits accrued due to continued service by the NEO through December 31, 2017, such as vested options and RSUs. Total also does not include amounts the NEOs were eligible to receive under our annual bonus plan with respect to 2017 performance.

- (6) Upon the occurrence of a CIC transaction.
- (7) If, other than in connection with a CIC transaction, employment is terminated without cause or for good reason.
- (8) If, in connection with a CIC transaction or within twelve (12) months after a CIC transaction, a separation from service occurs.
- (9) Maximum bonus amount is prorated from date of hire in July 2017.

## Outstanding Equity Awards

The following table provides information regarding outstanding equity awards held by the NEOs as of December 31, 2017:

Name	Grant Date	Vesting Commencement Date	Options				Unvested Stock Awards	
			Number of Securities Underlying Unexercised Options		Exercise Price	Expiration Date	Shares	Market Value (1)
			Exercisable	Unexercisable				
Lisa D. Earnhardt	1/18/2017	1/1/2017	57,750	194,250	\$13.05	1/17/2027	54,000	\$1,749,600
	1/15/2016	1/1/2016	107,812	117,188	18.90	1/14/2026	—	—
	1/21/2015	1/1/2015	109,375	40,625	21.06	1/20/2025	—	—
	4/23/2013	11/30/2013	89,349	—	1.20	4/22/2023	—	—
Jeryl L. Hilleman	1/18/2017	1/1/2017	16,042	53,958	13.05	1/17/2027	15,000	486,000
	1/15/2016	1/1/2016	35,937	39,063	18.90	1/14/2026	—	—
	1/21/2015	1/1/2015	36,458	13,542	21.06	1/20/2025	—	—
	6/11/2014	6/4/2014	98,000 (2)	—	11.12	6/10/2024	—	—
Richard E. Kaufman	1/18/2017	1/1/2017	9,625	32,375	13.05	1/17/2027	9,000	291,600
	1/15/2016	1/1/2016	23,958	26,042	18.90	1/14/2026	—	—
	1/21/2015	1/1/2015	18,229	6,771	21.06	1/20/2025	—	—
	4/23/2013	4/23/2013	14,250	—	1.20	4/22/2023	—	—
	4/23/2013	11/30/2013	14,250	—	1.20	4/22/2023	—	—
David A. Lehman	1/18/2017	1/1/2017	9,625	32,375	13.05	1/17/2027	9,000	291,600
	2/22/2016	2/22/2016	23,583	70,417	18.00	2/21/2026	—	—
Drake R. Parker	7/27/2017	7/27/2017	—	50,000	27.30	7/26/2027	—	—

- (1) These awards were valued at \$32.40, the closing price of our common stock on December 29, 2017.
- (2) This stock option is exercisable prior to vesting. Any stock issued upon exercise of unvested options will be subject to repurchase by the Company until vested. Approximately 78% of the shares outstanding subject to this option were vested as of December 31, 2017, and the remainder vest in equal increments on a monthly basis thereafter through June 4, 2018. This option was granted for 175,000 shares, of which 77,000 vested shares have been exercised.

## Option Exercises

The following table provides information regarding shares of our common stock acquired by the NEOs pursuant to exercises of stock options and vesting of RSUs during the fiscal year ended December 31, 2017:

Name	Options		Stock Awards	
	Shares Acquired on Exercise	Value Realized on Exercise (1)	Shares Acquired on Vesting	Value Realized on Vesting
Lisa D. Earnhardt	112,000	\$2,454,181	—	\$—
Jeryl L. Hilleman	77,000	1,390,091	—	—
Richard E. Kaufman	—	—	—	—
David A. Lehman	36,000	531,000	—	—
Drake R. Parker	—	—	—	—

- (1) The value realized on exercise is calculated by multiplying the excess of the market price of our common stock at exercise over the exercise price for the stock options by the number of shares acquired upon exercise.

## **Pay Ratio**

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act and the related SEC rule, we are required to provide to our stockholders specified disclosure regarding the relationship of our CEO's total compensation to the total compensation of our median employee, referred to as "pay-ratio" disclosure.

In accordance with SEC rules, we have identified the median employee as of November 1, 2017 by (i) aggregating for each applicable employee (a) annual base salary for salaried employees (or annual scheduled wages plus overtime for hourly employees), (b) the target incentive pay and/or commissions paid for fiscal year 2017, (c) the accounting value of any equity awards granted during fiscal year 2017, and (d) 401(k) matching contributions, and (ii) ranking this compensation measure for our employees from lowest to highest. This calculation was performed for all employees, excluding Ms. Earnhardt, whether employed on a full-time, part-time or seasonal basis. In making this determination, we annualized the compensation of employees who were employed by the Company for less than the entire fiscal year. This compensation measure was consistently applied to all employees included in the calculation and reasonably reflects the annual compensation of employees. To determine our total population of employees as of November 1, 2017, we included all full-time, part-time and seasonal employees. As permitted under the Rule, in determining the median employee, given the small number, we excluded the one employee located outside of the United States.

Because the SEC rules for identifying the median compensated employee and calculating the pay ratio based on that employee's annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their employee populations and compensation practices, the pay ratio reported by other companies may not be comparable to the pay ratio reported above, as other companies have different employee populations and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios, and therefore the estimated ratio reported should not be used as a basis for comparison between companies.

The intended purpose of this new disclosure is to provide a means for stockholders to better understand and assess each particular Company's compensation practices and pay ratio disclosures. We believe our compensation philosophy and process yield an equitable result for all of our employees. During fiscal year 2017, the principal executive officer of Intersect ENT was our Chief Executive Officer, Ms. Earnhardt. For fiscal year 2017, the combined annual total compensation for Ms. Earnhardt was \$3,264,896, and for our median employee was \$186,187, resulting in a pay ratio of approximately 17.5 to 1. The pay ratio reported is a reasonable estimate prepared under applicable SEC rules based on the methodology described above and on our internal records. Neither the Compensation Committee nor our management used our CEO Pay Ratio measure in making compensation decisions.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table presents information as to the beneficial ownership of our common stock as of January 31, 2018, for:

- each person, or group of affiliated persons, known by us to beneficially own more than 5% of our common stock;
- each NEO;
- each of our directors; and
- all executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Unless otherwise indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Common stock subject to options that are currently exercisable or exercisable within 60 days of January 31, 2018, are deemed to be outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

Percentages of beneficial ownership of our common stock in the table are based on 29,804,937 shares of common stock issued and outstanding on January 31, 2018. Unless otherwise indicated, the address of each of the individuals and entities named below is c/o Intersect ENT, Inc., 1555 Adams Drive, Menlo Park, California 94025:

Name of Beneficial Owners	Beneficial Ownership (1)			
	Shares Beneficially Owned	Shares Exercisable Within 60 days	Total Shares Beneficially Owned	Percentage of Beneficial Ownership
<b>5% and Greater Shareholders:</b>				
Wellington Management Goup LLP (2) c/o Wellington Management Company LLP 280 Congress Street Boston, MA 02210	3,152,558	—	3,152,558	10.6%
Prudential Financial, Inc. (3) 751 Broad Street Newark, New Jersey 07102-3777	2,047,643	—	2,047,643	6.9%
BlackRock Inc. (4) 55 East 52nd Street New York, NY 10055	1,980,942	—	1,980,942	6.6%

Name of Beneficial Owners	Beneficial Ownership (1)			
	Shares Beneficially Owned	Shares Exercisable Within 60 days	Total Shares Beneficially Owned	Percentage of Beneficial Ownership
<b>Directors and Executive Officers:</b>				
Kieran T. Gallahue	8,000	49,006	57,006	*
Teresa L. Kline (5)	—	699	699	*
Cynthia L. Lucchese	5,000	63,298	68,298	*
Dana G. Mead Jr.	5,696	42,529	48,225	*
Frederic H. Moll, M.D.	237,078	63,298	300,376	1.0%
W. Anthony Vernon	—	43,328	43,328	*
Lisa D. Earnhardt (6)	449,365	413,411	862,776	2.9%
Jeryl L. Hilleman	2,932	188,810	191,742	*
Richard E. Kaufman	76,470	89,542	166,012	*
David A. Lehman	1,713	44,833	46,546	*
Drake R. Parker (7)	—	—	—	*
<b>All directors and executive officers as a group (12 persons) (8)</b>	<b>787,110</b>	<b>1,017,192</b>	<b>1,804,302</b>	<b>5.9%</b>

- (1) The percentages are based on 29,804,937 shares of common stock outstanding on January 31, 2018.
- (2) According to the Schedule 13G filed with the SEC on February 8, 2018, Wellington Management Group LLP, or Wellington, reported shares of common stock beneficially owned as of December 31, 2017 by each of Wellington, Wellington Group Holdings LLP, Wellington Investment Advisors Holdings LLP and Wellington Management Company LLP, and that these entities have shared voting power over 2,737,887 shares and shared dispositive power over 3,152,558 shares.
- (3) According to the Schedule 13G filed with the SEC on January 26, 2018, Prudential Financial, Inc., or Prudential, reporting shares of common stock beneficially owned as of December 31, 2017, consist of (a) 2,036,202 shares held by Jennison Associates LLC, or Jennison, (b) 8,871 shares held by PGIM, Inc. and (c) 2,570 shares held by Quantitative Management Associates LLC. Prudential is a parent holding company and the indirect parent of Jennison, which is the beneficial owner of the shares. Jennison filed a separate Schedule 13G with the SEC on February 5, 2018, reporting sole voting and investment power over these shares. Jennison furnishes investment advice to several investment companies, insurance separate accounts, and institutional clients (“Managed Portfolios”). As a result of its role as investment adviser of the Managed Portfolios, Jennison may be deemed to be the beneficial owner of the shares of common stock held by such Managed Portfolios. Prudential indirectly owns 100% of equity interests of Jennison. As a result, Prudential may be deemed to have shared power to exercise or to direct the exercise of such voting and/or dispositive power that Jennison may have with respect to common stock held by the Managed Portfolios.
- (4) According to the Schedule 13G filed with the SEC on January 25, 2018, BlackRock Inc., or BlackRock, reported shares of common stock beneficially owned as of December 31, 2017 by each of BlackRock, BlackRock International Limited, BlackRock Advisors, LLC, BlackRock Investment Management (UK) Limited, BlackRock Asset Management Canada Limited, BlackRock (Netherlands) B.V., BlackRock Fund Advisors, BlackRock Asset Management Ireland Limited, BlackRock Institutional Trust Company, N.A., BlackRock Financial Management, Inc., BlackRock Japan Co., Ltd., BlackRock Asset Management Schweiz AG and BlackRock Investment Management, LLC, and that these entities have sole voting power over 1,933,066 shares and sole dispositive power over 1,980,942 shares.
- (5) Appointed as a member of our Board of Directors in July 2017.
- (6) Shares beneficially owned consist of (a) 423,183 shares of common stock held directly by Ms. Earnhardt and (b) 26,182 shares of common stock held by Ms. Earnhardt as custodian for her son.
- (7) Mr. Parker joined the Company in July 2017.
- (8) Consists of shares beneficially held by the current directors and executive officers.

## SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the 1934 Act requires our directors and executive officers, and persons who own more than ten percent (10%) of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of our Common Stock and other equity securities. Officers, directors and greater than ten percent (10%) stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required during the fiscal year ended December 31, 2017, all Section 16(a) filing requirements applicable to our reporting persons were made and made timely.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides certain information regarding our equity compensation plans in effect as of December 31, 2017:

<u>Equity Compensation Plans</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights (a)</u>	<u>Weighted-Average Exercise Price of Outstanding Options and Rights (b)</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)</u>
Approved by Stockholders (1)	4,062,592	\$16.28	3,505,651
Not Approved by Stockholders	—	—	—
	<u>4,062,592</u>	16.28	<u>3,505,651</u>

- (1) The weighted average exercise price does not include restricted stock units. The number of shares remaining available for future issuance includes 3,352,584 shares available under our 2014 Equity Incentive Plan, or 2014 Plan, and 153,067 shares available under our 2014 Employee Stock Purchase Plan, or 2014 ESPP.

The number of shares of common stock reserved for issuance under the 2014 Plan will automatically increase on January 1 of each year, beginning on January 1, 2015, and continuing through and including January 1, 2024, by 3% of the total number of shares of our capital stock outstanding on December 31 of the preceding calendar year, or a lesser number of shares determined by our Board of Directors.

## **CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

The following is a description of transactions since January 1, 2017, to which we have been a party, in which the amount involved exceeds \$120,000, and in which any of our directors, executive officers or beneficial holders of more than 5% of our common stock, or an affiliate or immediate family member thereof, had or will have a direct or indirect material interest:

### **Director and Executive Compensation Arrangements**

Compensation arrangements for our directors and NEOs are described in this proxy statement under the sections titled “Compensation of Non-Employee Board Members” and “Executive Compensation.”

### **Indemnification Agreements**

We have entered and expect to continue to enter into agreements to indemnify our directors, executive officers and certain employees. With certain exceptions, these agreements provide for indemnification for related expenses including, among other things, attorneys’ fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding. We believe that these bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain customary directors’ and officers’ liability insurance.

### **Employment Arrangements**

We have extended offer letters to our executive officers in connection with their employment as described in greater detail in the section of this proxy statement titled “Executive Compensation.”

### **Policies and Procedures for Related Party Transactions**

Our Board of Directors has adopted a written related-person transaction policy setting forth the policies and procedures for the review and approval or ratification of related person transactions. This policy covers, with certain exceptions set forth in Item 404 of Regulation S-K under the Securities Act, any transaction, arrangement or relationship, or any series of similar or related transactions, arrangements or relationships in which we were or are to be a participant, where the amount involved exceeds \$120,000 and a related person had or will have a direct or indirect material interest, including, without limitation, purchases of goods or services by or from the related person or entities in which the related person has a material interest, indebtedness, guarantees of indebtedness and employment by us of a related person.

In considering related-person transactions, our Audit Committee (or other independent body of our Board of Directors) will take into account the relevant available facts and circumstances including, but not limited to, the risks, costs and benefits to us, the terms of the transaction, the availability of other sources for comparable services or products and, if applicable the impact on a director’s independence in the event that the related person is a director, immediate family member of a director or an entity with which a director is affiliated.

## **CERTAIN MATTERS RELATING TO PROXY MATERIALS AND AVAILABLE INFORMATION**

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy materials and annual reports with respect to two or more stockholders sharing the same address by delivering a single set of proxy materials addressed to those stockholders. This process, which is commonly referred to as “householding,” potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are Intersect ENT stockholders will be “householding” our proxy materials, including the Notice. A single Notice and, if applicable, a single set of proxy materials will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that it will be “householding” communications to your address, “householding” will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in “householding” and would prefer to receive a separate Notice and, if applicable, other proxy materials, please notify your broker, or if you are holding a physical stock certificate, direct your written or oral request to Computershare, Inc., 211 Quality Circle, Suite 210, College Station, TX 77845, telephone number 800-736-3001. You may also direct a written or oral request for the separate Notice and, if applicable, other proxy materials to: Intersect ENT, Inc., Attn: Investor Relations, 1555 Adams Drive, Menlo Park, CA 94025, telephone number (650) 641-2105. Upon receipt of a written or oral request as set forth above, we will promptly deliver to you a separate Notice and if applicable, other proxy materials. Stockholders who currently receive multiple copies of the Notice and, if applicable, other proxy materials at their address and would like to request “householding” of their communications should contact their broker or Computershare Investor Services.

### **OTHER MATTERS**

The Board of Directors knows of no other matters that will be presented for consideration at the annual meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board of Directors

/s/ David A. Lehman  
David A. Lehman  
Secretary

April 23, 2018

**A copy of Intersect ENT’s Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year ended December 31, 2017, is available without charge upon written request to: Intersect ENT, Inc., Attn: Investor Relations, 1555 Adams Drive, Menlo Park, CA 94025.**

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**INTERSECT ENT, INC.**  
**AMENDED AND RESTATED 2014 EMPLOYEE STOCK PURCHASE PLAN**  
**ADOPTED BY THE BOARD OF DIRECTORS: JULY 7, 2014**  
**APPROVED BY THE STOCKHOLDERS: JULY 10, 2014**  
**IPO DATE/EFFECTIVE DATE: JULY 23, 2014**  
**AMENDED AND RESTATED BY THE BOARD OF DIRECTORS: DECEMBER 13, 2017**  
**AMENDMENT AND RESTATEMENT APPROVED BY THE STOCKHOLDERS: [●], 2018**

**1. GENERAL; PURPOSE.**

(a) The Plan provides a means by which Eligible Employees of the Company and certain designated Related Corporations may be given an opportunity to purchase shares of Common Stock. The Plan permits the Company to grant a series of Purchase Rights to Eligible Employees under an Employee Stock Purchase Plan.

(b) The Company, by means of the Plan, seeks to retain the services of such Employees, to secure and retain the services of new Employees and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Related Corporations.

**2. ADMINISTRATION.**

(a) The Board will administer the Plan unless and until the Board delegates administration of the Plan to a Committee or Committees, as provided in Section 2(c).

(b) The Board will have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine how and when Purchase Rights will be granted and the provisions of each Offering (which need not be identical).

(ii) To designate from time to time which Related Corporations of the Company will be eligible to participate in the Plan.

(iii) To construe and interpret the Plan and Purchase Rights, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan, in a manner and to the extent it deems necessary or expedient to make the Plan fully effective.

(iv) To settle all controversies regarding the Plan and Purchase Rights granted under the Plan.

(v) To suspend or terminate the Plan at any time as provided in Section 12.

(vi) To amend the Plan at any time as provided in Section 12.

(vii) Generally, to exercise such powers and to perform such acts as it deems necessary or expedient to promote the best interests of the Company and its Related Corporations and to carry out the intent that the Plan be treated as an Employee Stock Purchase Plan.

(viii) To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees who are foreign nationals or employed outside the United States.

(c) The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration is delegated to a Committee, the Committee will have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board will thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, revert in the Board some or all of the powers previously delegated. Whether or not the Board has delegated administration of the Plan to a Committee, the Board will have the final power to determine all questions of policy and expediency that may arise in the administration of the Plan.

(d) All determinations, interpretations and constructions made by the Board in good faith will not be subject to review by any person and will be final, binding and conclusive on all persons.

### **3. SHARES OF COMMON STOCK SUBJECT TO THE PLAN.**

(a) Subject to the provisions of Section 11(a) relating to Capitalization Adjustments, the maximum number of shares of Common Stock that may be issued under the Plan will not exceed 1,696,092 shares of Common Stock.

(b) If any Purchase Right granted under the Plan terminates without having been exercised in full, the shares of Common Stock not purchased under such Purchase Right will again become available for issuance under the Plan.

(c) The stock purchasable under the Plan will be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market.

### **4. GRANT OF PURCHASE RIGHTS; OFFERING.**

(a) The Board may from time to time grant or provide for the grant of Purchase Rights to Eligible Employees under an Offering (consisting of one or more Purchase Periods) on an Offering Date or Offering Dates selected by the Board. Each Offering will be in such form and will contain such terms and conditions as the Board will deem appropriate, and will comply with the requirement of Section 423(b)(5) of the Code that all Employees granted Purchase Rights will have the same rights and privileges. The terms and conditions of an Offering shall be incorporated by reference into the Plan and treated as part of the Plan. The provisions of separate Offerings need not be identical, but each Offering will include (through incorporation of the provisions of this Plan by reference in the document comprising the Offering or otherwise) the period during which the Offering will be effective, which period will not exceed 27 months beginning with the Offering Date, and the substance of the provisions contained in Sections 5 through 8, inclusive.

(b) If a Participant has more than one Purchase Right outstanding under the Plan, unless he or she otherwise indicates in forms delivered to the Company: (i) each form will apply to all of his or her Purchase Rights under the Plan, and (ii) a Purchase Right with a lower exercise price (or an earlier-granted Purchase Right, if different Purchase Rights have identical exercise prices) will be exercised to the fullest possible extent before a Purchase Right with a higher exercise price (or a later-granted Purchase Right if different Purchase Rights have identical exercise prices) will be exercised.

(c) The Board will have the discretion to structure an Offering so that if the Fair Market Value of a share of Common Stock on the first Trading Day of a new Purchase Period within that Offering is less than or equal to the Fair Market Value of a share of Common Stock on the Offering Date for that Offering, then (i) that Offering will terminate immediately as of that first Trading Day, and (ii) the Participants in such terminated Offering will be automatically enrolled in a new Offering beginning on the first Trading Day of such new Purchase Period.

## **5. ELIGIBILITY.**

(a) Purchase Rights may be granted only to Employees of the Company or, as the Board may designate in accordance with Section 2(b), to Employees of a Related Corporation. Except as provided in Section 5(b), an Employee will not be eligible to be granted Purchase Rights unless, on the Offering Date, the Employee has been in the employ of the Company or the Related Corporation, as the case may be, for such continuous period preceding such Offering Date as the Board may require, but in no event will the required period of continuous employment be equal to or greater than two years. In addition, the Board may provide that no Employee will be eligible to be granted Purchase Rights under the Plan unless, on the Offering Date, such Employee's customary employment with the Company or the Related Corporation is more than 20 hours per week and more than five months per calendar year or such other criteria as the Board may determine consistent with Section 423 of the Code.

(b) The Board may provide that each person who, during the course of an Offering, first becomes an Eligible Employee will, on a date or dates specified in the Offering which coincides with the day on which such person becomes an Eligible Employee or which occurs thereafter, receive a Purchase Right under that Offering, which Purchase Right will thereafter be deemed to be a part of that Offering. Such Purchase Right will have the same characteristics as any Purchase Rights originally granted under that Offering, as described herein, except that:

(i) the date on which such Purchase Right is granted will be the "Offering Date" of such Purchase Right for all purposes, including determination of the exercise price of such Purchase Right;

(ii) the period of the Offering with respect to such Purchase Right will begin on its Offering Date and end coincident with the end of such Offering; and

(iii) the Board may provide that if such person first becomes an Eligible Employee within a specified period of time before the end of the Offering, he or she will not receive any Purchase Right under that Offering.

(c) No Employee will be eligible for the grant of any Purchase Rights if, immediately after any such Purchase Rights are granted, such Employee owns stock possessing five percent or more of the total combined voting power or value of all classes of stock of the Company or of any Related Corporation. For purposes of this Section 5(c), the rules of Section 424(d) of the Code will apply in determining the stock ownership of any Employee, and stock which such Employee may purchase under all outstanding Purchase Rights and options will be treated as stock owned by such Employee.

(d) As specified by Section 423(b)(8) of the Code, an Eligible Employee may be granted Purchase Rights only if such Purchase Rights, together with any other rights granted under all Employee Stock Purchase Plans of the Company and any Related Corporations, do not permit such Eligible Employee's rights to purchase stock of the Company or any Related Corporation to accrue at a rate which exceeds \$25,000 of Fair Market Value of such stock (determined at the time such rights are granted, and which, with respect to the Plan, will be determined as of their respective Offering Dates) for each calendar year in which such rights are outstanding at any time.

(e) Officers of the Company and any designated Related Corporation, if they are otherwise Eligible Employees, will be eligible to participate in Offerings under the Plan. Notwithstanding the foregoing, the Board may provide in an Offering that Employees who are highly compensated Employees within the meaning of Section 423(b)(4)(D) of the Code will not be eligible to participate.

## **6. PURCHASE RIGHTS; PURCHASE PRICE.**

(a) On each Offering Date, each Eligible Employee, pursuant to an Offering made under the Plan, will be granted a Purchase Right to purchase up to that number of shares of Common Stock purchasable either with a

percentage or with a maximum dollar amount, as designated by the Board, but in either case not exceeding 15% of such Employee's earnings (as defined by the Board in each Offering) during the period that begins on the Offering Date (or such later date as the Board determines for a particular Offering) and ends on the date stated in the Offering, which date will be no later than the end of the Offering.

(b) The Board will establish one or more Purchase Dates during an Offering on which Purchase Rights granted for that Offering will be exercised and shares of Common Stock will be purchased in accordance with such Offering.

(c) In connection with each Offering made under the Plan, the Board may specify (i) a maximum number of shares of Common Stock that may be purchased by any Participant on any Purchase Date during such Offering, (ii) a maximum aggregate number of shares of Common Stock that may be purchased by all Participants pursuant to such Offering and/or (iii) a maximum aggregate number of shares of Common Stock that may be purchased by all Participants on any Purchase Date under the Offering. If the aggregate purchase of shares of Common Stock issuable upon exercise of Purchase Rights granted under the Offering would exceed any such maximum aggregate number, then, in the absence of any Board action otherwise, a pro rata (based on each Participant's accumulated Contributions) allocation of the shares of Common Stock available will be made in as nearly a uniform manner as will be practicable and equitable.

(d) The purchase price of shares of Common Stock acquired pursuant to Purchase Rights will be not less than the lesser of:

(i) an amount equal to 85% of the Fair Market Value of the shares of Common Stock on the Offering Date; or

(ii) an amount equal to 85% of the Fair Market Value of the shares of Common Stock on the applicable Purchase Date.

## **7. PARTICIPATION; WITHDRAWAL; TERMINATION.**

(a) An Eligible Employee may elect to authorize payroll deductions as the means of making Contributions by completing and delivering to the Company, within the time specified in the Offering, an enrollment form provided by the Company. The enrollment form will specify the amount of Contributions not to exceed the maximum amount specified by the Board. Each Participant's Contributions will be credited to a bookkeeping account for such Participant under the Plan and will be deposited with the general funds of the Company except where applicable law requires that Contributions be deposited with a third party. If permitted in the Offering, a Participant may begin such Contributions with the first payroll occurring on or after the Offering Date (or, in the case of a payroll date that occurs after the end of the prior Offering but before the Offering Date of the next new Offering, Contributions from such payroll will be included in the new Offering). If permitted in the Offering, a Participant may thereafter reduce (including to zero) or increase his or her Contributions. If specifically provided in the Offering, in addition to making Contributions by payroll deductions, a Participant may make Contributions through the payment by cash or check prior to a Purchase Date.

(b) During an Offering, a Participant may cease making Contributions and withdraw from the Offering by delivering to the Company a withdrawal form provided by the Company. The Company may impose a deadline before a Purchase Date for withdrawing. Upon such withdrawal, such Participant's Purchase Right in that Offering will immediately terminate and the Company will distribute to such Participant all of his or her accumulated but unused Contributions and such Participant's Purchase Right in that Offering shall thereupon terminate. A Participant's withdrawal from that Offering will have no effect upon his or her eligibility to participate in any other Offerings under the Plan, but such Participant will be required to deliver a new enrollment form to participate in subsequent Offerings.

(c) Purchase Rights granted pursuant to any Offering under the Plan will terminate immediately if the Participant either (i) is no longer an Employee for any reason or for no reason (subject to any post-employment participation period required by law) or (ii) is otherwise no longer eligible to participate. The Company will distribute to such individual all of his or her accumulated but unused Contributions.

(d) During a Participant's lifetime, Purchase Rights will be exercisable only by such Participant. Purchase Rights are not transferable by a Participant, except by will, by the laws of descent and distribution, or, if permitted by the Company, by a beneficiary designation as described in Section 10.

(e) Unless otherwise specified in the Offering, the Company will have no obligation to pay interest on Contributions.

## **8. EXERCISE OF PURCHASE RIGHTS.**

(a) On each Purchase Date, each Participant's accumulated Contributions will be applied to the purchase of shares of Common Stock, up to the maximum number of shares of Common Stock permitted by the Plan and the applicable Offering, at the purchase price specified in the Offering. No fractional shares will be issued unless specifically provided for in the Offering.

(b) If any amount of accumulated Contributions remains in a Participant's account after the purchase of shares of Common Stock and such remaining amount is less than the amount required to purchase one share of Common Stock on the final Purchase Date of an Offering, then such remaining amount will be held in such Participant's account for the purchase of shares of Common Stock under the next Offering under the Plan, unless such Participant withdraws from or is not eligible to participate in such Offering, in which case such amount will be distributed to such Participant after the final Purchase Date, without interest. If the amount of Contributions remaining in a Participant's account after the purchase of shares of Common Stock is at least equal to the amount required to purchase one whole share of Common Stock on the final Purchase Date of an Offering, then such remaining amount will not roll over to the next Offering and will instead be distributed in full to such Participant after the final Purchase Date of such Offering without interest.

(c) No Purchase Rights may be exercised to any extent unless the shares of Common Stock to be issued upon such exercise under the Plan are covered by an effective registration statement pursuant to the Securities Act and the Plan is in material compliance with all applicable federal, state, foreign and other securities and other laws applicable to the Plan. If on a Purchase Date the shares of Common Stock are not so registered or the Plan is not in such compliance, no Purchase Rights will be exercised on such Purchase Date, and the Purchase Date will be delayed until the shares of Common Stock are subject to such an effective registration statement and the Plan is in material compliance, except that the Purchase Date will in no event be more than 6 months from the Offering Date. If, on the Purchase Date, as delayed to the maximum extent permissible, the shares of Common Stock are not registered and the Plan is not in material compliance with all applicable laws, no Purchase Rights will be exercised and all accumulated but unused Contributions will be distributed to the Participants without interest.

## **9. COVENANTS OF THE COMPANY.**

The Company will seek to obtain from each federal, state, foreign or other regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Purchase Rights and issue and sell shares of Common Stock thereunder. If, after commercially reasonable efforts, the Company is unable to obtain the authority that counsel for the Company deems necessary for the grant of Purchase Rights or the lawful issuance and sale of Common Stock under the Plan, and at a commercially reasonable cost, the Company will be relieved from any liability for failure to grant Purchase Rights and/or to issue and sell Common Stock upon exercise of such Purchase Rights.

## **10. DESIGNATION OF BENEFICIARY.**

(a) The Company may, but is not obligated to, permit a Participant to submit a form designating a beneficiary who will receive any shares of Common Stock and/or Contributions from the Participant's account under the Plan if the Participant dies before such shares and/or Contributions are delivered to the Participant. The Company may, but is not obligated to, permit the Participant to change such designation of beneficiary. Any such designation and/or change must be on a form approved by the Company.

(b) If a Participant dies, and in the absence of a valid beneficiary designation, the Company will deliver any shares of Common Stock and/or Contributions to the executor or administrator of the estate of the Participant. If no executor or administrator has been appointed (to the knowledge of the Company), the Company, in its sole discretion, may deliver such shares of Common Stock and/or Contributions to the Participant's spouse, dependents or relatives, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

## **11. ADJUSTMENTS UPON CHANGES IN COMMON STOCK; CORPORATE TRANSACTIONS.**

(a) In the event of a Capitalization Adjustment, the Board will appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3(a), (ii) the class(es) and maximum number of securities by which the share reserve is to increase automatically each year pursuant to Section 3(a), (iii) the class(es) and number of securities subject to, and the purchase price applicable to outstanding Offerings and Purchase Rights, and (iv) the class(es) and number of securities that are the subject of the purchase limits under each ongoing Offering. The Board will make these adjustments, and its determination will be final, binding and conclusive.

(b) In the event of a Corporate Transaction, then: (i) any surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company) may assume or continue outstanding Purchase Rights or may substitute similar rights (including a right to acquire the same consideration paid to the stockholders in the Corporate Transaction) for outstanding Purchase Rights, or (ii) if any surviving or acquiring corporation (or its parent company) does not assume or continue such Purchase Rights or does not substitute similar rights for such Purchase Rights, then the Participants' accumulated Contributions will be used to purchase shares of Common Stock within ten business days prior to the Corporate Transaction under the outstanding Purchase Rights, and the Purchase Rights will terminate immediately after such purchase.

## **12. AMENDMENT, TERMINATION OR SUSPENSION OF THE PLAN.**

(a) The Board may amend the Plan at any time in any respect the Board deems necessary or advisable. However, except as provided in Section 11(a) relating to Capitalization Adjustments, stockholder approval will be required for any amendment of the Plan for which stockholder approval is required by applicable law or listing requirements, including any amendment that either (i) materially increases the number of shares of Common Stock available for issuance under the Plan, (ii) materially expands the class of individuals eligible to become Participants and receive Purchase Rights, (iii) materially increases the benefits accruing to Participants under the Plan or materially reduces the price at which shares of Common Stock may be purchased under the Plan, (iv) materially extends the term of the Plan, or (v) expands the types of awards available for issuance under the Plan, but in each of (i) through (v) above only to the extent stockholder approval is required by applicable law or listing requirements.

(b) The Board may suspend or terminate the Plan at any time. No Purchase Rights may be granted under the Plan while the Plan is suspended or after it is terminated.

(c) Any benefits, privileges, entitlements and obligations under any outstanding Purchase Rights granted before an amendment, suspension or termination of the Plan will not be materially impaired by any such

amendment, suspension or termination except (i) with the consent of the person to whom such Purchase Rights were granted, (ii) as necessary to comply with any laws, listing requirements, or governmental regulations (including, without limitation, the provisions of Section 423 of the Code and the regulations and other interpretive guidance issued thereunder relating to Employee Stock Purchase Plans) including without limitation any such regulations or other guidance that may be issued or amended after the date the Plan is adopted by the Board, or (iii) as necessary to obtain or maintain favorable tax, listing, or regulatory treatment. To be clear, the Board may amend outstanding Purchase Rights without a Participant's consent if such amendment is necessary to ensure that the Purchase Right and/or the Plan comply with the requirements of Section 423 of the Code.

### **13. EFFECTIVE DATE OF PLAN.**

The Plan will become effective immediately prior to and contingent upon the IPO Date. No Purchase Rights will be exercised unless and until the Plan has been approved by the stockholders of the Company, which approval must be within 12 months before or after the date the Plan is adopted (or if required under Section 12(a) above, materially amended) by the Board.

### **14. MISCELLANEOUS PROVISIONS.**

(a) Proceeds from the sale of shares of Common Stock pursuant to Purchase Rights will constitute general funds of the Company.

(b) A Participant will not be deemed to be the holder of, or to have any of the rights of a holder with respect to, shares of Common Stock subject to Purchase Rights unless and until the Participant's shares of Common Stock acquired upon exercise of Purchase Rights are recorded in the books of the Company (or its transfer agent).

(c) The Plan and Offering do not constitute an employment contract. Nothing in the Plan or in the Offering will in any way alter the at will nature of a Participant's employment or be deemed to create in any way whatsoever any obligation on the part of any Participant to continue in the employ of the Company or a Related Corporation, or on the part of the Company or a Related Corporation to continue the employment of a Participant.

(d) The provisions of the Plan will be governed by the laws of the State of Delaware without resort to that state's conflicts of laws rules.

### **15. DEFINITIONS.**

As used in the Plan, the following definitions will apply to the capitalized terms indicated below:

(a) “**Board**” means the Board of Directors of the Company.

(b) “**Capital Stock**” means each and every class of common stock of the Company, regardless of the number of votes per share.

(c) “**Capitalization Adjustment**” means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Purchase Right after the date the Plan is adopted by the Board without the receipt of consideration by the Company through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, large nonrecurring cash dividend, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other similar equity restructuring transaction, as that term is used in Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any successor thereto). Notwithstanding the foregoing, the conversion of any convertible securities of the Company will not be treated as a Capitalization Adjustment.

(d) “**Code**” means the Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

(e) “**Committee**” means a committee of one or more members of the Board to whom authority has been delegated by the Board in accordance with Section 2(c).

(f) “**Common Stock**” means, as of the IPO Date, the common stock of the Company, having 1 vote per share.

(g) “**Company**” means Intersect ENT, Inc., a Delaware corporation.

(h) “**Contributions**” means the payroll deductions and other additional payments specifically provided for in the Offering that a Participant contributes to fund the exercise of a Purchase Right. A Participant may make additional payments into his or her account if specifically provided for in the Offering, and then only if the Participant has not already had the maximum permitted amount withheld during the Offering through payroll deductions.

(i) “**Corporate Transaction**” means the consummation, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) a sale or other disposition of all or substantially all, as determined by the Board in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

(ii) a sale or other disposition of at least 90% of the outstanding securities of the Company;

(iii) a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(iv) a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

(j) “**Director**” means a member of the Board.

(k) “**Eligible Employee**” means an Employee who meets the requirements set forth in the document(s) governing the Offering for eligibility to participate in the Offering, provided that such Employee also meets the requirements for eligibility to participate set forth in the Plan.

(l) “**Employee**” means any person, including an Officer or Director, who is “employed” for purposes of Section 423(b)(4) of the Code by the Company or a Related Corporation. However, service solely as a Director, or payment of a fee for such services, will not cause a Director to be considered an “Employee” for purposes of the Plan.

(m) “**Employee Stock Purchase Plan**” means a plan that grants Purchase Rights intended to be options issued under an “employee stock purchase plan,” as that term is defined in Section 423(b) of the Code.

(n) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder.

(o) “**Fair Market Value**” means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on any established market, the Fair Market Value of a share of Common Stock will be the **closing sales price** for such stock as

quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) **on the date of determination**, as reported in such source as the Board deems reliable. Unless otherwise provided by the Board, if there is no closing sales price for the Common Stock on the date of determination, then the Fair Market Value will be the closing sales price on the last preceding date for which such quotation exists.

(ii) In the absence of such markets for the Common Stock, the Fair Market Value will be determined by the Board in good faith in compliance with applicable laws and in a manner that complies with Sections 409A of the Code.

(iii) Notwithstanding the foregoing, for any Offering that commences on the IPO Date, the Fair Market Value of the shares of Common Stock on the Offering Date will be the price per share at which shares are first sold to the public in the Company's initial public offering as specified in the final prospectus for that initial public offering.

(p) "**IPO Date**" means the date of the underwriting agreement between the Company and the underwriter(s) managing the initial public offering of the Common Stock, pursuant to which the Common Stock is priced for the initial public offering.

(q) "**Offering**" means the grant to Eligible Employees of Purchase Rights, with the exercise of those Purchase Rights automatically occurring at the end of one or more Purchase Periods. The terms and conditions of an Offering will generally be set forth in the "**Offering Document**" approved by the Board for that Offering.

(r) "**Offering Date**" means a date selected by the Board for an Offering to commence.

(s) "**Officer**" means a person who is an officer of the Company or a Related Corporation within the meaning of Section 16 of the Exchange Act.

(t) "**Participant**" means an Eligible Employee who holds an outstanding Purchase Right.

(u) "**Plan**" means this Intersect ENT, Inc. 2014 Employee Stock Purchase Plan.

(v) "**Purchase Date**" means one or more dates during an Offering selected by the Board on which Purchase Rights will be exercised and on which purchases of shares of Common Stock will be carried out in accordance with such Offering.

(w) "**Purchase Period**" means a period of time specified within an Offering, generally beginning on the Offering Date or on the first Trading Day following a Purchase Date, and ending on a Purchase Date. An Offering may consist of one or more Purchase Periods.

(x) "**Purchase Right**" means an option to purchase shares of Common Stock granted pursuant to the Plan.

(y) "**Related Corporation**" means any "parent corporation" or "subsidiary corporation" of the Company whether now or subsequently established, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(z) "**Securities Act**" means the Securities Act of 1933, as amended.

(aa) "**Trading Day**" means any day on which the exchange(s) or market(s) on which shares of Common Stock are listed, including but not limited to the NYSE, Nasdaq Global Select Market, the Nasdaq Global Market, the Nasdaq Capital Market or any successors thereto, is open for trading.

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

**Form 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2017

OR

☐ **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: 001-36545

**INTERSECT ENT, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-0280837  
(I.R.S. Employer  
Identification No.)

1555 Adams Drive  
Menlo Park, CA  
(Address of principal executive offices)

94025  
(zip code)

Registrant's telephone number, including area code:  
(650) 641-2100

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

Title of Each Class	Name of Exchange on Which Registered
Common Stock, \$0.001 par value	The NASDAQ Global Market

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

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

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting common stock held by non-affiliates, was approximately \$702,909,000. Shares of common stock held by each officer, director and our affiliates have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of common stock outstanding as of January 31, 2018 was 29,804,937.

**Documents Incorporated by Reference**

Portions of the registrant's definitive Proxy Statement for its 2018 Annual Stockholders' Meeting are incorporated by reference into Part III of this Annual Report on Form 10-K, to be filed within 120 days of the registrant's fiscal year ended December 31, 2017.

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**INTERSECT ENT, INC.**  
**Annual Report on Form 10-K**  
**For the Fiscal Year Ended**  
**December 31, 2017**  
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## CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

*This Annual Report on Form 10-K for the year ended December 31, 2017, or “Form 10-K,” contains forward-looking statements concerning our business, operations, and financial performance and condition as well as our plans, objectives, and expectations for business operations and financial performance and condition. Any statements contained herein that are not of historical facts may be deemed to be forward-looking statements. You can identify these statements by words such as “anticipate,” “assume,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “should,” “will,” “would,” and other similar expressions that are predictions of or indicate future events and future trends. These forward-looking statements are based on current expectations, estimates, forecasts, and projections about our business and the industry in which we operate and management’s beliefs and assumptions and are not guarantees of future performance or development and involve known and unknown risks, uncertainties, and other factors that are in some cases beyond our control. As a result, any or all of our forward-looking statements in this Form 10-K may turn out to be inaccurate. Factors that could materially affect our business operations and financial performance and condition include, but are not limited to, those risks and uncertainties described herein under “Item 1A — Risk Factors.” You are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on the forward-looking statements. The forward-looking statements are based on information available to us as of the filing date of this Form 10-K. Unless required by law, we do not intend to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. You should, however, review the factors and risks we describe in the reports we will file from time to time with the Securities and Exchange Commission, or SEC, after the date of this Form 10-K.*

## PART I

### Item 1. Business

#### Overview

We are a commercial drug delivery company committed to improving the quality of life for patients with ear, nose and throat conditions. Our approved products are steroid releasing implants designed to treat the spectrum of needs among patients who are managed by ENT physicians for chronic sinusitis, one of the most prevalent chronic diseases in the United States and one of the most costly conditions for U.S. employers. We are currently marketing our PROPEL® family of products, consisting of PROPEL®, PROPEL® Mini and PROPEL® Contour, which are used following sinus surgery to deliver steroid locally to treat inflammation and improve surgical outcomes. In addition, we received FDA approval in December 2017 for our SINUVA™ Sinus Implant, a new targeted approach to treating nasal polyp disease in patients who have had previous ethmoid sinus surgery.

Our PROPEL family of steroid releasing implants are clinically proven to improve outcomes for chronic sinusitis patients following sinus surgery. PROPEL implants mechanically prop open the sinuses and release mometasone furoate, an advanced corticosteroid with anti-inflammatory properties, directly into the sinus lining, and then dissolve. PROPEL’s safety and effectiveness is supported by Level 1-A clinical evidence from multiple clinical trials, which demonstrates that PROPEL implants reduce inflammation and scarring after surgery, thereby reducing the need for postoperative oral steroids and repeat surgical interventions. More than 200,000 patients have been treated with PROPEL products to-date. The PROPEL family of products are used today predominantly in hospitals and ambulatory surgical settings, although they may also be used in the physician office setting of care.

- PROPEL has been proven in a meta-analysis of prospective, multicenter, randomized, controlled, double-blind clinical studies to improve surgical outcomes, demonstrating a 35% relative reduction in the need for postoperative oral steroid and surgical intervention compared to surgery alone. A physician may treat a patient with PROPEL by inserting it into the ethmoid sinuses. PROPEL is a self-expanding implant designed to conform to and hold open the surgically enlarged sinus while gradually releasing an anti-inflammatory steroid over a period of approximately 30 days and is absorbed into the body in approximately six weeks.

- PROPEL Mini has also been shown by our clinical studies to reduce the need for postoperative interventions, including a 38% relative reduction in the need for postoperative interventions in the frontal sinus, compared to surgery alone with standard postoperative care. PROPEL Mini is a smaller version of PROPEL, and is approved for use both in the ethmoid and frontal sinuses. PROPEL Mini is preferentially used by physicians compared with PROPEL when treating smaller anatomies or following less extensive procedures.
- PROPEL Contour is designed to facilitate treatment of the frontal and maxillary sinus ostia, or openings, of the dependent sinuses in procedures performed in both the operating room and in the office setting of care. PROPEL Contour's lower profile, hourglass shape and malleable delivery system are designed for use in the narrow and difficult to access sinus ostia. In PROPEL Contour's pivotal clinical study, the product demonstrated a 65% relative reduction in the need for postoperative interventions in the frontal sinus ostia compared to surgery alone with standard postoperative care.

SINUVA, when placed during a routine physician office visit, expands into the sinus cavity and delivers an anti-inflammatory steroid directly to the site of polyp disease for 90 days. We have studied SINUVA in 4 clinical trials in over 400 patients to-date. Results from the pivotal RESOLVE II randomized clinical trial demonstrated a 74% relative reduction in bilateral polyp grade (a measurement of the extent of ethmoid polyp disease) and a 30% relative reduction in nasal obstruction and congestion for patients treated with SINUVA compared to a control group treated with a sham procedure, receiving no implant. Patients in both arms of the study were required to use intranasal steroid sprays daily. In addition, the study demonstrated a 61% reduction in the proportion of patients indicated for revision surgery at day 90. To complement clinical trials performed with SINUVA to-date, in which one course of SINUVA treatment was evaluated, we commenced the ENCORE study in November 2017. ENCORE is a 50-patient prospective, multicenter, open-label study focused on evaluation of the safety of repeat placement of the SINUVA implant in chronic sinusitis patients with nasal polyps. We completed enrollment of this study in January 2018.

According to the Centers for Disease Control and Prevention, or CDC, approximately 12% of the U.S. adult population, or 29 million people, are affected by chronic sinusitis, making it more prevalent than heart disease and asthma. Chronic sinusitis is an inflammatory condition in which the sinus lining becomes swollen and inflamed, leading to significant patient morbidity. Chronic sinusitis significantly impacts the quality of life of patients, including difficulty breathing, chronic headaches, recurrent infections, bodily pain and loss of sense of smell and taste. These persistent symptoms can severely impact a patient's day-to-day well-being, resulting in frequent doctor visits and lost work productivity and can lead to chronic fatigue and depression. Chronic sinusitis is managed by a combination of medical management and surgical intervention. The first line of therapy is medical management involving antibiotics, anti-inflammatory steroids and decongestants. Sinusitis is the most common reason for adult outpatient antibiotic use in the United States, comprising 11% of all antibiotic prescriptions. Patients whose symptoms persist despite medical management are recommended to undergo functional endoscopic sinus surgery, or FESS. FESS is performed in the operating room to open the blocked sinus pathways by removing and/or displacing inflamed tissue and bone using surgical tools. Although sinus surgery can be effective, a majority of patients experience recurrent symptoms which commonly necessitate additional treatment with medications and surgery.

We estimate that there are more than 3.5 million people with chronic sinusitis who are managed by ENT physicians in the United States each year, many of whom we believe could benefit from products that incorporate our drug releasing bioabsorbable implant technology. The target market for our PROPEL family of products includes approximately 540,000 patients who undergo FESS for chronic sinusitis each year in the United States, with about 85% of those patients receiving treatment of the ethmoid sinus, approximately 30% receiving treatment of the frontal sinus and approximately 85% receiving treatment of the maxillary sinus, and with most patients receiving treatment for multiple sinuses. PROPEL Contour may also expand the availability of local steroid delivery in the office setting such as with sinus balloon dilation procedures, of which there are approximately 50,000 performed per year today. Long term, we believe that PROPEL Contour may provide a

treatment option for the approximately 800,000 patients that are seen by an otolaryngologist each year for chronic sinusitis symptoms but choose not to undergo a surgical procedure. Our target market for SINUVA includes approximately 635,000 patients who have previously undergone FESS but continue to suffer with nasal polyps.

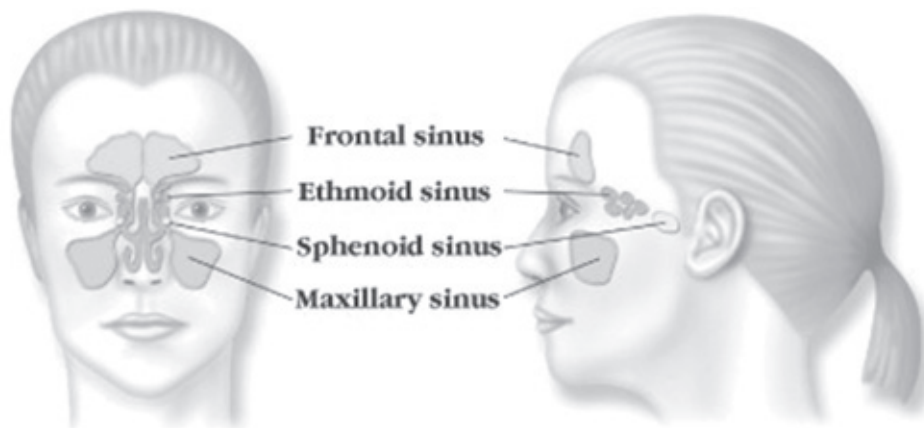
While our primary commercial focus is the U.S. market, both PROPEL and PROPEL Mini received CE Markings, permitting them to be marketed in Europe. We have initiated efforts intended to support future expansion into international geographies. Approximately 450,000 and 250,000 FESS procedures are performed annually in the Asia Pacific and European regions, respectively. Our commercialization strategy will consider several factors including regulatory requirements, reimbursement coverage for our products, and key opinion leader support. Our initial focus is on Germany, where we are working to build broad reimbursement, and Japan, where we are working through the regulatory process.

As of December 31, 2017, we estimate that approximately 2,700 accounts have stocked our PROPEL family of products for use by ENT physicians. Based on the number of units shipped as of December 31, 2017, we estimate that physicians have treated over 200,000 patients with our PROPEL family of products. For the years ended December 31, 2017, 2016 and 2015, we generated revenue of \$96.3 million, \$78.7 million and \$61.6 million, respectively, and incurred a net loss of \$16.4 million, \$25.2 million and \$26.6 million, for each respective year. As of December 31, 2017, we had an accumulated deficit of \$164.8 million.

We have expanded our sales organization and we intend to continue to grow our sales force in order to expand our communication of the benefits of our steroid releasing implants to our physician customers. We seek to grow our revenue by increasing the frequency of use of our products among current physician customers and by adding new physician users.

## Overview of Sinusitis

The sinuses are a system of connected air-filled cavities located within the bones around the nose and eyes that allow for natural ventilation and drainage of mucus. There are four sinus cavities: ethmoid, frontal, maxillary and sphenoid. One of each type of sinus lies on either side of the face. The sinuses are lined with soft, pink tissue called mucosa, which serves to constantly cleanse the sinuses of impurities such as dust, dirt, allergens, pollutants and bacteria. To clear these inhaled pathogens, the sinus lining secretes mucus which is then cleared away by small, hair-like structures called cilia, which act in coordination to sweep the mucus through the sinus pathways and out through the back of the throat.



The ethmoid sinuses, which lie between the eyes, are a series of small cells with multiple, often interconnected openings in a honeycomb-like formation. These sinuses serve as the central aeration and drainage pathway for all other sinuses. The frontal, maxillary and sphenoid sinuses are known as dependent sinuses, as they each consist of one large cell that drains through an opening, or ostium, into the ethmoid sinus.

Chronic sinusitis is an inflammatory condition in which the sinus lining becomes swollen and inflamed, leading to significant patient morbidity including difficulty breathing, chronic headaches, recurrent infections, bodily pain and loss of sense of smell and taste. These persistent symptoms can severely impact a patient's day-to-day well-being, resulting in frequent doctor visits and can lead to chronic fatigue and depression. The condition significantly reduces work productivity from absenteeism and reduced on-the-job effectiveness, especially meaningful given the average chronic sinusitis patient age of approximately 37 years.



The debilitating patient symptoms and quality of life impairments attributed to chronic sinusitis create a significant healthcare burden to patients, insurers and employers.

### **Current Treatments for Chronic Sinusitis and Their Limitations**

The treatment of chronic sinusitis often entails a combination of medical management and surgical intervention to treat the underlying inflammation of the sinus lining, while addressing the secondary symptoms caused by obstruction of the natural drainage pathways.

#### ***Medical Management***

The first line of therapy for chronic sinusitis is medical management, which typically includes prescribed antibiotics, anti-inflammatory steroids and decongestants. Despite limited efficacy of use of antibiotics in this patient population and the consequence of increasing bacterial resistance, we believe there is pervasive overuse of these drugs, which could lead to patient resistance and has resulted in sinusitis being identified as a major target in national efforts to reduce unnecessary medical intervention. Sinusitis is the most common reason for adult outpatient antibiotic use in the United States, comprising 11% of all antibiotic prescriptions. In addition, physicians often prescribe decongestants and other drugs to target mucus accumulation.

Steroids are prescribed in two forms, oral steroid pills and nasal steroid sprays, both of which have serious limitations. Oral steroid therapy is effective at reaching the sinus lining, but it does so by means of systemic exposure and therefore carries the risk of serious side effects, including glaucoma, bone loss, weight gain, psychosis and difficulty in controlling blood glucose levels in patients with diabetes. Nasal steroid sprays, commonly indicated for rhinitis, or inflammation of the nasal passage, are routinely prescribed for chronic

sinusitis patients. While nasal steroid sprays avoid systemic exposure and thus lack such serious side effects, an estimated 70% of the drug is swallowed and the remainder is directed to the nasal passages, instead of the sinuses, which limits efficacy. In a published study, the fraction of drug deposited in the sinuses from a nasal steroid spray was measured to be less than 2%. Poor patient compliance further limits the effectiveness of nasal steroid sprays. Although medical management can reduce symptoms, an estimated 20% or more of chronic sinusitis patients who receive medical therapy are unresponsive.

Of note, medical management is not only used as a first line of therapy for patients afflicted with primary chronic sinusitis, situations in which patients have not had sinus surgery, but also for patients who have recurrent symptoms despite having had sinus surgery. Patients in both stages of the condition are managed medically and hence are subject to the limitations described above.

### ***Sinus Surgery***

In cases where patients are symptomatic despite medical management, a physician may recommend FESS. In the FESS procedure, the physician enlarges the inflamed and obstructed sinus pathways by displacing and/or removing inflamed tissue and bone in order to facilitate normal sinus drainage and aeration. First introduced in the United States in the 1980s, FESS is considered the standard of care for surgical intervention to treat chronic sinusitis. During most procedures, the honeycomb-like cells of the ethmoid sinuses are removed, resulting in one large open cavity. ENTs may also enlarge the frontal and other sinuses by either surgically removing tissue or dilating the ostia, or opening, with a balloon.

FESS is typically performed under general anesthesia in an operating room. During the procedure, a physician inserts an endoscope into the nasal cavity to provide visualization of the patient's anatomy. Surgical instruments, powered cutting tools and balloon dilation devices are used to remove or dilate obstructive tissue and bone. Following the surgical intervention, physicians often pack the newly opened ethmoid sinuses with gauze or other obstructive sinus packing materials to hold the sinus cavities open. A follow-up office visit may occur several days after the procedure, and an additional one or two follow-up visits typically occur over the first four to six weeks following surgery to monitor for and treat complications.

While FESS is the standard of care for treating medically-refractory chronic sinusitis, it has several limitations:

- ***Limited effectiveness.*** Inflammation and scarring in the postoperative period are common and can compromise the surgical result by negatively impacting the ability of the sinuses to heal. This increases the need for continued medical management and additional surgical procedures. Within the first year after surgery, approximately 64% of patients experience recurrent symptoms.
- ***Limited ability to address postoperative inflammation.*** While oral steroids prescribed postoperatively can be effective at addressing inflammation and scarring, the required doses are significant and can result in serious systemic side effects, including glaucoma, bone loss, weight gain and psychosis. Further, use of oral steroids is restricted in patients with diabetes, glaucoma and certain psychological disorders. As a result, we believe only 20% of physicians prescribe them routinely after surgery. The absence of effective anti-inflammatory steroid therapy leaves the surgical wound susceptible to postoperative complications.
- ***Pain and discomfort during postoperative period.*** During surgery, an ENT physician typically places sinus packing materials into the ethmoid sinuses to physically separate tissues in an attempt to prevent scarring and adhesions. Following surgery, physicians see patients two to three times in order to monitor for and, if necessary, to treat complications.
- ***Potential for revision surgery.*** Within the first year after FESS, approximately 10% of patients will return to the operating room to undergo a revision procedure, while additional patients will return for a revision procedure after one year. We believe the risk of potential revision surgery is a significant deterrent to some patients that would otherwise undergo FESS for chronic sinusitis.

### ***Trend for treatment in the physician's office setting of care***

Multiple technological advances, including balloon sinus dilation devices, have expanded the treatable chronic sinusitis patient population. Sinus dilation is now utilized by physicians in their offices to treat patients with mild chronic sinusitis who may not be willing to undergo or are not candidates for sinus surgery performed under general anesthesia in the operating room setting. The ability to treat patients in the office with sinus dilation has spurred interest in the ENT physician community for additional products that facilitate treatment of patients in the office setting of care.

We believe that the limitations of medical management and lack of disease resolution after FESS lead to undertreatment of many chronic sinusitis patients. We estimate that only a third of patients recommended for sinus surgery proceed with the potentially beneficial procedure, which we believe is due to its limitations and high risk for additional medical management and surgical revision. While balloon dilation has been introduced to open frontal, maxillary and sphenoid sinuses, or dependent sinuses, in a less invasive manner, balloon dilation procedures are not designed to treat disease in the most commonly involved sinuses, the ethmoids, and this procedure does not address the underlying inflammation associated with chronic sinusitis. We believe an opportunity exists to reach these undertreated patients by providing a more effective option to address inflammatory disease, while improving the overall outcomes of FESS.

### **Our Solution**

Our PROPEL family of products offers ENT physicians a choice of three distinct drug releasing bioabsorbable implants to best meet the needs of surgical patients. We plan to launch SINUVA for use in the office setting of care to treat patients who have had prior ethmoid sinus surgery but have recurrent polyp disease requiring intervention and we continue to invest in ongoing research and development to develop additional new innovative solutions to further expand our ENT-focused business.

### ***Our Technology Platform***

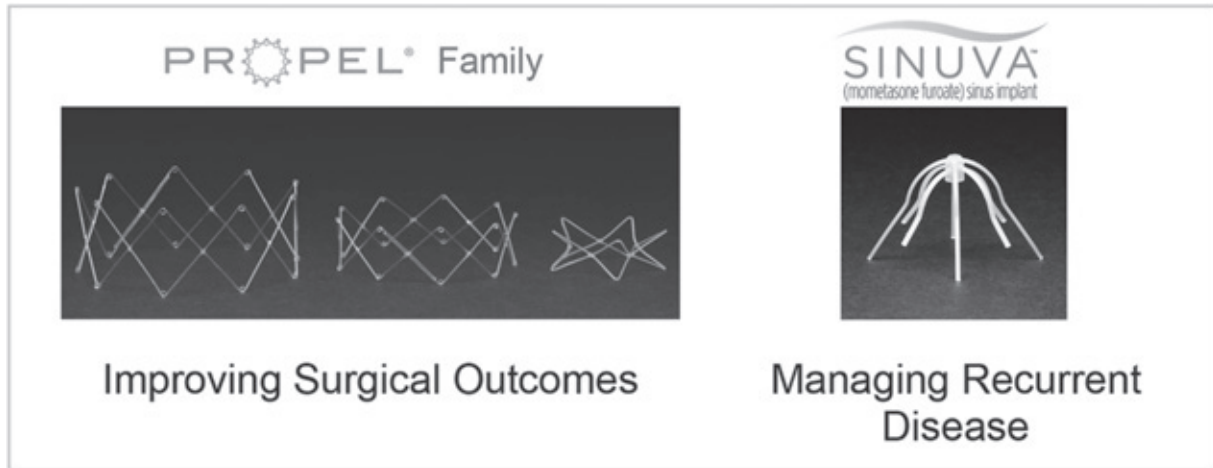
Our drug releasing bioabsorbable implant technology consists of a polymer-based implant that is coated with a drug and polymer matrix. In fabricating the implant, we use polymers that are bioabsorbable and, over time, gradually and fully absorb into the body. The polymers chosen are materials with established safety profiles and have been used in medical devices for over 30 years.

Our innovative design process enables us to develop the mechanical and drug delivery features independently, lending to our customization capability. Our highly specialized bioabsorbable polymer engineering capability enables us to design each product with different physical characteristics such as size, radial strength and other attributes for a tailored approach to treating various sinuses. Our implants are designed to be self-expanding, which facilitates insertion when compressed, and expand to conform to the surrounding anatomy after insertion. The ability to control radial strength is important in enabling us to address different diseases at different states. For example, in some instances an implant may be used to maintain an already open passageway. In other situations, an implant with significantly greater strength may mechanically dilate a diseased passageway.

Our expertise in drug delivery allows us to effectively pair appropriate polymer delivery matrices with desired therapeutic agents. This allows selection of a therapeutic agent based on its clinical effectiveness and tailoring of the platform accordingly. In the case of PROPEL, we considered the wide range of off-patent corticosteroids, chose the one best suited for treatment of sinus inflammation, then customized the polymer coating to achieve the desired drug delivery. Once a drug is selected, our specialized capability in drug formulation enables us to control the rate at which the drug elutes, allowing us to design implants from which the drug is released over a matter of weeks to even longer durations. As a result, we have the flexibility to select the type of drug to be used on the implant and then engineer the implant to control the amount of drug delivered over time.

## Our Commercial Products

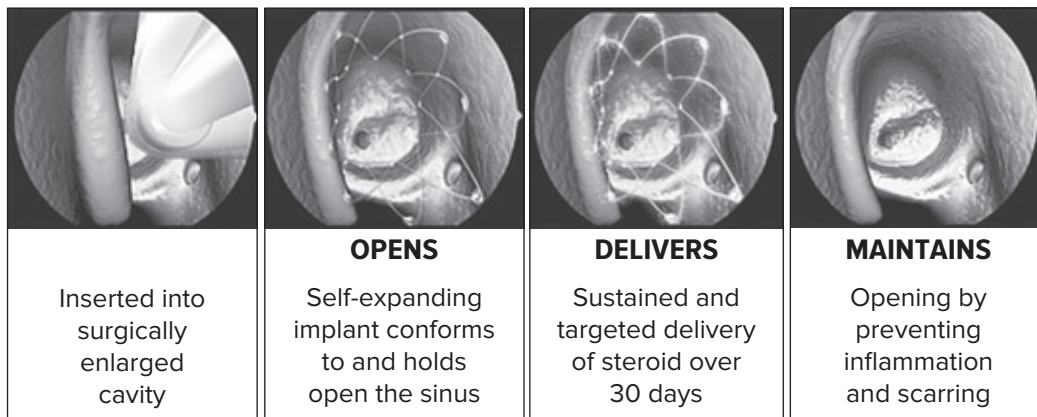
We currently market the PROPEL family of products, consisting of PROPEL, PROPEL Mini and PROPEL Contour. These products are indicated for use following sinus surgery, typically performed in the hospital out-patient or ambulatory surgery center setting of care. Our SINUVA product was approved by the FDA in December 2017 for the treatment of recurrent nasal polyp disease in patients 18 years or older who have had previous ethmoid sinus surgery. SINUVA provides a treatment for these patients designed to be administered in the physician's office setting of care.



## The PROPEL Family

Our PROPEL family of steroid releasing implants are the first and only FDA-approved drug releasing sinus implants for chronic sinusitis sufferers 18 years or older. PROPEL is indicated for use following ethmoid sinus surgery, PROPEL Mini is indicated for use following ethmoid or frontal sinus surgery and PROPEL Contour is indicated for use following frontal or maxillary sinus surgery. Our PROPEL implants are designed to improve the outcomes of sinus surgery by holding open the sinus passageways, thereby reducing postoperative inflammation and scarring. These implants are inserted by a physician under endoscopic visualization following sinus surgery. Once inserted, the self-expanding implants conform to and hold open the surgically enlarged sinus, while gradually releasing an anti-inflammatory steroid, mometasone furoate, which is available generically, directly to the sinus lining over a period of approximately 30 days. The implants fully absorb into the body over a period of four to six weeks or are removed at the discretion of a physician during a routine office visit. Once absorbed or removed, the implant no longer provides structural support.

The graphic below illustrates the operation of PROPEL and PROPEL Mini in the ethmoid sinuses:



We designed the steroid drug release of the PROPEL products to have a duration of approximately 30 days to match the postoperative healing cycle characterized in published medical literature. We selected mometasone furoate as the anti-inflammatory agent among numerous evaluated compounds based on three important characteristics: absorbability, binding affinity and low systemic bioavailability. The compound preferentially absorbs into the sinus lining instead of the surrounding mucous fluid. The drug has the highest glucocorticoid receptor binding affinity, making it highly potent in preventing inflammation once within tissue. Glucocorticoid receptors are the molecules in the surface membranes of cells throughout the body to which corticosteroids chemically bind. Additionally, the compound has low systemic bioavailability, meaning that it has negligible systemic safety side effects.

We believe the principal benefits of our PROPEL family of steroid releasing implants include:

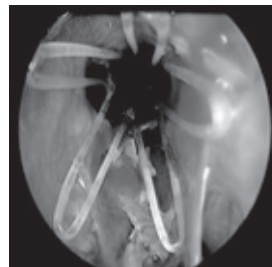
- ***Improved surgical outcomes.*** Our implants have been clinically proven to improve FESS results by reducing postoperative inflammation and scarring. In a meta-analysis of prospective, multicenter, randomized, controlled, double-blind clinical studies, our PROPEL implants placed following ethmoid sinus surgery provided a 46% relative reduction in inflammation and a 70% relative reduction in scarring compared to the control implant. Postoperative complications, such as inflammation and polyps as well as scarring or adhesions, are common reasons for FESS failure.
- ***Targeted steroid therapy to address postoperative inflammation.*** Our implants are the first and only FDA approved drug releasing bioabsorbable implants. They deliver an anti-inflammatory steroid postoperatively directly to the sinus lining in a controlled fashion over a period of approximately 30 days, which helps in the wound healing process. In a meta-analysis of prospective, multicenter, randomized, controlled, double-blind clinical studies, our PROPEL implants placed following ethmoid sinus surgery reduced the need for oral steroids by 40% compared to the control implant.
- ***Improved healing without obstruction.*** Our implants improve postoperative care. Once inserted, the self-expanding implants are designed to conform to and hold open the surgically enlarged ethmoid sinuses until fully absorbed into the body, which improves wound healing without obstructing the sinuses and causing congestion. Our steroid releasing implants are designed to obviate the need for sinus packing materials, which can be a significant source of postoperative pain and discomfort. Our implants significantly reduce scarring and adhesions, which reduces the potential for pain in postoperative treatments.
- ***Reduced need for postoperative surgical interventions.*** In clinical studies, our implants demonstrated a significant reduction in the need for postoperative surgical intervention. In a meta-analysis of prospective, multicenter, randomized, controlled, double-blind clinical studies of over 200 patients, PROPEL provided a 35% relative reduction in the need for postoperative oral steroids and surgical intervention compared to the control implant when placed in the ethmoid sinus. In addition, the PROGRESS study, an 80 patient prospective, randomized, blinded, multicenter trial of PROPEL Contour, demonstrated a statistically significant 65% relative reduction in the need for postoperative interventions compared to surgery alone when PROPEL Contour was placed in the frontal sinus. We believe that patients who have been deterred by the high revision rates associated with FESS may now consider surgical intervention to treat their chronic sinusitis condition.

In February 2017, we received FDA approval for PROPEL Contour, a steroid releasing implant designed to facilitate treatment of the frontal and maxillary sinus ostia, or openings, of the dependent sinuses, which we believe represents an opportunity for adoption in a variety of settings for chronic sinusitis sufferers 18 years or older undergoing sinus surgery. In the operating room, PROPEL Contour has demonstrated the ability to expand adoption of steroid releasing implants overall by providing physicians with a range of products needed to customize treatment based on their patients' disease and anatomy. In particular, we believe PROPEL Contour will be seen as the right fit for many of the 30% of sinus surgeries that involve the frontal sinuses today and the

lower profile, malleable delivery system will increase usage particularly in those patients whose frontal sinuses are more challenging to access.



**PROPEL Contour Implant  
for Treatment of Sinus Ostia**



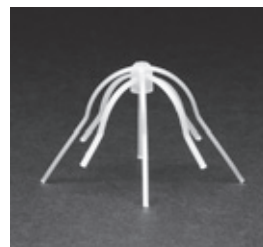
**PROPEL Contour Implant  
Placed in Sinus Opening  
(Ostium) Following Balloon  
Dilation**

### **SINUVA**

Following sinus surgery, the underlying chronic inflammation associated with chronic sinusitis can lead to recurrent obstruction of the sinus cavity over time, especially in patients afflicted with polyps, a sign of severe inflammation. Improving care of such chronic patients holds meaningful opportunity to significantly reduce healthcare costs by reducing the need for revision surgery. We have designed the SINUVA steroid releasing implant to be placed in the physician office setting following a routine visit as an alternative treatment option for patients who are candidates for revision surgery. The implant is based on the same drug releasing bioabsorbable implant technology as the PROPEL family of products, but is designed to have greater radial strength in order to dilate an obstructed, polyp-filled sinus cavity, and deliver drug for an extended period of time. SINUVA was subject to regulation as a drug product and we submitted a New Drug Application, or NDA, to seek approval from the FDA to commercialize SINUVA in the U.S. We believe SINUVA could be an appealing alternative to patients who have previously undergone FESS but continue to suffer from polyp recurrence.



**SINUVA implant in  
delivery system and  
expanded**



Our family of drug releasing implants consists of polymers that control local drug release and provide structural support to adjacent tissues during the healing process. We believe the development, manufacturing and regulatory approval for products incorporating this technology requires capabilities in polymer science, drug delivery, analytical testing and combination products. These competencies allow our technical team to tailor drug formulation, polymer design, drug release duration, implant radial strength and degradation period to meet different clinical needs. We may apply these competencies to the development of new products over time. Such new products, or changes that we make in the therapeutic agent used in our products will require FDA approval prior to commercialization in the United States.

### **Clinical Trial Findings and In-Process Studies**

#### ***PROPEL and PROPEL Mini***

*PROPEL Ethmoid Sinus Studies.* The safety and efficacy of PROPEL in the ethmoid sinuses has been studied in three prospective, multicenter clinical trials conducted in the United States enrolling a total of 205

patients. The principal safety and efficacy information is derived from the ADVANCE II randomized clinical trial and is supported by the ADVANCE clinical trial and an initial pilot study. A meta-analysis that pooled data from the ADVANCE II study and the initial pilot study provides further evidence of efficacy. In all three studies, implants were placed following ethmoid sinus surgery, or ethmoidectomy, which entails removal of the honeycomb-like partitions between the ethmoid sinuses in order to create larger sinus cavities.

All three studies were designed to measure PROPEL's ability to improve the outcomes of sinus surgery. This included measuring the need for postoperative interventions such as adhesion lysis, which is a procedure to separate scar tissue and adhesions within the sinus cavity, and the need to prescribe oral steroids to treat inflammation. The studies also measured the impact of PROPEL on other postoperative complications, such as occurrence of polyposis and middle turbinate lateralization. Prevention of these complications contributes to the long-term success of sinus surgery. Polyposis represents a higher level inflammatory disease. The middle turbinate is a bony structure in the middle of the sinus, responsible for filtration, heating, and humidification of nasal air flow. Middle turbinate lateralization is an undesired complication where this structure curves towards the outer, or lateral, wall of the nose resulting in blockage of the ethmoid sinus passage.

In a meta-analysis, the two prospective, multicenter, randomized, controlled, double-blind studies enrolled a total of 143 patients utilizing an intra-patient control design. The results of these two trials, the ADVANCE II study and the initial Pilot study, were then pooled which represents the first and only Level 1a evidence for any devices used in sinus surgery today. Level 1a evidence is the highest level of evidence according to the criteria of the Centre for Evidence-Based Medicine at the University of Oxford. For evidence Level 1a, a meta-analysis of multiple randomized controlled trials is required.

Compared to the control implant, the drug releasing implant provided a 35% relative reduction in postoperative interventions, a 51% relative reduction in adhesion lysis and a 40% relative reduction in oral steroid intervention. The relative reduction in frank polyposis was 46%. Additional efficacy endpoints of significant, or severe, adhesions and middle turbinate lateralization, determined by clinical investigators at the study centers, were reduced by 70% (p=0.0013) and 75% (p=0.0225), respectively.

**Principal Efficacy Results at Day 30 as graded by independent, blinded panel of physicians**

Outcome Measure	Evaluable Patients*	Treatment Sides (n=143) No. (%)	Control Sides (n=143) No. (%)	Relative Reduction (%)	P Value
Postoperative intervention . . .	128	42 (32.8)	65 (50.8)	-35	0.0008
Adhesion lysis . . . . .	134	19 (14.2)	39 (29.1)	-51	0.0016
Oral steroid intervention . . . .	113	25 (22.1)	42 (37.2)	-40	0.0023
Frank polyposis . . . . .	111	22 (19.8)	41 (36.9)	-46	<0.0001

\* Evaluable subjects were those with gradable sinuses on both sides

**PROPEL Mini Frontal Sinus Study.** We have completed a prospective, randomized blinded multicenter clinical trial to support an expanded indication for placement of PROPEL Mini in the frontal sinuses called PROGRESS. Approximately 30% of patients undergoing sinus surgery for chronic sinusitis suffers from frontal sinus disease. We enrolled 80 patients in the study using an intra-patient control design to assess both safety and efficacy of PROPEL Mini when placed following surgery of the frontal sinus, compared to surgery alone. The primary efficacy endpoint is the reduction in need for postoperative interventions such as the need for surgical intervention or oral steroids. In August 2015, we announced preliminary topline data from the PROGRESS trial, designed to evaluate the safety and efficacy of PROPEL Mini when placed in the frontal sinuses following surgery, showing that the study met its primary efficacy endpoint and demonstrating a statistically significant 38% relative reduction in the need for postoperative interventions compared to surgery alone. In March 2016, we received approval to expand the indication of PROPEL Mini to treat patients undergoing frontal sinus surgery.

### ***PROPEL Contour***

In February 2017, we received FDA approval for PROPEL Contour, a steroid releasing implant designed to facilitate treatment of the frontal and maxillary sinus ostia, or openings, of the dependent sinuses, which we believe represents opportunity for adoption in a variety of settings. In the operating room, PROPEL Contour has the potential to lead to expanded adoption of steroid releasing implants overall by providing physicians with a range of products needed to customize treatment based on their patients' disease and anatomy. In particular, we believe PROPEL Contour's lower profile, malleable delivery system will increase usage particularly in those patients whose frontal sinuses are more challenging to access. Since sinus surgeries typically involve treatment of one or more of the ethmoid, maxillary or frontal sinuses, we believe the PROPEL Contour greatly increases the chance that a PROPEL product will be used. We announced results of the second cohort of patients in the PROGRESS study in May 2016. This phase of the PROGRESS study was an 80-patient prospective randomized blinded multicenter trial designed to assess the safety and efficacy of PROPEL Contour when placed in the frontal sinuses following sinus surgery. This study demonstrated a statistically significant 65% relative reduction in the need for post-operative interventions, such as the need for additional surgical procedures or need for oral steroid prescription, compared to surgery alone with standard post-operative care.

### ***SINUVA***

In December 2017, we received FDA approval for SINUVA, a steroid releasing implant for the treatment of nasal polyposis in adult patients who have had ethmoid surgery. The SINUVA implant is intended to be placed in the physician office setting of care. This product's primary mode of action is as a drug, and for this reason we were required to obtain an NDA approval from the FDA, rather than a PMA approval. In order to support the NDA application with the FDA, we completed four studies of SINUVA: a pilot study, a pharmacokinetic study, RESOLVE and RESOLVE II. In July 2016, we completed enrollment of the RESOLVE II pivotal trial, which was a prospective, multicenter, randomized, controlled, blinded study of 300 patients. Both co-primary endpoints were met, including improvement in patient-reported nasal obstruction/congestion score ( $p=0.0074$ ) and reduction in bilateral polyp grade as evaluated by a panel of three sinus surgeons ( $p=0.0073$ ). In addition, several pre-specified secondary endpoints were met, including the reduction in the proportion of patients still indicated for repeat sinus surgery, reduction in ethmoid obstruction and improvement in sense of smell. The RESOLVE study ( $n=100$ ) included ocular exams, and patients were followed for six months to assess longer-term outcomes. Compared to the control group, the treatment group demonstrated greater reduction from baseline to day 90 in nasal congestion/obstruction score and bilateral polyp grade (judged by an independent panel), but these primary endpoint results did not reach statistical significance ( $p=0.1365$  and  $0.0985$ , respectively). According to clinical investigator grading, the treatment group demonstrated statistically significant improvements in both bilateral polyp grade ( $p<0.02$ ) and percent ethmoid sinus obstruction ( $p<0.0001$ ) throughout the entire six month study period. In a post-hoc analysis of nasal congestion/obstruction scores in a subset of 67 patients with at least grade 2 polyposis on each side at baseline, this outcome trended towards statistical significance in favor of the treatment group ( $p=0.0505$ ). Longer-term, the study showed that at six months, control patients were at 3.6x higher risk of remaining indicated for revision surgery than treated patients. The findings from the RESOLVE study were used to inform the pivotal RESOLVE II study design.

In November 2017, we commenced the ENCORE study, a 50 patient prospective, multicenter, open-label study focused on evaluation of the safety of repeat placement of the SINUVA implant in chronic sinusitis patients with nasal polyps, and completed enrollment in January 2018.

### ***Seasonality***

We expect revenue from our PROPEL family of products to fluctuate from quarter to quarter due to seasonal variations in the volume of sinus surgery procedures performed, which has been impacted historically by factors including the status of patient healthcare insurance plan deductibles and the seasonal nature of allergies which can impact sinus-related symptoms.

## Competition

Our industry is highly competitive, subject to change and significantly affected by new product introductions and other activities of industry participants. Many of the companies developing or marketing ENT products are publicly traded or are divisions of publicly-traded companies and may enjoy competitive advantages including:

- greater financial and human capital resources;
- significantly greater name recognition;
- established relationships with ENT physicians, referring physicians, customers and third-party payors;
- additional lines of products, and the ability to offer rebates or bundle products to offer greater discounts or incentives to gain a competitive advantage; and
- established sales, marketing and worldwide distribution networks.

Because of the size of the market opportunity for the treatment of chronic sinusitis, potential competitors have historically dedicated and will continue to dedicate significant resources to aggressively promote their products or develop new products. New product developments that could compete with us more effectively are possible because of the prevalence of chronic sinusitis and the extensive research efforts and technological progress that exist within the market. Large medical device companies with ENT divisions, such as Medtronic, also have capability in drug releasing stents.

Our commercially available products are designed to be used following sinus surgery. If another company successfully develops a surgical technique, drug, drug delivery system (including intranasal steroid sprays) or device that is more efficacious than our steroid releasing implant solution, sales of our products would be significantly and adversely affected.

One alternative to delivering steroids to the sinuses postoperatively with our PROPEL family of products, and SINUVA, which was approved by the FDA in December 2017, is the prescription of oral steroids. While oral steroids prescribed postoperatively can be effective at addressing inflammation and scarring, the required doses are significant and can result in serious systemic side effects, including glaucoma, bone loss, weight gain and psychosis. Further, oral steroids have restricted use in diabetic individuals, patients with glaucoma and some psychological disorders. We believe, as a result, only 20% of physicians prescribe them routinely after surgery. Additionally, there are commercially available packing materials and spacers on the market that provide a spacing function and are less expensive than our products. During surgery, approximately 60% of ENT physicians place sinus packing materials, either absorbable or non-absorbable, into the ethmoid sinuses to physically separate tissues in an attempt to prevent scarring and adhesions. Non-absorbable spacers are sometimes placed in the frontal sinuses to maintain patency. Following surgery, the sinus packing materials or spacers are removed by pulling or suctioning them from the newly opened cavity, a painful and time-consuming process, often necessitating pain medication. Despite the use of packing materials, scarring and adhesions are common, sometimes necessitating painful removal of additional tissue during postoperative treatments. Some physicians choose to soak packing materials with steroid in liquid form in an effort to deliver steroid to the sinus. This practice is off-label and is not supported by clinical data. However, although we believe our products have significant advantages over sinus packing materials, spacers and other treatment options, they are expensive relative to packing materials and may not be reimbursed by third-party payors. As a result, ENT physicians may choose to use oral steroid delivery or packing/spacing materials or a combination of the two, which are less expensive, in lieu of our products.

We believe that our continued ability to compete favorably depends on:

- successfully expanding our commercial operations;
- continuing to innovate and maintain scientifically-advanced technology;

- having reimbursement in place to support broad adoption of our products;
- developing technologies for applications in the sinuses and other areas of ENT;
- attracting and retaining skilled personnel;
- obtaining patents or other intellectual property protection for our products; and
- conducting clinical studies and obtaining and maintaining regulatory approvals.

## **Intellectual Property**

As of December 31, 2017, we owned 77 issued patents globally, of which 31 were issued U.S. patents, and we owned 25 pending patent applications globally, of which 6 were pending patent applications in the United States. Subject to payments of required maintenance fees, annuities and other charges, our issued patents have expiration dates between 2018 and 2032, of which one will expire by 2020, 18 will expire between 2021 and 2025, and the remaining 58 will expire after 2025.

As of December 31, 2017, our trademark portfolio contains 32 trademark registrations, six of which are U.S. trademark registrations, as well as 28 foreign and three U.S. pending trademark applications.

We also rely upon trade secrets, know-how, continuing technological innovation, and may rely upon licensing opportunities in the future, to develop and maintain our competitive position. We protect our proprietary rights through a variety of methods, including confidentiality agreements and proprietary information agreements with suppliers, employees, consultants and others who may have access to proprietary information.

## **Manufacturing and Supply**

We manufacture our steroid releasing implants at our facility in Menlo Park, California with components supplied by external suppliers. We perform inspections of these components before use in our manufacturing operations. Using these components, we assemble, inspect, test and package our implants, and send them to a third-party sterilization vendor. After sterilization, we perform inspections of the finished implants internally and via third-party laboratories to determine compliance with our specifications, after which we place the implants into our inventory and ultimately ship the finished products to customers.

The active pharmaceutical ingredient, or API, and a number of our critical components used in our implants are supplied to us from single source suppliers. We rely on single source suppliers for some of our polymer materials, some extrusions and molded components and some off-the-shelf components. Our ability to commercially supply our products and to develop our product candidates depends, in part, on our ability to successfully obtain the API and polymer materials used in these products in accordance with regulatory requirements and in sufficient quantities for commercialization and clinical testing. We have entered into manufacturing, supply or quality agreements with a number of our single source suppliers pursuant to which they supply the API and components we need. We generally acquire our single source components pursuant to purchase orders placed in the ordinary course of business. However, we are not certain that our single source suppliers will be able to meet our demand for their products, whether because of the nature of our agreements with those suppliers, our limited experience with those suppliers or our relative importance as a customer to those suppliers. It may be difficult for us to assess their ability to timely meet our demand in the future. To date, we have not experienced any significant supply constraints or delays in procuring components and materials and while our suppliers have generally met our demand for their products on a timely basis in the past, they may subordinate our needs in the future to the needs of their other customers.

We continue to improve our manufacturing capabilities and increasing capacity as we increase the extent of our commercialization efforts. We believe our manufacturing operations are in compliance with regulations mandated by the FDA. We are an FDA-registered medical device and drug manufacturer and we were granted

PMA approval for PROPEL in August 2011. Our manufacturing facilities and processes are subject to periodic inspections and audits by various federal, state and foreign regulatory agencies. For example, our facilities were inspected by the FDA in April and May 2011, December 2012, March 2013, June 2014 and April 2017. The FDA also performed a pre-approval inspection for SINUVA in November 2017. The State of California regulatory authority audited our manufacturing facility in connection with granting a California Device Manufacturing License to us in August 2009 and a pharmacological manufacturing license in December 2017. We have maintained ISO 13485 certification since January 2014 and have been audited by the European Notified Body in Ireland, National Standards Authority of Ireland, or NSAI on at least an annual basis since 2014. Our facility was last inspected in November 2017 by NSAI and no major nonconformance reports were issued as a result of that inspection.

We have manufacturing, supply or quality agreements with a number of our single source suppliers:

- In April 2014, we entered into an agreement with Hovione Inter Ltd., or Hovione, pursuant to which we are required to purchase 80% of our API from Hovione, in quantities to be specified in 12-month forecasts provided by us and updated on a quarterly basis. This agreement extends until April 2019. Either we or Hovione may terminate the agreement prior to that date for uncured material breach by or insolvency of the other party. We may also terminate the agreement in the event Hovione loses any required FDA approval rendering it unable to fulfill its contractual obligations, or if Hovione is engaged in felonious or fraudulent activities. Either we or Hovione may terminate the Agreement in the event regulatory agencies require changes to the product specifications that materially affect Hovione's cost of production and we are unable to reach an agreement with Hovione regarding an equitable pricing adjustment.
- In April 2014, we entered into an agreement with Polymer Solutions Incorporated, or PSI, pursuant to which PSI supplies us with analytical testing services for our polymer materials. The agreement has an indefinite term, but may be terminated by us at any time upon 30 days' notice to PSI or immediately upon written notice in the event of an uncured material breach by PSI. In April 2016, this agreement was amended with testing services pricing.
- In January 2014, we entered into an agreement with AIM Plastics, Inc., or AIM, pursuant to which AIM provides us with injection molded components in quantities to be specified in rolling quarterly forecasts provided by us. The agreement extends for an initial period of one year from its effective date, with automatic one-year renewal periods applying thereafter unless we or AIM provide written notice of non-renewal at least 30 days prior to the end of the then-current term. Either we or AIM may terminate the agreement for an uncured material breach by the other party. We may also terminate the agreement upon twelve months written notice in the event of a change in control of AIM. In February 2016, this agreement was amended with updated forecasts and component pricing.
- In October 2015, we entered into an agreement with Exova Group Limited, or Exova, pursuant to which Exova supplies us with analytical testing services for our finished product. This agreement expired in December 2017, however, we are continuing to conduct business pursuant to the terms of our old agreement and are working on a new agreement.
- In November 2013, we entered into an agreement with Stephen Gould Corporation, or SGC, pursuant to which SGC supplies us with packaging components in accordance with a rolling quarterly forecast provided by us. The agreement extends for an initial period of two years from the effective date, with automatic one-year renewal periods applying thereafter unless we or SGC provide written notice of intent not to renew at least 30 days prior to the end of the then current term. Either we or SGC may terminate the agreement for uncured material breach by the other party. We may also terminate the agreement at will upon 90 days prior written notice to SGC, or upon twelve months prior written notice in the event of a change in control of SGC. In October 2015, this agreement was amended with updated rolling forecasts and component pricing, and in August 2016, this agreement was amended with component pricing.

Each of these suppliers manufactures the components they produce for us or tests our components and devices to our specifications. We typically seek to negotiate new agreements with these vendors in advance of the expiration of the current agreements. We intend to maintain sufficient supplies of the API and components from these single source suppliers in the event that our agreements with one or more of these suppliers were to terminate to enable us to continue to manufacture our implants for a sufficient amount of time necessary to obtain another source of API or components.

## **Government Regulation**

### ***United States Regulation of Medical Devices and Drugs***

Our products and any product candidates are drug releasing bioabsorbable implants that are regulated as combination products by the FDA. FDA's Office of Combination Products designates a primary mode of action for such drug-device combination products, with the respective primary Center within the FDA leading the regulatory review for the product, in consultation with the secondary designated Center. FDA determined that the primary mode of action for our PROPEL family of products was that of a medical device, so these products have been approved and are regulated as medical devices. By comparison, the primary mode of action of SINUVA was designated to be its drug properties, so this product has been FDA approved and is regulated as a pharmaceutical.

FDA regulations require us to register as a medical device and drug product manufacturer with the FDA. Additionally, the California Department of Health Services, or CDHS, requires us to register as a medical device and drug manufacturer within the state. In order to maintain CE Markings, we must maintain compliance with ISO 13485. Because of this, the FDA and the NSAI inspect us on a routine basis for compliance with current good manufacturing practices. These regulations require that we manufacture our products and maintain related documentation in a prescribed manner with respect to manufacturing, testing and control activities, and product release for distribution. We have undergone and expect to continue to undergo regular current good manufacturing practice inspections in connection with the manufacture of our products at our facility.

### ***Medical Devices***

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

Manufacturers must file an Investigational Device Exemption, or IDE, application if human clinical studies of a device are required and if the investigational use of the device represents a potential for significant risk to the patient. The IDE application must be supported by data, typically including the results of animal and engineering testing of the device. If the IDE application is approved by the FDA, human clinical studies may begin at a specific number of investigational sites with a maximum number of patients, as approved by the FDA. The clinical studies must be conducted under the review of an independent institutional review board to ensure the protection of the patients' rights.

Generally, upon completion of these human clinical studies, a manufacturer seeks approval of a Class III medical device from the FDA by submitting a PMA application. A PMA application must be supported by extensive data, including the results of the clinical studies, as well as testing and literature to establish the safety and effectiveness of the device. PMA approval may be conditioned upon the conduct of certain post-approval studies, such as long-term follow-up studies.

### *Drugs*

The clinical testing, manufacturing, labeling, storage, distribution, record keeping, advertising, promotion, import, export and marketing, among other things, of our product SINUVA and any future drugs we may develop and seek to commercialize, are subject to the FDA's drug authority and are governed by extensive regulation by governmental authorities in the United States and other countries. The FDA, under the FDCA, regulates pharmaceutical products in the United States. The steps required before a drug may be approved for marketing in the United States generally include:

- preclinical laboratory tests and animal tests conducted under Good Laboratory Practices, or GLP;
- submission to the FDA of an Investigational New Drug, or IND, application for human clinical testing, which must become effective before human clinical trials commence;
- adequate and well-controlled human clinical trials to establish the safety and efficacy of the product and conducted in accordance with Good Clinical Practices, or GCP;
- the submission to the FDA of an NDA;
- FDA acceptance, review and approval of the NDA;
- satisfactory completion of an FDA inspection of the manufacturing facilities at which the product is made to assess compliance with current Good Manufacturing Practices, or cGMPs; and
- state pharmacological distribution licenses must be obtained.

### **Reimbursement**

Significant uncertainty exists as to the coverage and reimbursement status of any products for which we have or may obtain regulatory approval. Sales of our PROPEL family of products, SINUVA, and any of our other product candidates, will depend, in part, on the extent to which the products will be covered and the costs of the products will be adequately reimbursed by third-party payors, including government healthcare programs such as Medicare and Medicaid, commercial health insurers and managed care organizations. The process for securing coverage for a product is separate from the process for establishing a reimbursement rate for the product if separately payable. Third-party payors may limit coverage to specific patient subpopulations and may limit coverage based on product inclusion on an approved list, or formulary, which might not include all FDA-approved products for a particular indication. A payor's decision to provide coverage for a product does not ensure an adequate reimbursement rate.

### *Medical Devices*

Our PROPEL family of products are used almost exclusively in the operating room of a hospital or ambulatory surgery center where they are commonly treated as adjunct surgical supplies utilized in sinus surgery and the cost is included in the reimbursement to the facility for the FESS procedure. In the event these procedures are performed in the physician office setting, our PROPEL family of products have been assigned a code under the Healthcare Common Procedure Coding System, S1090, which may be used to submit requests for product reimbursement to commercial payors. Several existing procedure codes may apply to describe the procedure associated with implant placement. However, payment is subject to payor coverage on the basis of either written medical policies related to the product or individual patient medical necessity. If, as a result of policies the payor has in place regarding these products, hospitals or other service providers are unable to receive adequate reimbursement to support the use of our products, this will negatively impact our revenues and our gross margins will decrease, which will adversely affect our ability to invest in and grow our business.

### *Drugs*

Drugs that are administered incident to a physician service and are separately reportable, are generally billed by providers with HCPCS J codes and are paid based on quarterly price data submitted to CMS, pricing

compendia, or provider invoice. For SINUVA, we have applied for a product specific HCPCS J code consistent with CMS timelines and requirements for physician-administered drugs used mostly in the office setting of care. Since J codes are assigned by CMS only once per calendar year, until such a product-specific code is assigned, we expect providers will submit claims for reimbursement of SINUVA using an unassigned J code such as J3490, along with the designated National Drug Code for SINUVA. This is the typical path for physician-administered drugs during the interim period between FDA approval and J code assignment.

For more information, see “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

## **Research and Development**

Our research and development expenses totaled \$18.4 million, \$18.9 million and \$16.6 million in the years ended December 31, 2017, 2016 and 2015, respectively. For more information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

## **Employees**

As of December 31, 2017, we had 327 employees, consisting of 64 in manufacturing, 71 in research and development and 192 in sales, general and administrative.

## **Information about Segment and Geographic Revenue**

All of our revenues have been generated from the sale of our PROPEL family of products. Information about our assets and revenues, including segment and geographic revenue, is set forth in the Financial Statements, including Note 2, included in this Annual Report, which information is incorporated by reference here.

## **Corporate Information**

We were incorporated in Delaware in October 2003 as Sinexus, Inc. We changed our name to Intersect ENT, Inc. in November 2009. Our offices are located at 1555 Adams Drive, Menlo Park, California 94025 and our telephone number is (650) 641-2100. Our website is [www.intersectent.com](http://www.intersectent.com). We completed our initial public offering in July 2014, and our common stock is listed on The NASDAQ Global Market under the symbol “XENT.”

Our periodic and current reports, registration statements, proxy and information statements and other information are available for inspection and copying at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549 or may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website containing such information available free of charge to the public at [www.sec.gov](http://www.sec.gov). We make available free of charge on or through our Internet website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

## Item 1A. Risk Factors

### RISK FACTORS

*Before deciding to invest in us or to maintain or increase your investment, you should carefully consider the risks described below, in addition to the other information contained in this Annual Report on Form 10-K and in our other filings with the SEC. If any of the risks discussed in this report actually occur, they may materially harm our business, financial condition, operating results, cash flows or growth prospects. As a result, the market price of our common stock could decline, and you could lose all or part of your investment. Additional risks and uncertainties that are not yet identified or that we think are currently immaterial may also materially harm our business, financial condition, operating results, cash flows or growth prospects and could result in a partial or complete loss of your investment.*

#### Risks Related to Our Business

***We have incurred significant operating losses since inception and may not be able to achieve profitability.***

We have incurred net losses since our inception in 2003. We incurred a net loss of \$16.4 million, \$25.2 million and \$26.6 million for the years ended December 31, 2017, 2016 and 2015, respectively. As of December 31, 2017, we had an accumulated deficit of \$164.8 million. To date, we have financed our operations primarily through sales of our capital stock, certain debt-related financing arrangements and from sales of our approved products. We have devoted substantially all of our resources to research and development of our products, including clinical and regulatory initiatives to obtain approvals for our products, and sales and marketing activities. Our ability to generate sufficient revenue from our existing products or from any of our product candidates in development, and to transition to profitability and generate consistent positive cash flows is uncertain. We expect that our operating expenses will continue to increase as we continue to build our commercial infrastructure, develop, enhance and commercialize new products and incur additional operational and reporting costs associated with being a public company. As a result, we expect to continue to incur operating losses for the foreseeable future and may never achieve profitability.

***All of our revenue has been generated from our PROPEL® family of steroid releasing implants. Our revenue is completely dependent on the success of these products and of our newly approved product, SINUVA, and if these products fail to grow or to continue experiencing expanded adoption, our business will suffer.***

We started selling PROPEL® in August 2011, PROPEL® Mini in November 2012 and PROPEL® Contour in February 2017, collectively referred to as our PROPEL family of products. We expect that sales of these products, together with SINUVA™, will account for all of our revenue for the foreseeable future. In addition, our ability to become profitable will depend upon the commercial success of these products. We market our products primarily to ear, nose and throat, or ENT, physicians who may be slow or fail to adopt our products or who may use our products in only a small percentage of their eligible patients for a variety of reasons, including, among others:

- lack of experience with our products;
- lack of adequate reimbursement or cost to the patient;
- lack of conviction regarding evidence supporting cost benefits or cost effectiveness of our products over existing alternatives;
- lack of clinical data supporting longer-term patient benefits or, in the case of SINUVA, repeated use; and
- liability risks generally associated with the use of new products and procedures.

If we are unable to effectively demonstrate to ENT physicians and patients the benefits of our products or our products fail to achieve growing market acceptance, our future revenue will be adversely impacted.

Because of the numerous risks and uncertainties associated with our commercialization efforts, we are unable to predict the extent to which we will continue to generate revenue from our products or the timing for when or the extent to which we will become profitable. Even if we do achieve profitability, we may not be able to sustain or increase profitability on an ongoing basis.

***Pricing pressure from our hospital and ambulatory surgery center customers due to cost sensitivities resulting from healthcare cost containment pressures and reimbursement changes could decrease demand for our PROPEL family of products, the prices that customers are willing to pay and the frequency of use of our products, which could have an adverse effect on our business.***

Hospitals and ambulatory surgery centers that purchase our PROPEL family of products typically bill various third-party payors for a facility fee to cover the costs of supplies, including our PROPEL family of products, used in sinus surgery procedures. Because there is often no separate reimbursement for supplies used in surgical procedures, the additional cost associated with the use of our steroid releasing implants can impact the profit margin of the hospital or surgery center where the sinus surgery is performed. Some of our target customers may be unwilling to adopt or use broadly our steroid releasing implants in light of the additional associated cost. Further, any decline in the amount payors reimburse our customers for sinus surgery procedures could make it difficult for existing customers to continue using, or to adopt, our steroid releasing implants. This could create additional pricing pressure for us.

All third-party payors, whether governmental or commercial, whether inside the United States or outside, are developing increasingly sophisticated methods of controlling healthcare costs. These cost-control methods include prospective payment systems, bundled payment models, value-based payment models, capitated arrangements, group purchasing, benefit redesign, prior authorization processes and requirements for second opinions prior to major surgery. These cost-control methods also potentially limit the amount that healthcare providers may be willing to pay for medical devices.

Effective January 1, 2017, CMS assigned upper airway procedures, which includes sinus surgery, to a comprehensive Ambulatory Payment Classification, or APC, for procedures performed in the hospital outpatient department setting. With this assignment, the reimbursement per case was set at a fixed amount regardless of the number of procedures performed during that encounter. As a result, for Medicare patients, while payment increased for encounters involving one or two procedures, payment for encounters with three or more procedures, which are commonly associated with the use of our products, declined significantly below the prior average reimbursement amount. Some commercial payors may peg their rates directly to Medicare rates or use these rates as a reference for facility contract negotiations. If, as a result of this CMS ruling, hospitals are unable to receive adequate reimbursement to support the use of our products, or if we are forced to lower the price we charge for our products, this will negatively impact our revenues and our gross margins will decrease, which will adversely affect our ability to invest in and grow our business. We cannot predict how pending and future healthcare legislation and regulations will impact our business and any changes that further restricts coverage of our products or lowers reimbursement for procedures using our products could materially affect our business.

***The existence of adequate coverage and reimbursement will be important for sales of our products in the office setting of care. Inadequate coverage and reimbursement policies for our products could affect the adoption of our products and our future revenue.***

We will be commercializing SINUVA for use in the office setting of care. SINUVA is designated as a drug by the FDA and as such, providers or specialty pharmacies will seek reimbursement for the product using an unassigned J Code. We do not have experience with this reimbursement and do not know how effective this approach will be in securing reimbursement from payors to cover the cost of SINUVA or if the level of reimbursement will be sufficient to support usage. We have applied for a product specific code from CMS and we do not know if we will be successful in securing a product specific code for SINUVA. Furthermore, patients may have to pay a co-pay toward the product and the procedure, and we do not know if they will want to do that, which could impact the adoption of SINUVA.

While our PROPEL family of products are used principally in the operating room setting in hospitals and ASCs, these products, particularly PROPEL Contour, could be used in the office setting of care following sinus opening. For example, following a balloon sinuplasty procedure. Successful sales of our PROPEL family of products in the physician's office setting of care depends on the availability of adequate coverage and reimbursement from third-party payors for either the products specifically, the procedures associated with the use of the products, or both. Providers that purchase our products generally rely on third-party payors to reimburse all or part of the costs and fees associated with the procedures performed with these medical devices or the devices themselves. Adequate coverage and reimbursement from third-party payors, including governmental payors, such as Medicare and Medicaid, therefore, is important for obtaining product acceptance and widespread adoption in the marketplace.

To receive payment for procedural work associated with the office placement of our PROPEL family of products, physicians may use a variety of existing Current Procedure Terminology, or CPT, codes. CMS has also assigned a Healthcare Common Procedure Coding System, or HCPCS, code of S1090 to seek reimbursement for the PROPEL implant itself. This code applies to the entire PROPEL family of products.

The HCPCS code S1090 cannot be reported to all payors, including Medicare. Separate payment for this code is dependent upon payor coverage. Since PROPEL Contour has clinical applications that include placement in the office setting, the inability to report HCPCS code S1090 to all payors may be a limiting factor to our sales of PROPEL Contour in the office setting. While PROPEL Contour can be reported with an unlisted HCPCS code J3490 to such payors in the office setting, payment for an unlisted code varies by payor and is also dependent upon favorable coverage by the payor.

In the United States, coverage and reimbursement for medical devices vary among payors. In addition, payors review coverage policies on an ongoing basis and can, without notice, change or deny coverage for these new products and procedures. We estimate that commercial payors covering a significant number of U.S. covered lives currently have non-coverage policies relating to our PROPEL family of products, designating these products investigational or experimental. Some governmental and commercial payors do not currently cover or reimburse our products because they have determined insufficient evidence of favorable clinical outcomes is available. Although some consider the steroid releasing implants investigational or experimental at this time, these payors may in the future determine sufficient evidence has been developed to cover and reimburse our products and related procedures. We are actively working to reverse these non-coverage decisions but cannot provide assurance that we will be successful in these efforts. If we are not successful in reversing existing non-coverage policies, or if other third-party payors issue similar policies, this could have a material adverse effect on our business and operations. Further, third-party payors who currently cover and reimburse customers for procedures using our products may in the future choose to decrease current levels of reimbursement or eliminate reimbursement altogether, either of which will cause our business to suffer.

***Our future growth depends on physician awareness and adoption of our steroid releasing implants.***

We focus our sales, marketing and education efforts primarily on ENT physicians. We train physicians on the patient population that would benefit from our steroid releasing implants. This patient population is based on those included in our clinical studies and includes, for example, patients with or without polyps as well as patients undergoing either primary or revision surgery. Some physicians may choose to utilize our products on a subset of their patients such as patients with severe polyp disease that they deem at higher risk for postoperative complications. If we are not able to effectively demonstrate to those physicians that our products are beneficial in a broad range of patients on which they operate, their adoption of our products will be limited.

We train our physician customers on the proper techniques in using our devices to achieve the intended outcome. The successful use of our steroid releasing implants depends in large part on the physician's adherence to the techniques that they are provided in training by our sales representatives. In the event that physicians do not adhere to these techniques or if they perceive that our products are too cumbersome for them to use, we may

have difficulty facilitating adoption. Additionally, physicians may develop their own techniques for use of our products during insertion and during the period in which the drug is delivered and is absorbed. For example, we are aware some physicians are removing our steroid releasing implants before all of the drug has been released into the surrounding tissue. While physicians were allowed to remove the implant at any time at their discretion in our clinical studies, early removal could lead to suboptimal outcomes. In addition, if physicians utilize our products in a manner that is inconsistent with how they were studied clinically, their outcomes may not be consistent with the outcomes achieved in our clinical studies, which may impact their perception of patient benefit and limit their adoption of our products.

***Our clinical studies were designed to demonstrate the safety and efficacy of our steroid releasing implants based on FDA requirements and may not be seen as compelling to physicians. Any subsequent clinical studies that are conducted and published may not be positive or consistent with our existing data, which would affect the rate of adoption of our products.***

Our success depends on the medical community's acceptance of our steroid releasing implants as tools that are useful to ENT physicians treating patients with chronic sinusitis. We have sponsored fourteen multicenter, prospective studies of over 900 patients to track outcomes of treatment with our steroid releasing implants across multiple sinuses and settings of care. These clinical data have resulted in the highest level of evidence generated for any medical device used to improve the outcomes of sinus surgery. While the results of these studies collectively indicate a favorable safety and efficacy profile, the study designs and results may not be viewed as compelling to our physician customers. If physicians do not find our data compelling, they may choose not to use our products or limit their use. Additionally, the long-term effects of sinus interventions in conjunction with our steroid releasing implants beyond six months are not known. Certain ENT physicians, hospitals and surgery centers may prefer to see longer term efficacy data than we have produced. We cannot assure that any data that we or others generate will be consistent with that observed in these studies or meet the endpoints, nor that the results will be maintained beyond the time points studied. We also cannot assure that any data that may be collected will be compelling to the medical community because the data may not be scientifically meaningful and may not demonstrate that sinus procedures using our steroid releasing implants are an attractive option when compared against data from alternative treatments.

Each ENT physician's individual experience with our steroid releasing implants will vary, and we believe that physicians will compare actual long-term outcomes in their own practices using our steroid releasing implants against sinus surgery used in conjunction with traditional sinus packing techniques. A long-term, adequately-controlled clinical study comparing sinus surgery performed in conjunction with our steroid releasing implants against sinus surgery performed in conjunction with the variety of traditional sinus packing techniques incorporated by physicians would be expensive and time-consuming and we have not conducted, and are not currently planning to conduct, such a study. If the experience of physicians indicates that the use of our steroid releasing implants in FESS is not as safe or effective as other treatment options or does not provide a lasting solution to patients with chronic sinusitis, adoption of our products may suffer and our business would be harmed.

***Following commercial launch, SINUVA will be available to a larger number of patients, and we do not know whether the results of SINUVA's use in such larger number of patients will be consistent with the results from our clinical studies.***

While the FDA granted approval of SINUVA based on the data included in its NDA, including data from our completed clinical trials, we do not know whether the results, when a large number of patients are exposed to SINUVA, including results related to safety and efficacy, will be consistent with the results from the clinical trials of SINUVA that served as the basis for the approval of SINUVA. During research and development, SINUVA's use was limited principally to clinical trial patients under controlled conditions and under the care of expert physicians. New data relating to SINUVA, including from adverse event reports, may result in changes to the product label and may adversely affect sales, or result in withdrawal of SINUVA from the market. The FDA

and regulatory authorities in other jurisdictions may also consider any new data in connection with further marketing approval applications. In addition, in patients who take multiple medications, drug interactions could occur that can be difficult to predict. If SINUVA or any additional approved products cause serious or unexpected side effects after receiving market approval, a number of potentially significant negative consequences could result, including:

- regulatory authorities may withdraw their approval of SINUVA or impose restrictions on its distribution;
- regulatory authorities may require the addition of labeling statements, such as warnings or contraindications;
- we may be required to change the way SINUVA is promoted or administered, or conduct additional clinical studies;
- we could be sued and held liable for harm caused to patients; or
- our reputation may suffer.

Any of these events could prevent us from maintaining market acceptance of the affected product and could substantially increase the costs of commercializing SINUVA or any additional products.

***We utilize third-party, single source suppliers and service providers for many of the components, materials and services used in the production of our steroid releasing implants, and the loss of, or disruption by, any of these suppliers or service providers could harm our business.***

The active pharmaceutical ingredient, or API, and a number of our critical components used in our steroid releasing implants are supplied to us from single source suppliers. We rely on single source suppliers for some of our polymer materials, some extrusions and molded components, and some off-the-shelf components. If a supplier delivers products of insufficient quality, it could lead to lot issues, failures or recalls. Our ability to supply our products commercially and to develop our product candidates depends, in part, on our ability to obtain these components in accordance with regulatory requirements and in sufficient quantities and quality for commercialization and clinical testing. We have entered into manufacturing, supply or quality agreements with a number of our single source suppliers pursuant to which they supply the components we need. We are not certain that our single source suppliers will be able to meet our demand for their products, either because of the nature of our agreements with those suppliers, our limited experience with those suppliers or our relative importance as a customer to those suppliers. It may be difficult for us to assess their ability to timely meet our demand in the future based on past performance. While our suppliers have generally met our demand for their products on a timely basis in the past, they may subordinate our needs in the future to their other customers.

Establishing additional or replacement suppliers for the API or any of the components or processes used in our products, if required, may not be accomplished quickly. If we are able to find a replacement supplier, the replacement supplier would need to be qualified and may require additional regulatory authority approval, which could result in further delay. For example, the FDA, could require additional supplemental data if we rely upon a new supplier for the API used in our PROPEL family of products and SINUVA. While we seek to maintain adequate inventory of the single source components and materials used in our products, any interruption or delay in the supply of components or materials, or our inability to obtain components or materials from alternate sources at acceptable prices in a timely manner, could impair our ability to meet the demand of our customers and cause them to cancel orders.

If our third-party suppliers fail to deliver the required commercial quantities of materials, on a timely basis and at commercially reasonable prices, and we are unable to find one or more replacement suppliers capable of production at a substantially equivalent cost in substantially equivalent volumes and quality, and on a timely basis, the continued commercialization of our products and the development of our product candidates would be impeded, delayed, limited or prevented, which could harm our business, results of operations, financial condition and prospects.

***We plan to rely on specialty pharmacies and specialty distributors for distribution of SINUVA in the United States, and the failure of those specialty pharmacies and specialty distributors to distribute SINUVA effectively would adversely affect sales of SINUVA.***

We have historically relied on our internal sales channel to sell our products. However, we plan to rely on specialty pharmacies and specialty distributors for the distribution of SINUVA in the United States. A specialty pharmacy is a pharmacy that specializes in the dispensing, and a specialty distributor that specializes in the distribution, of medications for complex or chronic conditions, which often require a high level of patient education, physician administration and ongoing management. The use of specialty pharmacies and specialty distributors involves certain risks, including, but not limited to, risks that these specialty entities will:

- not provide us accurate or timely information regarding their inventories, the number of patients who are using our products or complaints about our products;
- reduce or discontinue their efforts to sell or support or otherwise not effectively sell or support our products;
- not devote the resources necessary to sell our products in the volumes and within the time frames that we expect;
- engage in unlawful or inappropriate business practices that result in legal or regulatory enforcement activity which could result in liability to the Company or damage its goodwill with customers; or
- be unable to satisfy financial obligations to us or others.

In the event that any of the specialty pharmacies or specialty distributors whom we work with do not fulfill their contractual obligations to us or refuses to or fails to adequately serve patients, or the agreements are terminated without adequate notice, shipments of SINUVA, and associated revenues, would be adversely affected.

***It is difficult to forecast future performance, which may cause our financial results to fluctuate unpredictably.***

It is difficult for us to predict future performance. As we gain additional commercial experience, a number of factors over which we have limited control may contribute to fluctuations in our financial results, such as seasonal variations in revenue. Demand for our products may be impacted adversely by weather and the annual resetting of patient healthcare insurance plan deductibles, both of which may cause patients to delay or decline elective procedures such as FESS and SINUVA implantation. Demand may also be impacted by the seasonal nature of allergies and cold and flu season and the resultant onset of sinus-related symptoms. Other factors that may impact our quarterly results include:

- ENT physician adoption of our steroid releasing implants;
- fluctuations in revenue due to changes in or from estimated gross-to-net deductions, including distributor fees and prompt payment discounts, discounts related to commercial agreements or government mandated programs, returns and replacements and, should we elect to offer such support, patient or payor assistance programs, and other related deductions and adjustments;
- unanticipated pricing pressure;
- the hiring, retention and continued productivity of our sales representatives;
- our ability to expand the geographic reach of our sales and marketing efforts;
- our ability to obtain or maintain regulatory approval and reimbursement coverage for our products in development or for our current products outside the United States;
- fluctuations in revenue due to changes in third party payor reimbursement for procedures associated with the use of our products;

- our ability to maintain intellectual property protection for our products and our competitors being granted patents for competing products;
- results of clinical research and trials on our existing products and products in development;
- delays in receipt of anticipated purchase orders;
- timing of new product offerings, acquisitions, licenses or other significant events by us or our competitors;
- delays in, failure of, or quality issues with, component and raw material deliveries by our suppliers or service providers;
- manufacturing issues or lot failures; and
- positive or negative coverage in the media or clinical publications of our steroid releasing implants or products of our competitors or our industry.

In the event our actual revenue and operating results do not meet our forecasts for a particular period, the market price of our common stock may decline substantially.

***Our long-term growth depends on our ability to develop and commercialize additional ENT products.***

It is important to our business that we continue to build a more complete product offering within the ENT market. We are using our drug releasing bioabsorbable technology to develop new products for use in the physician office setting. Developing additional products is expensive and time-consuming and could divert management's attention away from our current sinus surgery products and harm our business. Even if we are successful in developing additional products, the success of any new product offering or enhancement to an existing product will depend on several factors, including our ability to:

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

If we are unsuccessful in developing and commercializing additional products in other areas of ENT, our ability to increase our revenue may be impaired.

***Consolidation in the healthcare industry could lead to demands for price concessions, which may impact our ability to sell our products at prices necessary to support our current business strategies.***

Healthcare costs have risen significantly over the past several decades, which has driven numerous cost reform initiatives by legislators, regulators and third-party payors. Cost reform has elicited a consolidation trend in the healthcare industry to aggregate purchasing power, which may create more requests for pricing concessions in the future. Additionally, group purchasing organizations, independent delivery networks and large

single accounts may continue to use their market power to consolidate purchasing decisions for hospitals and ambulatory surgery centers. We expect that market demand, government regulation, third-party coverage and reimbursement policies and societal pressures will continue to change the healthcare industry worldwide, resulting in further business consolidations and alliances among our customers, which may exert further downward pressure on the prices of our products and may adversely impact our business, results of operations, financial condition and prospects.

***We compete or may compete in the future against other companies, some of which have longer operating histories, more established products and greater resources, which may prevent us from achieving significant market penetration or improved operating results.***

Our industry is highly competitive, subject to change and significantly affected by new product introductions and other activities of industry participants. Many of the companies developing or marketing ENT products are publicly traded companies, including Medtronic, Olympus, Johnson & Johnson, Stryker and Smith & Nephew. These companies could develop drug releasing products that could compete with our products and most of these companies enjoy several competitive advantages, including:

- greater financial and human capital resources;
- significantly greater name recognition;
- established relationships with ENT physicians, referring physicians, customers and third-party payors;
- additional lines of products, and the ability to offer rebates or bundle products to offer greater discounts or incentives to gain a competitive advantage; and
- established sales, marketing and worldwide distribution networks.

In addition, there are and have been venture companies seeking to develop competitive products. Companies may also market alternatives to current modes of treatment, such as OptiNose. Finally, there are established pharmaceutical companies evaluating monoclonal antibodies for the treatment of chronic sinusitis.

If another company successfully develops an approach for the treatment of chronic sinusitis, including alternative device, drug delivery or pharmaceutical agent, our business could be significantly and adversely affected.

***If physicians treat more patients in their offices instead of performing surgery in the operating room, our ability to sell our PROPEL family of products may be harmed.***

The prevalence of sinus procedures being performed in the office has increased since sinus dilation products for use in the office setting received Category I CPT codes in 2011. As a result, the number of companies selling sinus dilation products has increased and well-known companies such as Medtronic, Entellus (which has agreed to be acquired by Stryker) and Johnson & Johnson have begun to sell sinus dilation products. This has led to increased marketing investments to sell these sinus dilation products in an attempt to not only grow the overall sinus procedure market but also to shift procedures from the operating room to the office. If more patients are treated for chronic sinusitis in a physician's office with a sinus dilation product rather than through FESS procedures in the operating room, the volume of FESS procedures performed may not grow as anticipated and our ability to sell our products may be harmed.

***We face the risk of product liability claims that could be expensive, divert management's attention and harm our reputation and business. We may not be able to maintain adequate product liability insurance.***

Our business exposes us to the risk of product liability claims that are inherent in the testing, manufacturing and marketing of medical devices and drug products. This risk exists even if a device or product is approved for

commercial sale by the FDA and manufactured in facilities licensed and regulated by the FDA, such as the case with our PROPEL family of products and SINUVA, or an applicable foreign regulatory authority. Our products and product candidates are designed to affect important bodily functions and processes. Any side effects, manufacturing defects, misuse or abuse associated with our products or our product candidates could result in patient injury or death. The medical device industry has historically been subject to extensive litigation over product liability claims, and we cannot offer any assurance that we will not face product liability suits. We may be subject to product liability claims if our steroid releasing implants cause, or merely appear to have caused, patient injury or death. In addition, an injury that is caused by the activities of our suppliers, such as those who provide us with components and raw materials, may be the basis for a claim against us. Product liability claims may be brought against us by consumers, healthcare providers or others selling or otherwise coming into contact with our products or product candidates, among others. If we cannot successfully defend ourselves against product liability claims, we will incur substantial liabilities and reputational harm. In addition, regardless of merit or eventual outcome, product liability claims may result in:

- costs of litigation;
- distraction of management's attention from our primary business;
- the inability to commercialize our products or, if approved, our product candidates;
- decreased demand for our products or, if approved, product candidates;
- impairment of our business reputation;
- product recall or withdrawal from the market;
- withdrawal of clinical trial participants;
- substantial monetary awards to patients or other claimants; or
- loss of revenue.

While we may attempt to manage our product liability exposure by proactively recalling or withdrawing from the market any defective products, any recall or market withdrawal of our products may delay the supply of those products to our customers and may impact our reputation. We can provide no assurance that we will be successful in initiating appropriate market recall or market withdrawal efforts that may be required in the future or that these efforts will have the intended effect of preventing product malfunctions and the accompanying product liability that may result. Such recalls and withdrawals may also be used by our competitors to harm our reputation for safety or be perceived by patients as a safety risk when considering the use of our products, either of which could have an adverse effect on our business.

In addition, although we have product liability and clinical study liability insurance that we believe is appropriate, this insurance is subject to deductibles and coverage limitations. Our current product liability insurance may not continue to be available to us on acceptable terms, if at all, and, if available, coverage may not be adequate to protect us against any future product liability claims. If we are unable to obtain insurance at an acceptable cost or on acceptable terms with adequate coverage or otherwise protect against potential product liability claims, we will be exposed to significant liabilities, which may harm our business. A product liability claim, recall or other claim with respect to uninsured liabilities or for amounts in excess of insured liabilities could have a material adverse effect on our business, financial condition and results of operations.

***The misuse or off-label use of our products may harm our image in the marketplace, result in injuries that lead to product liability suits or result in costly investigations and sanctions by regulatory bodies if we are deemed to have engaged in the promotion of these uses, any of which could be costly to our business.***

The products we currently market have been approved by the FDA for specific treatments. We train our marketing and direct sales force to not promote our products for uses outside of the FDA-approved indications

for use, known as “off-label uses.” We cannot, however, prevent a physician from using our products off-label, when in the physician’s independent professional medical judgment he or she deems it appropriate. There may be increased risk of injury to patients if physicians attempt to use our products off-label. Furthermore, the use of our products for indications other than those approved by the FDA or any foreign regulatory body may not effectively treat such conditions, which could harm our reputation in the marketplace among physicians and patients.

Physicians may also misuse our products or use improper techniques if they are not adequately trained, potentially leading to injury and an increased risk of product liability. If our products are misused or used with improper technique, we may become subject to costly litigation by our customers or their patients. Product liability claims could divert management’s attention from our core business, be expensive to defend, and result in sizable damage awards against us that may not be covered by insurance. In addition, if the FDA or any foreign regulatory body determines that our promotional materials or training constitute promotion of an off-label use, it could request that we modify our training or promotional materials or subject us to regulatory or enforcement actions, including the issuance of an untitled letter, a warning letter, injunction, seizure, civil fine or criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider our business activities to constitute promotion of an off-label use, which could result in significant penalties, including, but not limited to, criminal, civil and administrative penalties, damages, fines, disgorgement, exclusion from participation in government healthcare programs, and the curtailment of our operations. Any of these events could significantly harm our business and results of operations and cause our stock price to decline.

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

We believe that our continued success depends, to a significant extent, upon the efforts and abilities of our key employees. All of our executive officers and other employees are at-will employees, and therefore may terminate employment with us at any time with no advance notice. The replacement of any of our key personnel or the turnover of a meaningful number of our employees within a particular function or throughout the company within a given period of time, likely would involve significant time and costs and may significantly delay or prevent the achievement of our business objectives and would harm our business.

Our future success also depends on our ability to continue to attract and retain our executive officers and other key employees. Many of our employees have become or will soon become vested in a substantial amount of stock or number of stock options. Our employees may be more likely to leave us if the shares they own or the shares underlying their vested options have significantly appreciated in value relative to the original purchase prices of the shares or the exercise prices of the options, or if the exercise prices of the options that they hold are significantly below the market price of our common stock. Further, our employees’ ability to exercise those options and sell their stock in a public market may result in a higher than normal turnover rate. We do not carry any “key person” insurance policies.

***If our facilities or the facility of a supplier or customer become inoperable, we will be unable to continue to research, develop, manufacture, commercialize and sell our products and, as a result, our business will be harmed until we are able to secure a new facility.***

We do not have redundant facilities. We perform substantially all of our research and development, manufacturing and commercialization activity and maintain all our raw material and a significant portion of our finished goods inventory in a single location in Menlo Park, California. Menlo Park is situated on or near earthquake fault lines. Our facility and equipment would be costly to replace and could require substantial lead time to repair or replace. The facility may be harmed or rendered inoperable by natural or man-made disasters, including, but not limited to, earthquakes, flooding, fire, water shortages and power outages, which may render it difficult or impossible for us to perform our research, development, manufacturing and commercialization activities for some period of time. The inability to perform those activities, combined with our limited inventory

of raw materials and finished product reserve, may result in the inability to continue manufacturing our products during such periods and the loss of customers or harm to our reputation. Although we possess insurance for damage to our property and the disruption of our business, this insurance may not be sufficient to cover all of our potential losses and this insurance may not continue to be available to us on acceptable terms, or at all. In addition, while we have a limited amount of inventory at a third party storage and fulfillment center, that inventory may not be sufficient to continue our operations if our primary facility is damaged. The occurrence of natural disasters or acts of terrorism could also cause delays in our customers' supply chain, causing them to delay their requirements for our products until they resolve shortages from their other suppliers. Any such occurrences of natural disasters or acts of terrorism could have a material adverse effect on our business, our results of operations and our financial condition.

***If we experience significant disruptions in our information technology systems, our business may be adversely affected.***

We depend on our information technology systems for the efficient functioning of our business, including accounting, data storage, compliance, purchasing and inventory management. Our current systems provide physical and virtual redundancy while being operated from our physical location in Menlo Park. While we will attempt to mitigate interruptions in our information technology systems, we may experience events or circumstances which could disrupt our operations, including our ability to timely ship and track product orders, project inventory requirements, manage our supply chain and otherwise adequately service our customers. In the event we experience significant disruptions, such as natural disasters or security breaches, as a result of the current implementation of our information technology systems, we may not be able to repair our systems in an efficient and timely manner. Accordingly, such events may disrupt or reduce the efficiency of our entire operation and have a material adverse effect on our results of operations and cash flows.

We are increasingly dependent on sophisticated information technology for our infrastructure. Our information systems require an ongoing commitment of significant resources to maintain, protect and enhance existing systems. Failure to maintain or protect our information systems and data integrity effectively could have a materially adverse effect on our business. For example, third parties may attempt to hack into our information systems and may obtain our proprietary information.

***We are expanding the scale and complexity of our operations by adding commercialization of a drug to our underlying device business. We may encounter difficulties in managing this expansion, which could disrupt our business.***

SINUVA will be our first commercial product that is regulated as a drug. To sell this product, we are expanding the scope of our operations to comply with manufacturing and regulatory requirements of a drug. We are also adding a network of specialty pharmacies and specialty distributors to support product access, and adding internal or external capabilities to handle new operational requirements. We are relying on one integrated sales force to sell all our products. We will remain subject to ongoing inspection by regulatory agencies and must maintain compliance with both device and drug regulatory requirements for Quality Systems Regulation and Good Manufacturing Practice compliance, respectively.

To manage our anticipated future growth for SINUVA, our PROPEL family of products and our pipeline, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. We may not be able to effectively manage the expected expansion of our operations or recruit and train additional qualified personnel. Moreover, the expected expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our business plans or disrupt our operations.

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

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

- the FDA, institutional review boards or other regulatory authorities do not approve a clinical study protocol, force us to modify a previously approved protocol, or place a clinical study on hold;
- patients do not enroll in, or enroll at a lower rate than we expect, or do not complete a clinical study;
- patients or investigators do not comply with study protocols;
- patients do not return for post-treatment follow-up at the expected rate;
- patients experience unexpected adverse event or side effects for a variety of reasons that may or may not be related to our products;
- sites participating in an ongoing clinical study withdraw, requiring us to engage new sites;
- difficulties or delays associated with establishing additional clinical sites;
- third-party clinical investigators decline to participate in our clinical studies, do not perform the clinical studies on the anticipated schedule, or are inconsistent with the investigator agreement, clinical study protocol, good clinical practices or other agency requirements;
- third-party organizations do not perform data collection and analysis in a timely or accurate manner;
- regulatory inspections of our clinical studies or manufacturing facilities require us to undertake corrective action or suspend or terminate our clinical studies;
- changes in federal, state, or foreign governmental statutes, regulations or policies;
- interim results are inconclusive or unfavorable as to immediate and long-term safety or efficacy;
- the study design is inadequate to demonstrate safety and efficacy; or
- the study does not meet the primary endpoints.

Clinical failure can occur at any stage of the testing. Our clinical studies may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical and non-clinical testing in addition to those we have planned. Our failure to adequately demonstrate the safety and efficacy of any of our devices would prevent receipt of regulatory clearance or approval and, ultimately, the commercialization of that device or indication for use. Even if our future products are approved in the United States, commercialization of our products in foreign countries would require approval by regulatory authorities in those countries. Approval procedures vary among jurisdictions and can involve requirements and administrative review periods different from, and greater than, those in the United States, including additional preclinical studies or clinical trials. Any of these occurrences may harm our business, results of operations, financial condition and prospects.

***Reimbursement in international markets may require us to undertake country-specific reimbursement activities, including additional clinical studies, which could be time-consuming and expensive and may not yield acceptable reimbursement rates.***

In international markets, market acceptance of our products will likely depend in large part on the availability of reimbursement within prevailing healthcare payment systems. Reimbursement and healthcare

payment systems in international markets vary significantly by country, and by region in some countries, and include both government-sponsored healthcare and private insurance. Securing separate payment for our products may require additional investment in clinical data to satisfy the requirements of health technology assessment organizations in these countries. We may not obtain international reimbursement approvals in a timely manner, if at all. In addition, even if we do obtain international reimbursement approvals, the level of reimbursement may not be enough to commercially justify expansion of our business into the approving jurisdiction. To the extent we or our customers are unable to obtain reimbursement for our steroid releasing implants in major international markets in which we seek to market and sell our products, our international revenue growth would be harmed, and our business and results of operations would be adversely affected.

***Pricing for pharmaceutical products has come under increasing scrutiny by governments, legislative bodies and enforcement agencies. These activities may result in actions that have the effect of reducing our revenue or harming our business or reputation.***

Many companies in our industry have received a governmental request for documents and information relating to drug pricing and patient support programs. We could receive a similar request, which would require us to incur significant expense and result in distraction for our management team. Additionally, to the extent there are findings, or even allegations, of improper conduct on the part of the company, such findings could further harm our business, reputation and/or prospects. It is possible that such inquiries could result in: negative publicity or other negative actions that could harm our reputation; changes in our product pricing and distribution strategies; reduced demand for our approved products; and/or reduced reimbursement of approved products, including by federal health care programs such as Medicare and Medicaid and state health care programs.

In addition, the current administration has indicated interest in taking regulatory and other policy actions pertaining to drug pricing, including potential proposals relating to Medicare price negotiations, importation of drugs from other countries and facilitating value-based arrangements between manufacturers and payers. At this time, it is unclear whether any of these proposals will be pursued and how they would impact our products or our future product candidates.

State and local governments continue to consider prescription drug pricing transparency proposals. In October 2017, California Governor Jerry Brown signed legislation requiring pharmaceutical manufacturers to disclose and provide justification for certain price increases; however, the regulations under which we will have to operate have not yet been promulgated. While we have taken and will continue to take appropriate actions to ensure compliance with this new law, without knowing the final regulations applicable to us, we cannot comprehensively assess the potential impact on our business. Additional legislation or ballot initiatives may be proposed by various states and municipalities in the future, and we cannot predict the outcome of any future proposals, the market's perception of them or their potential impact on us.

## **Risks Relating to Regulatory Matters**

***Our products are subject to extensive regulation by the FDA, and other agencies, including the requirement to obtain approval prior to commercializing our products and the requirement to report adverse events and other ongoing reporting requirements. If we fail to obtain necessary FDA device or drug approvals for our products, or are subject to regulatory enforcement action as a result of our failure to properly report adverse events or otherwise comply with regulatory requirements, our commercial operations would be harmed.***

Our steroid releasing implants are subject to extensive regulation by the FDA and various other federal, state and foreign governmental authorities. The Premarket Approval, or PMA, and New Drug Application, or NDA, approval processes can be expensive and lengthy. Despite the time, effort and cost required to obtain approval, there can be no assurance that any product that we intend to commercialize in the future will be approved by the FDA in a timely fashion, if at all.

Our currently marketed products are subject to Medical Device Reporting, or MDR, and drug postmarketing safety reporting obligations, which require that we timely report any incidents to the FDA. In the European Union, our CE Marked products are subject to vigilance reporting.

The FDA and state authorities have broad enforcement powers. Our failure to comply with applicable regulatory requirements could result in enforcement action by the FDA or state agencies, which may include any of the following sanctions:

- adverse publicity, warning letters, fines, injunctions, consent decrees and civil penalties;
- repair, replacement, recall or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- delaying or refusing our requests for approval of new products, new intended uses or modifications to our existing products;
- refusal to grant export approval for our products;
- withdrawing product approvals that have already been granted; and
- criminal prosecution.

If any of these enforcement actions were to be taken by the government, our business could be harmed.

***We cannot predict whether or when we will obtain regulatory approval to commercialize product candidates and we cannot, therefore, predict the timing of any future revenue from product candidates. Regulatory approval of a product candidate is not guaranteed, and the approval process is expensive, uncertain and lengthy.***

We cannot commercialize our product candidates until the appropriate regulatory authorities, such as the FDA, have reviewed and approved the product candidate. Regulatory agencies may not complete their review processes in a timely manner, or we may not be able to obtain regulatory approval for product candidates. Additional delays may result if product candidates are brought before an FDA advisory committee, which could recommend restrictions on approval or recommend non-approval. In addition, we may experience delays or rejections based upon additional government regulation from future legislation or administrative action, or changes in regulatory agency policy during the period of product development, clinical studies and the review process. As a result, we cannot predict when, if at all, we will receive any future revenue from commercialization of product candidates. The FDA has substantial discretion in the drug approval process, including the ability to delay, limit or deny approval of a product candidate for many reasons, including the following:

- we may be unable to demonstrate to the satisfaction of regulatory authorities that a product candidate is safe and effective for any indication;
- regulatory authorities may not find the data from clinical studies sufficient or may differ in the interpretation of the data;
- regulatory authorities may require additional clinical studies;
- the FDA or foreign regulatory authority might not approve our manufacturing processes or facilities for clinical or commercial production;
- the FDA or foreign regulatory authority may change its approval policies or adopt new regulations;
- the FDA or foreign regulatory authorities may disagree with the design or implementation of our clinical studies;
- the FDA or foreign regulatory authority may not accept clinical data from studies that are conducted in countries where the standard of care is potentially different from that in the U.S.;

- the results of clinical studies may not meet the level of statistical significance required by the FDA or foreign regulatory authorities for approval;
- we may be unable to demonstrate that a product candidate's clinical and other benefits outweigh its safety risks; and
- the data collection from clinical studies of our product candidates may not be sufficient to support the submission of a NDA or other submission or to obtain regulatory approval in the U.S. or elsewhere.

In addition, events raising questions about the safety of certain marketed products may result in increased caution by the FDA and other regulatory authorities in reviewing new products based on safety, efficacy or other regulatory considerations and may result in significant delays in obtaining regulatory approvals.

***Even though SINUVA was approved by the FDA, this approval was limited to certain indications, and additional clinical studies and regulatory applications are required to expand SINUVA indications. We can provide no assurances that such additional clinical studies or regulatory applications will be successful.***

We have developed SINUVA for use in the physician's office for treatment of patients who have had sinus surgery but continue to suffer from symptoms of chronic sinusitis. In November 2017, we commenced the ENCORE study, a 50 patient prospective, multicenter, open-label study focused on evaluation of the safety of repeat placement of the SINUVA implant in chronic sinusitis patients with nasal polyps, and completed enrollment in January 2018. Additional clinical studies may be required to support any targeted indications, which will require additional time and expense and may not prove successful. Limitations in our label for SINUVA will reduce the number of patients for whom SINUVA is indicated and could reduce the size of the market and our financial prospects. Further, there is no guarantee that any efforts that we decide to undertake will meet the FDA's requirements, and we may not receive approval the additional indications for SINUVA despite such efforts.

***If we are able to successfully commercialize SINUVA, and if we participate in but fail to comply with our reporting and payment obligations under the Medicaid Drug Rebate Program, or other governmental pricing programs, we could be subject to additional reimbursement requirements, penalties, sanctions and fines which could have a material adverse effect on our business, financial condition and results of operations.***

If we participate in the Medicaid Drug Rebate Program, and other governmental pricing programs, we will be obligated to pay certain specified rebates and report pricing information with respect to SINUVA. Pricing and rebate calculations are complex and are often subject to interpretation by us, governmental or regulatory agencies and the courts. We cannot assure you that our submissions will not be found by the CMS to be incomplete or incorrect. Governmental agencies may also make changes in program interpretations, requirements or conditions of participation, some of which may have implications for amounts previously estimated or paid. The Medicaid rebate amount is computed each quarter based on our submission to CMS of our current average manufacturer price, or AMP, and best price, or BP, for the quarter. If we become aware that our reporting for a prior quarter was incorrect, or has changed as a result of recalculation of the pricing data, we are obligated to resubmit the corrected data for a period not to exceed twelve quarters from the quarter in which the data originally were due, and CMS may request or require restatements for earlier periods as well. Such restatements and recalculations increase our costs for complying with the laws and regulations governing the Medicaid Drug Rebate Program. Any corrections to our rebate calculations could result in an overage or underage in our rebate liability for past quarters, depending on the nature of the correction. Price recalculations also may affect the ceiling price at which we are required to offer our products to certain covered entities, such as safety-net providers, under the Public Health Service's 340B drug pricing program, or 340B, and under other similar government pricing programs

We will also be liable for errors associated with our submission of pricing data. In addition to retroactive rebates and the potential for 340B refunds, if we are found to have knowingly submitted false AMP or BP information to the government, we may be liable for civil monetary penalties. If we are found to have made a

misrepresentation in the reporting of our AMP, we may be liable for civil monetary penalties as well. Our failure to submit monthly or quarterly AMP and BP data on a timely basis could result in a civil monetary penalty for each day the information is late beyond the due date. Such failure also could be grounds for CMS to terminate our Medicaid drug rebate agreement, pursuant to which we participate in the Medicaid program. In the event that CMS terminates our rebate agreement, federal payments may not be available under Medicaid for SINUVA. A final regulation imposes a civil monetary penalty for each instance of knowingly and intentionally charging a 340B covered entity more than the 340B ceiling price.

Federal law requires that a company must participate in the U.S. Department of Veterans Affairs, or VA, Federal Supply Schedule, or FSS, pricing program to be eligible to have its products paid for with federal funds. As part of this program, we would be obligated to make SINUVA available for procurement on an FSS contract under which we must comply with standard government terms and conditions and charge a price that is no higher than the statutory Federal Ceiling Price, or FCP, to several federal agencies including the VA, the U.S. Department of Defense, the Public Health Service and the U.S. Coast Guard and others. The FCP is based on the Non-Federal Average Manufacturer Price, or Non-FAMP, which we calculate and report to the VA on a quarterly and annual basis. If we overcharge the government in connection with our FSS contract or Section 703 Agreement, whether due to a misstated FCP or otherwise, we are required to refund the difference to the government. Failure to make necessary disclosures and/or to identify contract overcharges can result in allegations against us under the U.S. civil False Claims Act and other laws and regulations. Unexpected refunds to the government, and responding to a government investigation or enforcement action, would be expensive and time consuming, and could have a material adverse effect on our business, financial condition and results of operations.

***If we materially modify our approved products, we may need to seek and obtain new approvals, which, if not granted, would prevent us from selling our modified products.***

A component of our strategy is to continue to modify and upgrade our steroid releasing implants. Medical devices can be marketed only for the indications for which they are approved. We have received a number of PMA supplement approvals since the original approval of PROPEL. We may not be able to obtain additional regulatory approvals for new products or for modifications to, or additional indications for, our existing products in a timely fashion, or at all. Delays in obtaining future approvals would adversely affect our ability to introduce new or enhanced products in a timely manner, which in turn would harm our revenue and potential future profitability.

***We may fail to obtain foreign regulatory approvals to market our products in other countries.***

We have only had limited sales outside the United States. Sales of our steroid releasing implants outside the United States are subject to foreign regulatory requirements that vary widely from country to country. In addition, the FDA regulates exports of medical devices from the United States. Complying with international regulatory requirements can be an expensive and time-consuming process and approval is not certain. The time required to obtain approvals, if required by other countries, may be longer than that required for FDA approvals, and requirements for such approvals may significantly differ from FDA requirements. In certain countries we may rely upon a third-party or third-party distributors to obtain all required regulatory approvals, and these distributors may be unable to obtain or maintain such approvals. Our distributors in these countries may also incur significant costs in attempting to obtain and in maintaining foreign regulatory approvals or qualifications, which could increase the difficulty of attracting and retaining qualified distributors. If these distributors experience delays in receiving necessary qualifications, clearances or approvals to market our products outside the United States, or if they fail to receive those qualifications, clearances or approvals, we may be unable to market our products or enhancements in certain international markets effectively, or at all.

International jurisdictions require separate regulatory approvals and compliance with numerous and varying regulatory requirements. The approval procedures vary among countries and may involve requirements for

additional testing, and the time required to obtain approval may differ from country to country and from that required to obtain clearance or approval in the United States.

Approval in the United States does not ensure approval or certification by regulatory authorities in other countries or jurisdictions, and approval or certification by one foreign regulatory authority does not ensure approval or certification by regulatory authorities in other foreign countries or by the FDA. The foreign regulatory approval or certification process may include all of the risks associated with obtaining FDA approval. In addition, some countries only approve or certify a product for a certain period of time, and we are required to re-approve or re-certify our products in a timely manner prior to the expiration of our prior approval or certification. We may not obtain foreign regulatory approvals on a timely basis, if at all. We may not be able to file for regulatory approvals or certifications and may not receive necessary approvals to commercialize our products in any market. If we fail to receive necessary approvals or certifications to commercialize our products in foreign jurisdictions on a timely basis, or at all, or if we fail to have our products re-approved or re-certified, our business, results of operations and financial condition could be adversely affected.

These and other factors may have a material adverse effect on our international operations or on our business, results of operations and financial condition generally.

***If we, our suppliers or service providers fail to comply with ongoing FDA or foreign regulatory authority requirements, or if we experience unanticipated problems with our products, these products could be subject to restrictions or withdrawal from the market.***

Any product for which we obtain approval, and the manufacturing processes, reporting requirements, post-approval clinical data and promotional activities for such product, will be subject to continued regulatory review, oversight and periodic inspections by the FDA and other domestic and foreign regulatory bodies. In particular, we and our third-party suppliers are required to comply with the FDA's current good manufacturing practices and Quality Systems regulation. These FDA regulations cover the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, sterilization, storage and shipping of our products. Compliance with applicable regulatory requirements is subject to continual review and is monitored rigorously through periodic inspections by the FDA. If we, or our suppliers, fail to adhere to current good manufacturing practice requirements in the United States, this could delay production of our products and lead to fines, difficulties in obtaining regulatory approvals, recalls, enforcement actions, including injunctive relief or consent decrees, or other consequences, which could, in turn, have a material adverse effect on our financial condition or results of operations.

In addition, the FDA audits compliance through periodic announced and unannounced inspections of manufacturing and other facilities. The failure by us or one of our suppliers to comply with applicable statutes and regulations administered by the FDA, or the failure to timely and adequately respond to any adverse inspectional observations or product safety issues, could result in any of the following enforcement actions:

- untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- unanticipated expenditures to address or defend such actions;
- customer notifications or repair, replacement, refunds, recall, detention or seizure of our products;
- operating restrictions, partial suspension or total shutdown of production;
- refusing or delaying our requests for regulatory approvals of new products or modified products;
- withdrawing PMA or NDA approvals that have already been granted;
- refusal to grant export approval for our products; or
- criminal prosecution.

Any of these sanctions could have a material adverse effect on our reputation, business, results of operations and financial condition. Furthermore, our key component suppliers may not currently be or may not continue to be in compliance with all applicable regulatory requirements, which could result in our failure to produce our products on a timely basis and in the required quantities, if at all.

If we expand our operations outside the United States, our products and operations will be required to comply with standards set by foreign regulatory bodies, and those standards, types of evaluation and scope of review differ among foreign regulatory bodies. We intend to comply with the standards enforced by such foreign regulatory bodies as needed to commercialize our products. If we fail to comply with any of these standards adequately, a foreign regulatory body may take adverse actions similar to those within the power of the FDA. For example, in Europe, we are subject to a conformity assessment procedure under which a so-called Notified Body, an organization accredited by a member state of the European Economic Area, or EEA, which will audit and examine our quality system for the manufacture, design, and release of our products and confirm adherence with applicable regulatory requirements. If we fail to maintain CE Markings in accordance with these requirements, we would be precluded from selling our products in the EEA. Any such action or circumstance may harm our reputation and business, and could have an adverse effect on our business, results of operations and financial condition.

***Our products may in the future be subject to product recalls. A recall of our products, either voluntarily or at the direction of the FDA or another governmental authority, or the discovery of serious safety issues with our products, could have a significant adverse impact on us.***

The FDA and similar foreign governmental authorities have the authority to require the recall of commercialized products in the event of material deficiencies or defects in design or manufacture. In the case of the FDA, the authority to require a recall must be based on an FDA finding that there is reasonable probability that the device would cause serious injury or death. In addition, foreign governmental bodies have the authority to require the recall of our products in their respective jurisdictions in the event of material deficiencies or defects in the design or manufacture of our products. We may, under our own initiative, recall a product if any material deficiency in our steroid releasing implants is found. The FDA requires that recalls be reported to the FDA within 10 working days after the recall is initiated. A government-mandated or voluntary recall by us or one of our international distributors could occur as a result of an unacceptable risk to health, component failures, malfunctions, manufacturing errors, design or labeling defects or other deficiencies and issues. Recalls of any of our products would divert managerial and financial resources and have an adverse effect on our reputation, results of operations and financial condition, which could impair our ability to produce our products in a cost-effective and timely manner in order to meet our customers' demands. We may also be subject to liability claims, be required to bear other costs, or take other actions that may have a negative impact on our future sales and our ability to generate profits. Companies are required to maintain certain records of recalls, even if they are not reportable to the FDA. We may initiate voluntary recalls involving our products in the future that we determine do not require notification of the FDA. If the FDA disagrees with our determinations, they could require us to report those actions as recalls. A future recall announcement could harm our reputation with customers and negatively affect our sales. In addition, the FDA could take enforcement action for failing to report the recalls when they were conducted.

***If the third parties on which we rely to conduct our clinical trials do not perform as contractually required or expected, we may not be able to obtain regulatory approval for or commercialize such product candidates.***

We often must rely on third parties, such as medical institutions, clinical investigators and contract laboratories to conduct our clinical trials and provide data or prepare deliverables for our PMA or NDA submissions, including supplements thereto. If these third parties do not successfully carry out their contractual duties or regulatory obligations or meet expected deadlines, if these third parties need to be replaced, or if the quality or accuracy of the data they obtain is compromised due to the failure to adhere to our clinical protocols or regulatory requirements or for other reasons, our clinical trials may be extended, delayed, suspended or

terminated, and/or we may not be able to obtain regulatory approval for, or successfully commercialize, our products on a timely basis, if at all, and our business, operating results and prospects may be adversely affected. Furthermore, our third-party clinical trial investigators may be delayed in conducting our clinical trials for reasons outside of their control.

***We may be subject to enforcement action if we engage in improper marketing or promotion of our products.***

Our promotional materials and training methods must comply with FDA and other applicable laws and regulations, including the prohibition of the promotion of unapproved, or off-label, use. Physicians may use our products off-label, as the FDA does not restrict or regulate a physician's choice of treatment within the practice of medicine. However, if the FDA determines that our promotional materials or training constitutes promotion of an off-label use, it could request that we modify our training or promotional materials or subject us to regulatory or enforcement actions, including the issuance of an untitled letter, a warning letter, injunction, seizure, civil fine or criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider our promotional or training materials to constitute promotion of an off-label use, which could result in significant fines or penalties under other statutory authorities, such as laws prohibiting false claims for reimbursement. In that event, our reputation could be damaged and adoption of the products could be impaired. Although our policy is to refrain from statements that could be considered off-label promotion of our products, the FDA or another regulatory agency could disagree and conclude that we have engaged in off-label promotion. In addition, the off-label use of our products may increase the risk of product liability claims. Product liability claims are expensive to defend and could divert our management's attention, result in substantial damage awards against us, and harm our reputation.

***If we fail to comply with U.S. federal and state healthcare regulatory laws, we could be subject to penalties, including, but not limited to, administrative, civil and criminal penalties, damages, fines, disgorgement, exclusion from participation in governmental healthcare programs, and the curtailment of our operations, any of which could adversely impact our reputation and business operations.***

There are numerous U.S. federal and state healthcare regulatory laws, including, but not limited to, anti-kickback laws, false claims laws, privacy laws, and transparency laws. Our relationships with healthcare providers and entities, including but not limited to, physicians, hospitals, ambulatory surgery centers, group purchasing organizations and our international distributors are subject to scrutiny under these laws. Violations of these laws can subject us to penalties, including, but not limited to, administrative, civil and criminal penalties, damages, fines, disgorgement, imprisonment, additional reporting requirements and oversight if we become subject to a corporate integrity agreement or similar agreement to resolve allegations of non-compliance with these laws, exclusion from participation in federal and state healthcare programs, including the Medicare, Medicaid and Veterans Administration health programs, and the curtailment of our operations. Healthcare fraud and abuse regulations are complex, and even minor irregularities can potentially give rise to claims that a statute or prohibition has been violated. The laws that may affect our ability to operate include, but are not limited to:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons and entities from knowingly and willfully soliciting, receiving, offering, or paying remuneration, directly or indirectly, in cash or in kind, in exchange for or to induce either the referral of an individual for, or the purchase, lease, order or recommendation of, any good, facility, item or service for which payment may be made, in whole or in part, under federal healthcare programs such as Medicare and Medicaid;
- the federal civil False Claims Act, which prohibits, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from federal health care programs, such as Medicare and Medicaid that are false or fraudulent; knowingly making, using, or causing to be made or used, a false record or statement to get a false or fraudulent claim paid or approved by the government; or knowingly making, using, or causing to be made or used, a false record or statement to avoid, decrease or conceal an obligation to pay money to the federal government;

- the federal criminal False Claims Act, which imposes criminal fines or imprisonment against individuals or entities who make or present a claim to the government knowing such claim to be false, fictitious or fraudulent;
- the civil monetary penalties statute, which imposes penalties against any person or entity who, among other things, is determined to have presented or caused to be presented, a claim to a federal healthcare program that the person knows, or should know, is for an item or service that was not provided as claimed or is false or fraudulent;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, as amended, which created federal criminal laws that prohibit executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, or HITECH, and their respective implementing regulations, which impose requirements on certain covered healthcare providers, health plans and healthcare clearinghouses as well as their business associates that perform services for them that involve individually identifiable health information, relating to the privacy, security and transmission of individually identifiable health information without appropriate authorization, including mandatory contractual terms as well as directly applicable privacy and security standards and requirements;
- the Federal Trade Commission Act and similar laws regulating advertisement and consumer protections;
- the federal Foreign Corrupt Practices Act of 1997, which prohibits corrupt payments, gifts or transfers of value to foreign officials; and
- foreign or U.S. state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers.

Further, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, or, collectively, the Affordable Care Act, among other things, amends the intent requirements of the federal Anti-Kickback Statute and certain criminal statutes governing healthcare fraud. A person or entity can now be found guilty of violating the statute without actual knowledge of the statute or specific intent to violate it. In addition, the Affordable Care Act provides that the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the federal False Claims Act. Moreover, while we do not submit claims and our customers make the ultimate decision on how to submit claims, from time-to-time, we may provide reimbursement guidance to our customers. If a government authority were to conclude that we provided improper advice to our customers or encouraged the submission of false claims for reimbursement, we could face action against us by government authorities. Any violations of these laws, or any action against us for violation of these laws, even if we successfully defend against it, could result in a material adverse effect on our reputation, business, results of operations and financial condition.

We have entered into consulting agreements with physicians, including some who influence the ordering of and use our products in procedures they perform. While we believe these transactions were structured to comply with all applicable laws, including state and federal anti-kickback laws, to the extent applicable, regulatory agencies may view these transactions as prohibited arrangements that must be restructured, or discontinued, or for which we could be subject to other significant penalties. We could be adversely affected if regulatory agencies interpret our financial relationships with ENT physicians who influence the ordering of and use our products to be in violation of applicable laws. This could subject us to the penalties described above.

Because of the breadth of these laws and the narrowness of the statutory exceptions and regulatory safe harbors available under such laws, it is possible that some of our business activities, including our relationships

with healthcare providers and entities, including, but not limited to, physicians, hospitals, ambulatory surgery centers, group purchasing organizations and our independent distributors and certain sales and marketing practices, including the provision of certain items and services to our customers, could be subject to challenge under one or more of such laws.

To enforce compliance with the healthcare regulatory laws, federal and state enforcement bodies have recently increased their scrutiny of interactions between healthcare companies and healthcare providers, which has led to a number of investigations, prosecutions, convictions and settlements in the healthcare industry. Responding to investigations can be time and resource consuming and can divert management's attention from the business. Additionally, as a result of these investigations, healthcare providers and entities may have to agree to additional onerous compliance and reporting requirements as part of a consent decree or corporate integrity agreement. Any such investigation or settlement could increase our costs or otherwise have an adverse effect on our business.

In certain cases, federal and state authorities pursue actions for false claims on the basis that manufacturers and distributors are promoting off-label uses of their products. Pursuant to FDA regulations, we can only market our products for cleared or approved uses. Although physicians are permitted to use medical devices for indications other than those cleared or approved by the FDA in their professional medical judgment, we are prohibited from promoting products for off-label uses. We market our products and provide promotional materials and training programs to physicians regarding the use of our products. If it is determined that our business activities, including our marketing, promotional materials or training programs constitute promotion of unapproved uses, we could be subject to significant fines in addition to regulatory enforcement actions, including the issuance of a warning letter, injunction, seizure and criminal penalty.

In addition, there has been a recent trend of increased federal and state regulation of payments and transfers of value provided to healthcare professionals or entities. The Physician Payments Sunshine Act that imposes new annual reporting requirements on device manufacturers for payments and other transfers of value provided by them, directly or indirectly, to physicians and teaching hospitals, as well as ownership and investment interests held by physicians and their family members. A manufacturer's failure to submit timely, accurately and completely the required information for all payments, transfers of value or ownership or investment interests may result in civil monetary penalties of up to an aggregate of \$165,786 per year, and up to an aggregate of \$1,105,241 per year for "knowing failures." Manufacturers are required to report to CMS the detailed payment and transfers of value data and submit legal attestation to the accuracy of such data by the 90th day of each calendar year. Due to the difficulty in complying with the Physician Payments Sunshine Act, we cannot assure you that we will successfully report all payments and transfers of value provided by us, and any failure to comply could result in significant fines and penalties. Some states, such as California and Connecticut, also mandate implementation of commercial compliance programs, and other states, such as Massachusetts and Vermont, impose restrictions on device manufacturer marketing practices and tracking and reporting of gifts, compensation and other remuneration to healthcare professionals and entities. The shifting commercial compliance environment and the need to build and maintain robust and expandable systems to comply with different compliance and reporting requirements in multiple jurisdictions increase the possibility that a healthcare company may fail to comply fully with one or more of these requirements.

Although compliance programs can mitigate the risk of investigation and prosecution for violations of these laws, the risks cannot be entirely eliminated. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business.

Most of these laws apply to not only the actions taken by us, but also to actions taken by our distributors. We have limited knowledge and control over the business practices of our distributors, and we may face regulatory action against us as a result of their actions which could have a material adverse effect on our reputation, business, results of operations and financial condition.

In addition, the scope and enforcement of these laws are uncertain and subject to rapid change in the current environment of healthcare reform, especially in light of the lack of applicable precedent and regulations. Federal or state regulatory authorities might challenge our current or future activities under these laws. Any such challenge could have a material adverse effect on our reputation, business, results of operations and financial condition. Any state or federal regulatory review of us, regardless of the outcome, would be costly and time-consuming. Additionally, we cannot predict the impact of any changes in these laws, whether or not retroactive.

***Legislative or regulatory healthcare reforms may make it more difficult and costly for us to obtain regulatory approval of new products and to produce, market and distribute our products after approval is obtained.***

FDA regulations and guidance are often revised or reinterpreted by the FDA in ways that may significantly affect our business and our products. Any new regulations or revisions or reinterpretations of existing regulations may impose additional costs or lengthen review times of our products. Delays in receipt of, or failure to receive, regulatory approvals for our new products would have a material adverse effect on our business, results of operations and financial condition.

Federal and state governments in the United States have recently enacted legislation to overhaul the nation's healthcare system. While the goal of healthcare reform is to expand coverage to more individuals, it also involves increased government price controls, additional regulatory mandates and other measures designed to constrain medical costs. The Affordable Care Act significantly impacts the medical device and pharmaceutical industries, we will have to comply with its drug-specific provisions now that SINUVA has been approved. Among other things, the Affordable Care Act:

- imposes an annual excise tax of 2.3% on any entity that manufactures or imports medical devices offered for sale in the United States beginning in 2013;
- establishes a new Patient-Centered Outcomes Research Institute to oversee and identify priorities in comparative clinical effectiveness research in an effort to coordinate and develop such research;
- implements payment system reforms including a national pilot program on payment bundling to encourage hospitals, physicians and other providers to improve the coordination, quality and efficiency of certain healthcare services through bundled payment models; and
- creates an independent payment advisory board that will submit recommendations to reduce Medicare spending if projected Medicare spending exceeds a specified growth rate.

The medical device excise tax was recently suspended by the Consolidated Appropriations Act of 2016, or CAA, for calendar years 2016 and 2017. In January 2018, the medical device excise tax suspension was extended for calendar years 2018 and 2019. Absent further congressional action the excise tax will be reinstated for medical device sales beginning January 1, 2020. The CAA also temporarily delays implementation of other taxes intended to help fund Affordable Care Act programs.

Further, there have been judicial and congressional challenges to other aspects of the Affordable Care Act. For example, since January 2017, our current President of the United States has signed two executive orders and other directives designed to delay, circumvent, or loosen certain requirements mandated by the Affordable Care Act. Concurrently, Congress has considered legislation that would repeal or repeal and replace all or part of the Affordable Care Act. While Congress has not passed comprehensive repeal legislation, two bills affecting the implementation of certain taxes under the Affordable Care Act have been signed into law. The recent resolution on appropriations for fiscal year 2018 that extended the suspension of the medical device excise tax also delayed the implementation of the so-called "Cadillac" tax on certain high cost employer-sponsored insurance plans, as well as the annual fee imposed on certain health insurance providers based on market share. Additionally, the Tax Cuts and Jobs Act of 2017 includes a provision repealing, effective January 1, 2019, the tax-based shared responsibility payment imposed by the Affordable Care Act on certain individuals who fail to maintain qualifying health coverage for all or part of a year that is commonly referred to as the "individual mandate".

Further, the Bipartisan Budget Act of 2018, or the BBA, among other things, amends the Affordable Care Act, effective January 1, 2019, to close the coverage gap in most Medicare drug plans, commonly referred to as the “donut hole”. We expect there will be additional challenges and amendments to the Affordable Care Act in the future.

In addition, other legislative changes have been proposed and adopted since the Affordable Care Act was enacted. On August 2, 2011, President Obama signed into law the Budget Control Act of 2011, which, among other things, created the Joint Select Committee on Deficit Reduction to recommend to Congress proposals in spending reductions. The Joint Select Committee did not achieve a targeted deficit reduction of at least \$1.2 trillion for the years 2013 through 2021, triggering the legislation’s automatic reduction to several government programs. This includes reductions to Medicare payments to providers of 2% per fiscal year, which went into effect in April 2013 and, following passage of subsequent legislative amendments to the statute, including the BBA, will stay in effect through 2027, unless additional congressional action is taken. On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012 which, among other things, further reduced Medicare payments to several providers, including hospitals, imaging centers and cancer treatment centers and increased the statute of limitations period for the government to recover overpayments to providers from three to five years.

Given the current political environment, we expect that additional state and federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for our products or additional pricing pressure.

***Our operations involve the use of hazardous and toxic materials, and we must comply with environmental laws and regulations, which can be expensive, and may affect our business and operating results.***

We are subject to a variety of federal, state and local regulations relating to the use, handling, storage, disposal and human exposure to hazardous materials. Liability under environmental laws can be joint and several, and without regard to comparative fault, and environmental laws could become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violations, which could harm our business. Although we believe that our activities conform in all material respects with environmental laws, there can be no assurance that violations of environmental and health and safety laws will not occur in the future as a result of human error, accident, equipment failure or other causes. The failure to comply with past, present or future laws could result in the imposition of fines, third-party property damage and personal injury claims, investigation and remediation costs, the suspension of production, or a cessation of operations. We also expect that our operations will be affected by other new environmental and health and safety laws on an ongoing basis. Although we cannot predict the ultimate impact of any such new laws, they will likely result in additional costs, and may require us to change how we manufacture our products, which could have a material adverse effect on our business.

***Failure to comply with the United States Foreign Corrupt Practices Act, or FCPA, and similar laws associated with any activities outside the United States could subject us to penalties and other adverse consequences.***

We are subject to the FCPA and other anti-bribery legislation around the world. The FCPA prohibits covered entities and their intermediaries from engaging in bribery or making other prohibited payments, offers or promises to foreign officials for the purpose of obtaining or retaining business or other advantages. In addition, the FCPA imposes recordkeeping and internal controls requirements on publicly traded corporations and their foreign affiliates, which are intended to, among other things, prevent the diversion of corporate funds to the payment of bribes and other improper payments, and to prevent the establishment of “off books” slush funds from which such improper payments can be made. Although we currently have very little commercial activity outside the United States, in the future we may face significant risks if we fail to comply with the FCPA and other laws that prohibit improper payments, offers or promises of payment to foreign governments and their

officials and political parties by us and other business entities for the purpose of obtaining or retaining business or other advantages. In many foreign countries, particularly in countries with developing economies, some of which may represent attractive markets for us, it may be a local custom that businesses operating in such countries engage in business practices that are prohibited by the FCPA or other laws and regulations. Although we have implemented a company policy requiring our employees and consultants to comply with the FCPA and similar laws, such policy may not be effective at preventing all potential FCPA or other violations. There can be no assurance that none of our employees and agents, or those companies to which we outsource certain portions of our business operations, will not take actions that violate our policies or applicable laws, for which we may be ultimately held responsible. As a result of our focus on managing our growth, our development of infrastructure designed to identify FCPA matters and monitor compliance is at an early stage. Any violation of the FCPA and related policies could result in severe criminal or civil sanctions, which could have a material and adverse effect on our reputation, business, operating results and financial condition.

### **Risks Relating to Intellectual Property Matters**

***Intellectual property rights may not provide adequate protection, which may permit third parties to compete against us more effectively.***

Our success depends significantly on our ability to protect our proprietary rights to the technologies and inventions used in, or embodied by, our products. To protect our proprietary technology, we rely on patent protection, as well as a combination of copyright, trade secret and trademark laws, as well as nondisclosure, confidentiality and other contractual restrictions in our consulting and employment agreements. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage.

#### *Patents*

The process of applying for patent protection itself is time consuming and expensive and we cannot assure you that all of our patent applications will issue as patents or that, if issued, they will issue in a form that will be advantageous to us. The rights granted to us under our patents, including prospective rights sought in our pending patent applications, may not be meaningful or provide us with any commercial advantage and they could be opposed, contested or circumvented by our competitors or be declared invalid or unenforceable in judicial or administrative proceedings.

We own numerous issued patents and pending patent applications that relate to the sinus delivery of sustained release therapeutics, sinus delivery of implants, implant designs, as well as individual components of our steroid releasing systems. The API contained in our steroid releasing implants is generic and is not the subject of independent patent protection. If any of our patents are challenged, invalidated or legally circumvented by third parties, and if we do not own other enforceable patents protecting our products, competitors could market products and use processes that are substantially similar to, or superior to, ours, and our business may suffer. In addition, the patents we own may not be of sufficient scope or strength to provide us with any meaningful protection or commercial advantage, and competitors may be able to design around our patents or develop products that provide outcomes comparable to ours without infringing on our intellectual property rights.

Recent patent reform legislation may increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents. On September 16, 2011, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law. The Leahy-Smith Act includes a number of significant changes to U.S. patent law. These include provisions that affect the way patent applications are prosecuted, redefine prior art, may affect patent litigation, and switch the U.S. patent system from a “first-to-invent” system to a “first-to-file” system. Under a “first-to-file” system, assuming the other requirements for patentability are met, the first inventor to file a patent application generally will be entitled to the patent on an invention regardless of whether another inventor had made the invention earlier. The U.S. Patent

and Trademark Office, or USPTO, recently developed new regulations and procedures to govern administration of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act, and in particular, the first-to-file provisions, only became effective on March 16, 2013. Accordingly, it is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. However, the Leahy-Smith Act and its implementation may increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which may have a material adverse effect on our business and financial condition. In addition, patent reform legislation may pass in the future that may lead to additional uncertainties and increased costs surrounding the prosecution, enforcement, and defense of our patents and applications.

We may be subject to a third-party pre-issuance submission of prior art to the USPTO, or become involved in opposition, derivation, reexamination, inter partes review, post-grant review, or other patent office proceedings or litigation, in the United States or elsewhere, challenging our patent rights. An adverse determination in any such submission, proceeding or litigation may reduce the scope of, or invalidate, our patent rights, allow third parties to commercialize our technology or products and compete directly with us, without payment to us, or result in our inability to manufacture or commercialize products without infringing third-party patent rights.

Moreover, the USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. In addition, periodic maintenance fees on issued patents often must be paid to the USPTO and foreign patent agencies over the lifetime of the patent. While an unintentional lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. If we fail to maintain the patents and patent applications covering our products or procedures, we may not be able to stop a competitor from marketing products that are the same as or similar to our products, which may have a material adverse effect on our business.

Competing products may also be sold in other countries in which our patent coverage might not exist or be as strong. We do not have patent rights in certain foreign countries in which a market may exist in the future, and the laws of many foreign countries may not protect our intellectual property rights to the same extent as the laws of the United States. Thus, we may not be able to stop a competitor from marketing and selling in foreign countries products that are the same as or similar to our products.

#### *Trademarks*

We rely on our trademarks as one means to distinguish our products from the products of our competitors, and have registered or applied to register many of these trademarks. Our trademark applications may not be approved, however. Third parties may oppose our trademark applications, or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we may be forced to rebrand our products, which may result in loss of brand recognition and may require us to devote resources to advertising and marketing new brands. Our competitors may infringe our trademarks and we may not have adequate resources to enforce our trademarks.

#### *Trade Secrets and Know-How*

We may not be able to prevent the unauthorized disclosure or use of our technical knowledge or other trade secrets by consultants, vendors, former employees or current employees, despite the existence generally of confidentiality agreements and other contractual restrictions. Monitoring unauthorized uses and disclosures of our intellectual property is difficult, and we do not know whether the steps we have taken to protect our intellectual property will be effective.

Moreover, our competitors may independently develop equivalent knowledge, methods and know-how. Competitors could purchase our steroid releasing implants and attempt to replicate some or all of the competitive advantages we derive from our development efforts, willfully infringe our intellectual property rights, design around our protected technology or develop their own competitive technologies that fall outside of our intellectual property rights. If our intellectual property is not adequately protected so as to protect our market against competitors' products and methods, our competitive position may be adversely affected, as may our business.

***We may in the future be a party to patent and other intellectual property litigation and administrative proceedings that may be costly and may interfere with our ability to sell our steroid releasing implants.***

The industries in which we operate in have been characterized by frequent and extensive intellectual property litigation. Additionally, the ENT market is extremely competitive. Our competitors, such as Medtronic, Olympus, Johnson & Johnson, Stryker, and Smith & Nephew, or other patent holders may assert that our steroid releasing implants and the methods employed in our steroid releasing implants are covered by their patents. If our steroid releasing implants or methods are found to infringe, we may be prevented from manufacturing or marketing our steroid releasing implants. In the event that we become involved in such a dispute, we may incur significant costs and expenses, may be prevented from marketing our products and may need to devote resources to resolving any claims, which would reduce the cash we have available for operations and may be distracting to management. If we lose a patent lawsuit, alleging our infringement of a competitor's patents, we may be prevented from marketing our steroid releasing implants in one or more countries. We may also initiate litigation against third parties to protect our own intellectual property. Our intellectual property has not been tested in litigation. If we initiate litigation to protect our rights, we run the risk of having our patents invalidated, which may undermine our competitive position.

Litigation related to infringement and other intellectual property claims, with or without merit, is unpredictable, may be expensive and time-consuming and may divert management's attention from our core business. If we lose this kind of litigation, a court may require us to pay substantial damages, treble damages and attorneys' fees, and prohibit us from using technologies essential to our steroid releasing implants, any of which may have a material adverse effect on our business, results of operations and financial condition. If relevant patents are upheld as valid and enforceable and we are found to infringe, we may be prevented from selling our steroid releasing implants unless we can obtain licenses to use technology covered by such patents. We do not know whether any necessary licenses would be available to us on satisfactory terms, if at all. If we cannot obtain these licenses, we may be forced to design around those patents at additional cost or abandon our products altogether. As a result, our ability to grow our business and compete in the market may be harmed.

***We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of our competitors or are in breach of non-competition or non-solicitation agreements with our competitors.***

Many of our employees were previously employed at other medical device companies, including our competitors or potential competitors, in some cases until recently. We may in the future be subject to claims that we or our employees have inadvertently or otherwise used or disclosed alleged trade secrets or other proprietary information of these former employers or competitors. In addition, we have been and may in the future be subject to claims that we caused an employee to breach the terms of his or her non-competition or non-solicitation agreement. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation may result in substantial costs and may be a distraction to management. If our defense to those claims fails, in addition to paying monetary damages, a court may prohibit us from using technologies or features that are essential to our products, if such technologies or features are found to incorporate or be derived from the trade secrets or other proprietary information of the former employers. An inability to incorporate technologies or features that are important or essential to our products may have a material adverse effect on our business, and may prevent us from selling our products. In addition, we may lose

valuable intellectual property rights or personnel. Any litigation or the threat thereof may adversely affect our ability to hire employees or contract with independent sales representatives. A loss of key personnel or their work product may hamper or prevent our ability to commercialize our products, which may have an adverse effect on our business, results of operations and financial condition.

### **Risks Relating to Our Capital Requirements and Finances**

*We may need substantial additional funding and may be unable to raise capital when needed, which would force us to delay, reduce, eliminate or abandon our commercialization efforts or product development programs.*

Our ability to continue as a going concern may require us to obtain additional financing to fund our operations. We may need to raise substantial additional capital to:

- expand the commercialization of our products;
- fund our operations and clinical studies;
- continue our research and development activities;
- defend, in litigation or otherwise, any claims that we infringe third-party patents or other intellectual property rights;
- enforce our patent and other intellectual property rights;
- address legal or enforcement actions by the FDA or other governmental agencies and remediate underlying problems;
- commercialize our new products in development, if any such products receive regulatory clearance or approval for commercial sale; and
- acquire companies and in-license products or intellectual property.

We believe that our existing cash, cash equivalents and short-term investments, revenue and available debt financing arrangements will be sufficient to meet our capital requirements and fund our operations through at least twelve months after the date the financial statements are issued. However, we have based these estimates on assumptions that may prove to be wrong, and we could spend our available financial resources much faster than we currently expect. Any future funding requirements will depend on many factors, including:

- market acceptance of our products, including access to adequate reimbursement;
- the cost of our research and development activities, including clinical studies;
- the cost of filing and prosecuting patent applications and defending and enforcing our patent or other intellectual property rights;
- the cost of defending, in litigation or otherwise, any claims that we infringe third-party patents or other intellectual property rights;
- the cost and timing of additional regulatory clearances or approvals;
- the cost and timing of growing sales, marketing and distribution capabilities;
- costs associated with any product recall that may occur;
- the effect of competing technological and market developments;
- the extent to which we acquire or invest in products, technologies and businesses, although we currently have no commitments or agreements relating to any of these types of transactions; and
- the costs of operating as a public company.

If we raise additional funds by issuing equity securities, our stockholders may experience dilution. Any future debt financing into which we enter may impose upon us covenants that restrict our operations, including limitations on our ability to incur liens or additional debt, pay dividends, repurchase our stock, make certain investments and engage in certain merger, consolidation or asset sale transactions. Any debt financing or additional equity that we raise may contain terms that are not favorable to us or our stockholders. If we raise additional funds through collaboration and licensing arrangements with third parties, it may be necessary to relinquish some rights to our technologies or our products, or grant licenses on terms that are not favorable to us. If we are unable to raise adequate funds, we may have to liquidate some or all of our assets, or delay, reduce the scope of or eliminate some or all of our development programs.

We cannot be certain that additional funding will be available on acceptable terms, if at all. If we do not have, or are not able to obtain, sufficient funds, we may have to delay development or commercialization of our products or license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize. We also may have to reduce marketing, customer support or other resources devoted to our products or cease operations. Any of these factors could harm our operating results.

***Our ability to use our net operating losses and research and development credit carryforwards to offset future taxable income may be subject to certain limitations.***

In general, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an “ownership change,” generally defined as a greater than 50% change by value in its equity ownership over a three-year period, is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, and its research and development credit carryforwards to offset future taxable income. Our existing NOLs and research and development credit carryforwards may be subject to limitations arising from previous ownership changes, and if we undergo an ownership change, our ability to utilize NOLs and research and development credit carryforwards could be further limited by Sections 382 and 383 of the Code. Future changes in our stock ownership, some of which might be beyond our control, could result in an ownership change under Section 382 of the Code. For these reasons, in the event we experience a change of control, we may not be able to utilize a material portion of the NOLs and research and development credit carryforwards, even if we attain profitability.

***Changes in generally accepted accounting principles may materially adversely affect our reported results of operation or financial condition.***

From time to time, the Financial Accounting Standards Board, or FASB, issues new accounting principles. For example, in May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, with amendments in 2015 and 2016, which created a new Accounting Standards Codification Topic 606, or Topic 606, that will replace most existing revenue recognition guidance in U.S. generally accepted accounting principles, or GAAP, when it becomes effective for us on January 1, 2018. We have completed our assessment of the potential effects of the new standard and we do not believe this standard will have an effect on our financial statements, revenue recognition policies and disclosures. Under Topic 606, more judgment and estimates will be required within the revenue recognition process than were previously required under GAAP. Refer to Note 2, “Recent Accounting Pronouncements,” in the Notes to the Financial Statements for additional information about this and other recent accounting pronouncements. Changes to existing rules, or changes to the interpretations of existing rules, including, but not limited to, the changes within Topic 606, could lead to changes in our accounting policies and systems. Such changes could materially adversely affect our reported financial results and stock price.

**Risks Related to Our Common Stock**

***We expect that the price of our common stock will fluctuate substantially.***

The market price of our common stock has been, and is likely to continue to be, highly volatile. The stock market in general and the market for medical device companies in particular have experienced extreme volatility

that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may experience losses on their investment in our common stock. The market price of our common stock may be influenced by many factors, including:

- volume and timing of sales of our steroid releasing implants;
- changes in reimbursement or in coverage by commercial payors related to our products;
- changes in governmental regulations or in the status of our regulatory approvals or applications;
- the introduction of new products or product enhancements by us or others in our industry;
- disputes or other developments with respect to our or others' intellectual property rights;
- our ability to develop, obtain regulatory clearance or approval for, and market new and enhanced products on a timely basis;
- product liability claims or other litigation;
- quarterly variations in our results of operations or those of others in our industry;
- sales of large blocks of our common stock, including sales by our executive officers and directors;
- media exposure of our steroid releasing implants or products of others in our industry;
- changes in earnings estimates or recommendations by securities analysts; and
- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

In recent years, the stock markets generally have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may significantly affect the market price of our common stock, regardless of our actual operating performance. These fluctuations may be even more pronounced in the trading market for our common stock.

In addition, in the past, class action litigation has often been instituted against companies whose securities have experienced periods of volatility in market price. Securities litigation brought against us following volatility in our stock price, regardless of the merit or ultimate results of such litigation, could result in substantial costs, which would hurt our financial condition and operating results and divert management's attention and resources from our business.

These and other factors may make the price of our stock volatile and subject to unexpected fluctuation.

***Securities analysts may not publish favorable research or reports about our business or may publish no information at all, which could cause our stock price or trading volume to decline.***

The trading market for our common stock will be influenced to some extent by the research and reports that industry or financial analysts publish about us and our business. We do not control these analysts. As a newly public company, we may be slow to attract research coverage and the analysts who publish information about our common stock will have had relatively little experience with our company or industry, which could affect their ability to accurately forecast our results and could make it more likely that we fail to meet their estimates. In the event we obtain securities or industry analyst coverage, if any of the analysts who cover us provide inaccurate or unfavorable research or issue an adverse opinion regarding our stock price, our stock price could decline. If one or more of these analysts cease coverage of our company or fail to publish reports covering us regularly, we could lose visibility in the market, which in turn could cause our stock price or trading volume to decline.

***If we experience material weaknesses or otherwise fail to maintain an effective system of internal controls, we may not be able to accurately report our financial condition or results of operations which may adversely affect investor confidence in us and, as a result, the value of our common stock.***

We are required, under Section 404 of the Sarbanes-Oxley Act to furnish a report by management on the effectiveness of our internal control over financial reporting, and our auditors are required to express an opinion on the effectiveness of our internal controls. This resulted in increased compliance fees. Our management assessment needs to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual and interim financial statements will not be detected or prevented on a timely basis.

Though we have enhanced our internal controls, processes and related documentation necessary to perform the evaluation needed to comply with Section 404, future evaluations and tests may reveal material weaknesses. If during the evaluation and testing process, we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. The effectiveness of our controls and procedures may be limited by a variety of factors, including:

- faulty human judgment and simple errors, omissions or mistakes;
- fraudulent action of an individual or collusion of two or more people;
- inappropriate management override of procedures; and
- the possibility that any enhancements to controls and procedures may still not be adequate to assure timely and accurate financial control.

If we are unable to confirm that our internal control over financial reporting is effective, or if our auditors are unable to express an opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause the price of our common stock to decline.

***Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.***

We are subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We designed our disclosure controls and procedures to provide reasonable assurance that information we must disclose in reports we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We believe that any disclosure controls and procedures, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

***Provisions in our corporate charter documents and under Delaware law could make an acquisition of us more difficult and may prevent attempts by our stockholders to replace or remove our current management.***

Provisions in our amended and restated certificate of incorporation and our amended and restated bylaws may discourage, delay or prevent a merger, acquisition or other change in control of us that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their

shares. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Because our board of directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team. Among others, these provisions include that:

- our board of directors has the right to expand the size of our board of directors and to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- our stockholders may not act by written consent or call special stockholders' meetings; as a result, a holder, or holders, controlling a majority of our capital stock would not be able to take certain actions other than at annual stockholders' meetings or special stockholders' meetings called by the board of directors, the chairman of the board, the chief executive officer or the president;
- our certificate of incorporation prohibits cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the affirmative vote of holders of at least 66-2/3% of the voting power of all of the then outstanding shares of voting stock, voting as a single class, will be required (a) to amend certain provisions of our certificate of incorporation, including provisions relating to the size of the board, removal of directors, special meetings, actions by written consent and cumulative voting and (b) to amend or repeal our bylaws, although our bylaws may be amended by a simple majority vote of our board of directors;
- stockholders must provide advance notice and additional disclosures in order to nominate individuals for election to the board of directors or to propose matters that can be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of our company; and
- our board of directors may issue, without stockholder approval, shares of undesignated preferred stock; the ability to issue undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

We occupy approximately 50,400 square feet of leased office and laboratory space located in Menlo Park, California which expires on May 31, 2020. We believe that our facilities are sufficient to meet our current needs.

#### **Item 3. Legal Proceedings**

We are not currently a party to any material legal proceedings.

**Item 4. Mine Safety Disclosures**

Not applicable.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Shares of our common stock are traded on The NASDAQ Global Market, or NASDAQ, under the symbol XENT. The following table sets forth the high and low intraday prices per share of our common stock as reported by NASDAQ.

	<u>High</u>	<u>Low</u>
Fiscal Year Ended December 31, 2017		
First quarter .....	\$17.70	\$11.55
Second quarter .....	28.23	15.90
Third quarter .....	33.25	26.90
Fourth quarter .....	34.40	26.95
Fiscal Year Ended December 31, 2016		
First quarter .....	\$22.01	\$15.60
Second quarter .....	20.64	11.88
Third quarter .....	17.00	12.50
Fourth quarter .....	18.00	7.65

As of January 31, 2018, the closing price of our common stock was \$37.35 and there were approximately 20 stockholders of record. Because many of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

**Dividend Policy**

We have never declared or paid any cash dividends on our capital stock, and we do not currently intend to pay any cash dividends on our capital stock in the foreseeable future. We currently intend to retain all available funds and any future earnings to support operations and to finance the growth and development of our business. Any future determination to pay dividends will be made at the discretion of our board of directors subject to applicable laws, and will depend upon, among other factors, our results of operations, financial condition, contractual restrictions and capital requirements. Our future ability to pay cash dividends on our capital stock may also be limited by the terms of any future debt or preferred securities or future credit facility.

**Recent Sales of Unregistered Securities**

There were no sales of equity securities by us that were not registered under the Securities Act of 1933, as amended, or the Securities Act, during fiscal year ended December 31, 2017, that have not been previously reported in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K.

**Issuer Purchases of Equity Securities**

None.

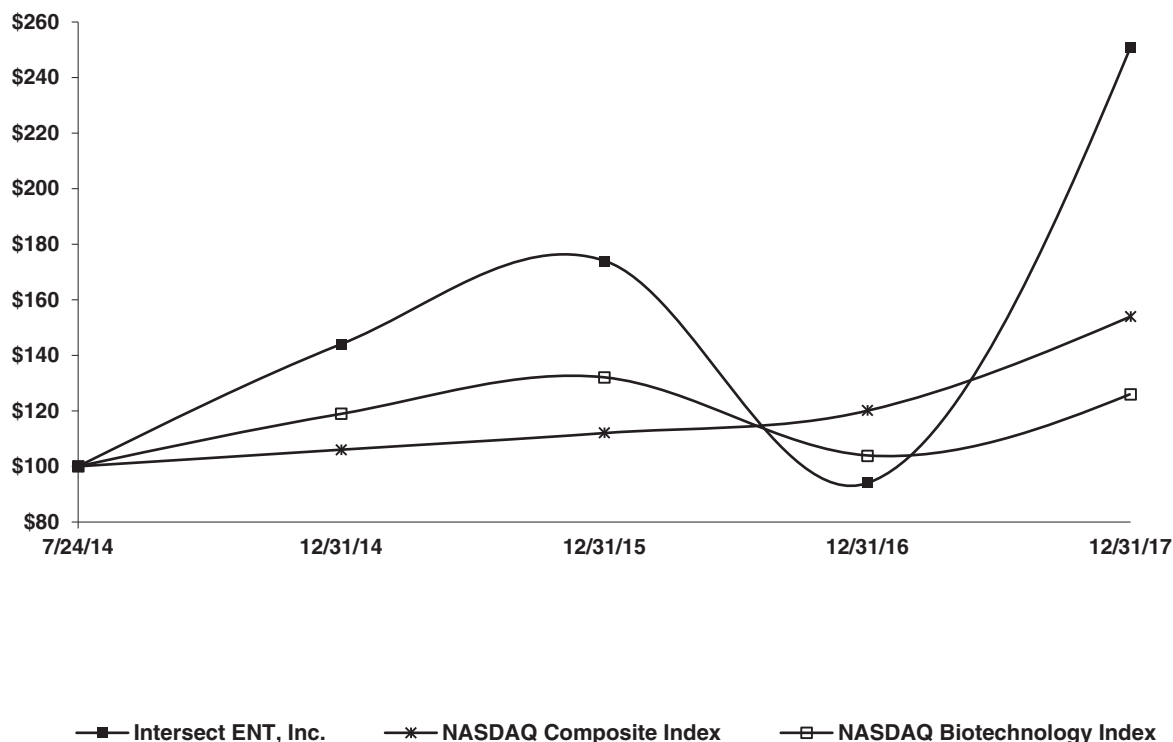
**Performance Graph**

The graph below compares the cumulative total return to security holders of our common stock with the comparable cumulative returns of the NASDAQ Composite and Biotechnology Indexes. The graph assumes the investment of \$100 on July 24, 2014, the date on which our common stock began trading on The NASDAQ Global Market, through December 31, 2017. Points on the graph represent the performance at year-end.

The information under the heading “Performance Graph” shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

## CUMULATIVE TOTAL RETURN\*

Among Intersect ENT, Inc. and the NASDAQ Composite and Biotechnology Indices



\*\$100 invested on July 24, 2014 in stock or index. Fiscal year ended December 31, 2017.

	Cumulative Total Return as of				
	7/24/14	12/31/14	12/31/15	12/31/16	12/31/17
Intersect ENT, Inc. ....	\$ 100	\$ 144	\$ 174	\$ 94	\$ 251
NASDAQ Composite Index .....	100	106	112	120	154
NASDAQ Biotechnology Index .....	100	119	132	104	126

*The stock price performance included in this graph is not necessarily indicative of future stock price performance.*

Since shares of our common stock have only been publicly traded since July 24, 2014, information surrounding stockholder returns in comparison to the NASDAQ Composite and Biotechnology Indices may not be meaningful to investors.

The material in this section is not “soliciting material” and is not deemed “filed” with the SEC and is not to be incorporated by reference into any filing of Intersect ENT, Inc. made under the Securities Act or the Exchange

Act whether made before or after the date hereof and irrespective of any general incorporation language in any such filing except to the extent we specifically incorporate this section by reference.

## Item 6. Selected Financial Data

The following selected financial information has been derived from our audited financial statements. The financial information as of December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017, is derived from audited financial statements included elsewhere in this Annual Report on Form 10-K. The financial information as of December 31, 2015, 2014 and 2013, and for each of the two years in the period ended December 31, 2014, is derived from audited financial statements not included in this Annual Report on Form 10-K. The information set forth below is not necessarily indicative of results of future operations and should not be relied upon as an indicator of our future performance. You should read the selected financial data set forth in the table below, together with the Financial Statements and related Notes to Financial Statements included in this Annual Report, as well as Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of this Annual Report.

(in thousands, except per share data)	Fiscal Years Ended December 31,				
	2017	2016	2015	2014	2013
<b>Statements of operations data:</b>					
Revenue .....	\$ 96,301	\$ 78,708	\$ 61,593	\$ 38,587	\$ 17,931
Cost of sales .....	15,499	13,003	12,288	10,223	8,150
Gross profit .....	80,802	65,705	49,305	28,364	9,781
Operating expenses:					
Selling, general and administrative .....	80,045	72,926	59,637	36,111	18,229
Research and development .....	18,360	18,890	16,608	10,331	9,518
Total operating expenses .....	98,405	91,816	76,245	46,442	27,747
Loss from operations .....	(17,603)	(26,111)	(26,940)	(18,078)	(17,966)
Interest and other income (expense), net .....	1,240	889	306	(284)	(403)
Net loss .....	\$ (16,363)	\$ (25,222)	\$ (26,634)	\$ (18,362)	\$ (18,369)
Net loss per share, basic and diluted .....	\$ (0.56)	\$ (0.89)	\$ (1.02)	\$ (1.61)	\$ (12.57)
Weighted average common shares used to compute net loss per share, basic and diluted .....	29,119	28,420	26,159	11,384	1,461
<b>Balance sheet data:</b>					
(in thousands)	December 31,				
	2017	2016	2015	2014	2013
Cash, cash equivalents and short-term investments .....	\$ 102,320	\$ 103,945	\$ 124,300	\$ 48,443	\$ 12,294
Working capital .....	112,614	110,928	128,142	52,167	13,118
Total assets .....	135,575	129,777	144,635	62,953	21,035
Total liabilities .....	18,356	15,380	14,404	9,141	6,892
Convertible preferred stock .....	—	—	—	—	90,760
Accumulated deficit .....	(164,840)	(148,477)	(123,255)	(96,621)	(78,259)
Total stockholders' equity (deficit) .....	117,219	114,397	130,231	53,812	(76,617)

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

The following discussion and analysis of our financial condition and results of operations together with the section entitled "Selected Financial Data," should be read in conjunction with our Financial Statements and the related notes to those statements included elsewhere in this Annual Report. In addition to historical financial information, the following discussion and analysis contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements relate to future events or our future financial performance that involve risks, uncertainties and

*assumptions. Our actual results and timing of events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under “Risk Factors” and elsewhere in this prospectus. Please see “Cautionary Information Regarding Forward-Looking Statements” at the beginning of this Form 10-K for additional information you should consider regarding forward-looking statements. We undertake no obligation to revise or update any forward-looking statements to reflect any event or circumstance that arises after the date of this report, or to conform such statements to actual results or changes in our expectations.*

## Overview

We are a commercial drug delivery company committed to improving the quality of life for patients with ear, nose and throat conditions. Our approved products are steroid releasing implants designed to treat the spectrum of needs among patients who are managed by ENT physicians for chronic sinusitis, one of the most prevalent chronic diseases in the United States and one of the most costly conditions for U.S. employers. We are currently marketing our PROPEL® family of products, consisting of PROPEL®, PROPEL® Mini and PROPEL® Contour, which are used following sinus surgery to deliver steroid locally to treat inflammation and improve surgical outcomes. In addition, we received FDA approval in December 2017 for our SINUVA™ Sinus Implant, a new targeted approach to treating nasal polyp disease in patients who have had previous ethmoid sinus surgery.

Our PROPEL family of steroid releasing implants are clinically proven to improve outcomes for chronic sinusitis patients following sinus surgery. PROPEL implants mechanically prop open the sinuses and release mometasone furoate, an advanced corticosteroid with anti-inflammatory properties, directly into the sinus lining, and then dissolve. PROPEL’s safety and effectiveness is supported by Level 1-A clinical evidence from multiple clinical trials, which demonstrates that PROPEL implants reduce inflammation and scarring after surgery, thereby reducing the need for postoperative oral steroids and repeat surgical interventions. More than 200,000 patients have been treated with PROPEL products to-date. The PROPEL family of products are used today predominantly in hospitals and ambulatory surgical settings, although they may also be used in the physician office setting of care.

- PROPEL has been proven in a meta-analysis of prospective, multicenter, randomized, controlled, double-blind clinical studies to improve surgical outcomes, demonstrating a 35% relative reduction in the need for postoperative oral steroid and surgical intervention compared to surgery alone. A physician may treat a patient with PROPEL by inserting it into the ethmoid sinuses. PROPEL is a self-expanding implant designed to conform to and hold open the surgically enlarged sinus while gradually releasing an anti-inflammatory steroid over a period of approximately 30 days and is absorbed into the body in approximately six weeks.
- PROPEL Mini has also been shown by our clinical studies to reduce the need for postoperative interventions, including a 38% relative reduction in the need for postoperative interventions in the frontal sinus, compared to surgery alone with standard postoperative care. PROPEL Mini is a smaller version of PROPEL, and is approved for use both in the ethmoid and frontal sinuses. PROPEL Mini is preferentially used by physicians compared with PROPEL when treating smaller anatomies or following less extensive procedures.
- PROPEL Contour is designed to facilitate treatment of the frontal and maxillary sinus ostia, or openings, of the dependent sinuses in procedures performed in both the operating room and in the office setting of care. PROPEL Contour’s lower profile, hourglass shape and malleable delivery system are designed for use in the narrow and difficult to access sinus ostia. In PROPEL Contour’s pivotal clinical study, the product demonstrated a 65% relative reduction in the need for postoperative interventions in the frontal sinus ostia compared to surgery alone with standard postoperative care.

SINUVA, when placed during a routine physician office visit, expands into the sinus cavity and delivers an anti-inflammatory steroid directly to the site of polyp disease for 90 days. We have studied SINUVA in 4 clinical

trials in over 400 patients to-date. Results from the pivotal RESOLVE II randomized clinical trial demonstrated a 74% relative reduction in bilateral polyp grade (a measurement of the extent of ethmoid polyp disease) and a 30% relative reduction in nasal obstruction and congestion for patients treated with SINUVA compared to a control group treated with a sham procedure, receiving no implant. Patients in both arms of the study were required to use intranasal steroid sprays daily. In addition, the study demonstrated a 61% reduction in the proportion of patients indicated for revision surgery at day 90. To complement clinical trials performed with SINUVA to-date, in which one course of SINUVA treatment was evaluated, we commenced the ENCORE study in November 2017. ENCORE is a 50-patient prospective, multicenter, open-label study focused on evaluation of the safety of repeat placement of the SINUVA implant in chronic sinusitis patients with nasal polyps. We completed enrollment of this study in January 2018.

We have expanded our sales organization and we intend to continue to grow our sales force in order to expand our communication of the benefits of our steroid releasing implants to our physician customers. We seek to grow our revenue by increasing the frequency of use of our products among current physician customers and by adding new physician users.

## **Components of Our Results of Operations**

### ***Revenue***

Our revenue has been derived solely from the sales of our PROPEL family of products. We expect our revenue to increase as we continue to expand our sales, marketing and reimbursement efforts and increase awareness of our products. We also expect revenue from our PROPEL family of products to fluctuate from quarter to quarter due to seasonal variations in the volume of sinus surgery procedures performed, which has been impacted historically by factors including the status of patient healthcare insurance plan deductibles and the seasonal nature of allergies which can impact sinus-related symptoms.

Our PROPEL family of products are used almost exclusively in the operating room of a hospital or ambulatory surgery center. These providers receive a facility fee for the sinus surgery procedure which is intended to pay for supplies used in this procedure, including the PROPEL family of products. In the event these procedures are performed in the physician office setting of care, our PROPEL family of products have been assigned a code under the Healthcare Common Procedure Coding System, S1090, which may be used to submit requests for product cost reimbursement to commercial payors. In addition, several existing procedure codes may apply to describe the procedure associated with implant placement. However, the decision to reimburse by the payor is usually dependent on policies the payor has in place regarding these products.

Our revenue is almost entirely derived from within the U.S. and no single customer accounted for more than 10% of our revenue during the years ended December 31, 2017, 2016 and 2015.

### ***Cost of Sales and Gross Profit***

We manufacture our PROPEL family of products and SINUVA in our facility in Menlo Park, California. Cost of sales consists primarily of manufacturing overhead costs, material costs, direct labor and other direct costs such as shipping costs. A significant portion of our cost of sales currently consists of manufacturing overhead costs. These overhead costs include the cost of quality assurance, material procurement, inventory control, facilities, information technology, equipment and operations supervision and management. We expect overhead costs as a percentage of revenue to become less significant as our production volume increases. We expect cost of sales to increase in absolute dollars primarily as, and to the extent, our revenue grows.

We calculate gross margin as gross profit divided by revenue. Our gross margin has been and will continue to be affected by a variety of factors, including production volumes, average selling prices, manufacturing costs and product yields and, to a lesser extent, the implementation of cost-reduction strategies. We expect our gross

margin to fluctuate based on changes in the average selling price and the manufacturing costs of our products. Manufacturing cost will change as our production volume changes. The per unit allocation of our manufacturing overhead costs may decrease as production volume increases until we increase our manufacturing capacity or introduce additional products, at which point the per unit allocation of our manufacturing overhead costs may increase due to the additional costs of our expanded manufacturing operations.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative, or SG&A, expenses consist primarily of compensation for personnel, including stock-based compensation, related to selling, marketing, finance, reimbursement, business development, legal and human resource functions as well as costs related to any post-market studies. Additional SG&A expenses include commissions, training, travel expenses, promotional activities, conferences, trade shows, professional services fees, audit and Sarbanes-Oxley Act of 2002 compliance expenses, insurance costs and general corporate expenses including allocated facilities and information technology expenses. We expect SG&A expenses to continue to increase in absolute dollars for the foreseeable future as we expand our commercial and administrative infrastructure to drive and support the anticipated growth in revenue and incur additional legal, accounting, insurance and other professional services fees.

### ***Research and Development Expenses***

Research and development, or R&D, expenses consist primarily of compensation for personnel, including stock-based compensation, related to product development, clinical and medical affairs and regulatory affairs as well, and allocated facilities and information technology expenses. R&D expenses also may include expenses for clinical studies related to clinical trial design, site reimbursement, data management, travel expenses and the cost of manufacturing products for clinical trials. Finally, R&D expenses also include expenses related to the development of products and technologies such as consulting services and supplies. We expect R&D expenses to remain at a consistent level in absolute dollars for the foreseeable future as we continue to seek to develop and commercialize new products and enhance our current products.

## **Results of Operations**

(in thousands, except percentages)	Fiscal Years Ended December 31,		
	2017	2016	2015
Revenue .....	\$ 96,301	\$ 78,708	\$ 61,593
Cost of sales .....	15,499	13,003	12,288
Gross profit .....	80,802	65,705	49,305
Gross margin .....	84%	83%	80%
Operating expenses:			
Selling, general and administrative .....	80,045	72,926	59,637
Research and development .....	18,360	18,890	16,608
Total operating expenses .....	98,405	91,816	76,245
Loss from operations .....	(17,603)	(26,111)	(26,940)
Interest income and other, net .....	1,240	889	306
Net loss .....	<u>\$(16,363)</u>	<u>\$(25,222)</u>	<u>\$(26,634)</u>

### ***Comparison of Years Ended December 31, 2017 and 2016***

#### ***Revenue***

Revenue increased \$17.6 million, or 22%, to \$96.3 million during the year ended December 31, 2017, compared to \$78.7 million during the year ended December 31, 2016. The growth in revenue was attributable to

an increase in unit sales of our PROPEL family of products, driven by sales of PROPEL Contour which was approved by the FDA in February 2017, and to a lesser degree, an increase in the average selling price of our PROPEL family of products.

#### *Cost of Sales and Gross Margin*

Cost of sales increased \$2.5 million, or 19%, to \$15.5 million during the year ended December 31, 2017, compared to \$13.0 million during the year ended December 31, 2016. The increase in cost of sales was primarily attributable to the growth in the number of units sold.

Gross margin for the year ended December 31, 2017, increased to 84%, compared to 83% for the year December 31, 2016. The increase in gross margin was primarily due to an increase in our average selling price of our PROPEL family of products.

#### *Selling, General and Administrative Expenses*

SG&A expenses increased \$7.1 million, or 10%, to \$80.0 million during the year ended December 31, 2017, compared to \$72.9 million during the year ended December 31, 2016. The increase in SG&A expenses was primarily due to an increase in headcount to support the ongoing commercialization of our PROPEL family of products and to prepare for the commercial launch of SINUVA.

#### *Research and Development Expenses*

R&D expenses decreased \$0.5 million, or 3%, to \$18.4 million during the year ended December 31, 2017, compared to \$18.9 million during the year ended December 31, 2016. The decrease in R&D expenses was due to a decrease in clinical trial costs, partially offset by an increase in personnel costs.

#### *Interest Income and Other, Net*

Interest income and other, net, increased \$0.3 million to \$1.2 million of income during the year ended December 31, 2017, compared to \$0.9 million of income during the year ended December 31, 2016. The increase in interest income and other, net, was primarily attributable to higher interest rates earned on our investments.

### ***Comparison of Years Ended December 31, 2016 and 2015***

#### *Revenue*

Revenue increased \$17.1 million, or 28%, to \$78.7 million during the year ended December 31, 2016, compared to \$61.6 million during the year ended December 31, 2015. The growth in revenue was attributable to an increase in unit sales of PROPEL and PROPEL Mini. The increase in units was driven by an expansion of our sales, marketing and reimbursement organizations as well as by the introduction of an expanded indication for PROPEL Mini following approval from the FDA to treat patients undergoing frontal sinus surgery. In addition, our average selling price increased during the year ended December 31, 2016.

#### *Cost of Sales and Gross Margin*

Cost of sales increased \$0.7 million, or 6%, to \$13.0 million during the year ended December 31, 2016, compared to \$12.3 million during the year ended December 31, 2015. The increase in cost of sales was attributable to the growth in the number of PROPEL and PROPEL Mini units sold, partially offset by the reduced per unit overhead costs and increases in manufacturing efficiency.

Gross margin for the year ended December 31, 2016, increased to 83%, compared to 80% for the year December 31, 2015. The increase in gross margin was due to several factors including an increase in our average selling price, growth in unit volume during the year ended December 31, 2016, which allowed us to spread our manufacturing overhead costs over more production units, and ongoing increases in manufacturing efficiency.

### *Selling, General and Administrative Expenses*

SG&A expenses increased \$13.3 million, or 22%, to \$72.9 million during the year ended December 31, 2016, compared to \$59.6 million during the year ended December 31, 2015. The increase in SG&A expenses was primarily due to the build out of our infrastructure to support the ongoing commercialization of PROPEL and PROPEL Mini.

The primary component of this increase was employee-related expenses of our sales, marketing and reimbursement organizations, which increased \$10.1 million for the year ended December 31, 2016, compared to the year ended December 31, 2015, as we increased headcount to 145 as of December 31, 2016, compared to 129 as of December 31, 2015. In addition, other SG&A expenses increased \$3.2 million for the year ended December 31, 2016, compared to the year ended December 31, 2015, primarily due to an increase in headcount.

### *Research and Development Expenses*

R&D expenses increased \$2.3 million, or 14%, to \$18.9 million during the year ended December 31, 2016, compared to \$16.6 million during the year ended December 31, 2015. The increase in R&D expenses was primarily due to increases in personnel costs as we increased headcount.

### *Interest Income and Other, Net*

Interest income and other, net, increased \$0.6 million to \$0.9 million during the year ended December 31, 2016, compared to \$0.3 million during the year ended December 31, 2015. The increase in interest income and other, net, was primarily attributable to higher interest rates and higher average cash, cash equivalents and short-term investments available-for-sale balances during the year ended December 31, 2016 from our follow-on offering.

## **Liquidity and Capital Resources**

### *Overview*

As of December 31, 2017, we had cash, cash equivalents and short-term investments of \$102.3 million, compared to cash, cash equivalents and short-term investments of \$103.9 million as of December 31, 2016.

## **Cash Flows**

(in thousands)	Fiscal Years Ended December 31,		
	2017	2016	2015
Net cash (used in) provided by:			
Operating activities	\$ (8,041)	\$(20,059)	\$(20,087)
Investing activities	9,248	(6,857)	(56,669)
Financing activities	8,771	1,966	98,162
Net increase (decrease) in cash and cash equivalents	<u>\$ 9,978</u>	<u>\$(24,950)</u>	<u>\$ 21,406</u>

### *Net Cash Used in Operating Activities*

During the year ended December 31, 2017, net cash used in operating activities was \$8.0 million, consisting primarily of a net loss of \$16.4 million and an increase in net operating assets of \$2.9 million, partially offset by non-cash charges of \$11.3 million. The cash used in operations was due primarily to an increase in headcount to support the ongoing commercialization of our PROPEL family of products and to prepare for the launch of SINUVA. The non-cash charges consisted primarily of stock-based compensation expense. The increase in net operating assets is due primarily to an increase in inventory, accounts receivable and other assets, partially offset by an increase in accrued year-end bonuses and sales commissions.

During the year ended December 31, 2016, net cash used in operating activities was \$20.1 million, consisting primarily of a net loss of \$25.2 million and an increase in net operating assets of \$3.6 million, partially offset by non-cash charges of \$8.7 million. The cash used in operations was due primarily to the ongoing commercialization of PROPEL and PROPEL Mini. To support the ongoing commercialization of these products, we continued to expand our sales, marketing and reimbursement organizations. The increase in net operating assets was due primarily to an increase in accounts receivable and inventory, partially offset by an increase in accounts payable. The non-cash charges consisted primarily of stock-based compensation expense.

During the year ended December 31, 2015, net cash used in operating activities was \$20.1 million, consisting primarily of a net loss of \$26.6 million, partially offset by non-cash charges of \$6.4 million and a decrease in net operating assets of \$0.1 million. The cash used in operations was due primarily to the ongoing commercialization of PROPEL and PROPEL Mini. To support the ongoing commercialization of these products, we continued to expand our sales, marketing and reimbursement organizations. The non-cash charges consisted primarily of stock-based compensation expense. The decrease in net operating assets was due primarily to an increase in accrued compensation, partially offset by an increase in accounts receivable and inventory.

#### ***Net Cash Provided by (Used in) Investing Activities***

During the year ended December 31, 2017, net cash provided by investing activities was \$9.2 million, consisting primarily of net maturities of short-term investments of \$11.5 million, partially offset by purchases of property and equipment of \$2.3 million.

During the year ended December 31, 2016, net cash used in investing activities was \$6.9 million, consisting of net purchases of short-term investments and purchases of property and equipment.

During the year ended December 31, 2015, net cash used in investing activities was \$56.7 million, consisting primarily of net purchases of short-term investments of \$55.1 million.

#### ***Net Cash Provided by Financing Activities***

During the year ended December 31, 2017, net cash provided by financing activities was \$8.8 million, consisting of net proceeds from the issuance of common stock upon exercises of employee stock options and purchases under our employee stock purchase plan.

During the year ended December 31, 2016, net cash provided by financing activities was \$2.0 million, consisting of net proceeds from the issuance of common stock upon the exercises of employee stock options and purchases under our employee stock purchase plan.

During the year ended December 31, 2015, net cash provided by financing activities was \$98.2 million, consisting primarily of net proceeds from our follow-on offering of \$96.4 million.

#### ***Liquidity***

We currently believe that our existing cash, cash equivalents and short-term investments as of December 31, 2017, will be sufficient to meet our capital requirements and fund our operations through at least twelve months after the date the financial statements are issued. Beyond that, if these sources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities or obtain credit facilities. If we raise additional funds by issuing equity securities, our stockholders would experience dilution. Debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. Any debt financing or additional equity that we raise may contain terms that are not favorable to us or our stockholders. Additional financing may not be available at all, or in amounts or on terms unacceptable to us. If we are unable to obtain additional financing, we may be required to delay the development, commercialization and marketing of our products.

## Off-Balance Sheet Arrangements

As of December 31, 2017 and 2016, we were not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

## Contractual Obligations

The following table sets out our contractual obligations due by period as of December 31, 2017.

	Due by Period				Total
	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	
Operating lease obligations . . . . .	\$ 1,580	\$ 2,310	\$ —	\$ —	\$ 3,890
Purchase commitments . . . . .	4,773	628	—	—	5,401
	<u>\$ 6,353</u>	<u>\$ 2,938</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,291</u>

## Related Parties

None.

## Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions for the reported amounts of assets, liabilities, revenue, expenses and related disclosures. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions and any such differences may be material.

While our significant accounting policies are more fully described in Note 2 of our Financial Statements included in this Annual Report, we believe the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective and complex judgments.

### *Revenue Recognition*

We derive revenue from the sale of PROPEL family of products to hospitals and ambulatory surgery centers almost entirely in the United States. We recognize revenue when persuasive evidence of an arrangement exists, product delivery has occurred or there is no further obligation, pricing is fixed or determinable and collection is reasonably assured. We must make assumptions regarding the future collectability of amounts receivable from customers to determine whether revenue recognition criteria have been met. If collectability is not reasonably assured at the time of shipment, we defer revenue until such criteria have been met. In general, our standard terms and conditions of sale do not allow for product returns. We expense shipping and handling costs as incurred and include them in the cost of sales. In those cases where we bill shipping and handling costs to customers, we classify the amounts billed as a component of revenue.

### *Stock-based Compensation*

We maintain an equity incentive plan to provide long-term incentive for employees, consultants and members of the board of directors. The plan allows for the issuance of non-statutory and incentive stock options to employees and non-statutory stock options to consultants and non-employee directors.

We are required to determine the fair value of equity incentive awards and recognize compensation expense for all equity incentive awards made to employees, consultants and directors. Stock-based compensation expense is recognized over the requisite service period in the statements of operations and comprehensive loss. We use the straight-line method for expense attribution. Effective January 1, 2017, we adopted Accounting Standards Update (“ASU”) No. 2016-9, *Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-9”), and elected to account for forfeitures when they occurred. Prior to the adoption of ASU 2016-9, we estimated the awards ultimately expected to vest based on our historical forfeiture experience and an analysis of similar companies, therefore reducing the amount of stock-based compensation expense for estimated forfeitures.

The valuation model we use for calculating the fair value of awards for stock-based compensation expense is the Black-Scholes option-pricing model, or the Black-Scholes model. The Black-Scholes model requires us to make assumptions and judgments about the variables used in the calculation, including the expected term weighted average period of time that the options granted are expected to be outstanding, the volatility of common stock and an assumed risk-free interest rate. The fair market value of our common stock is determined based on the closing price of our common stock on The NASDAQ Global Market.

### ***Recent Accounting Pronouncements***

Please see Note 2 to the Financial Statements included in this Annual Report.

## **Item 7A. Quantitative and Qualitative Disclosure About Market Risk**

### ***Interest Rate Risk***

The risk associated with fluctuating interest rates is primarily limited to our cash equivalents and short-term investments which are carried at fair market value. We do not currently use or plan to use financial derivatives in our investment portfolio.

As of December 31, 2017 and 2016, we had cash, cash equivalents and short-term investments of \$102.3 million and \$103.9 million, respectively. Cash equivalents and short-term investments are composed of money market funds, corporate debt securities and commercial paper. Our investment policy requires investments to be of high credit quality and generally limits the amount of credit exposure to any single issuer or group of issuers. Our objective is the preservation of capital and to maintain proper liquidity to meet our operating requirements while at the same time maximizing the income we receive from our financial instruments without significantly increasing risk. Because our short-term investments have a weighted average maturity of not more than one year, we believe the impact of a hypothetical 10% change in market interest rates at December 31, 2017 and 2016 would not have a material effect on our financial position, results of operations or cash flows.

### ***Credit Risk***

As of December 31, 2017 and 2016, our cash, cash equivalents and short-term investments were maintained with two financial institutions in the United States, and our current deposits are likely in excess of insured limits. We have reviewed the financial statements of these institutions and believe they have sufficient assets and liquidity to conduct their operations in the ordinary course of business with little or no credit risk to us.

Our accounts receivable relate to revenue from the sale of our PROPEL family of products to hospitals and ambulatory surgery centers almost entirely in the United States. No single customer represented more than 10% of our accounts receivable as of December 31, 2017 and 2016.

### ***Foreign Currency Risk***

Our business is almost entirely conducted in U.S. dollars. Transactions conducted in foreign currencies have not had, and are not expected to have, a material effect on our results of operations, financial position or cash flows.

**Item 8. Financial Statements and Supplementary Data**

Please see the Financial Statements included in this Annual Report on Form 10-K, beginning on Page F-1 following the signature page to this Form 10-K, which are incorporated by reference here.

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

None.

**Item 9A. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2017, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

**Management’s Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in “Internal Control — Integrated Framework (2013)” issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

Our independent registered public accounting firm, Ernst & Young LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2017 as stated in their report which is included herein.

**Limitations on Effectiveness of Controls and Procedures and Internal Control over Financial Reporting**

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the three months ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of  
Intersect ENT, Inc.

### **Opinion on Internal Control over Financial Reporting**

We have audited Intersect ENT, Inc.'s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Intersect ENT, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the balance sheets of the Company as of December 31, 2017 and 2016, the related statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedule listed in the Index at Item 15(a), and our report dated February 28, 2018 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that

controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Redwood City, California  
February 28, 2018

**Item 9B. Other Information**

None.

## **PART III**

Certain information required by Part III is omitted from this Annual Report and is incorporated herein by reference from our Definitive Proxy Statement, relating to our 2018 Annual Meeting of Stockholders to be held on June 5, 2018, pursuant to Regulation 14A of the Exchange Act, or Proxy Statement, which will be filed with the SEC within 120 days of December 31, 2017.

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item concerning our directors and executive officers is incorporated by reference to the sections of our Proxy Statement under the headings “Proposal 1 — Election of Directors,” “Board Committees and Meetings,” “Stockholder Communications with the Board of Directors,” “Management” and “Section 16(a) Beneficial Ownership Reporting Compliance.”

Our written Code of Ethics applies to all of our directors and employees, including our executive officers, including without limitation our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. The Code of Ethics is available on our website at [www.intersectent.com](http://www.intersectent.com) in the Investors section under “Corporate Governance.” Changes to or waivers of the Code of Ethics will be disclosed on the same website. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding any amendment to, or waiver of, any provision of the Code of Ethics by disclosing such information on the same website.

### **Item 11. Executive Compensation**

The information required by this Item is incorporated by reference to the sections of the Proxy Statement under the headings “Compensation Discussion and Analysis,” “Executive Compensation,” “Compensation Committee Interlocks and Insider Participation” and “Compensation of Non-Employee Board Members.”

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

The information required by this Item is incorporated by reference to the sections of the Proxy Statement under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance under Equity Compensation Plans.”

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

The information required by this Item is incorporated by reference to the sections of the Proxy Statement under the headings “Proposal 1 — Election of Directors” and “Certain Relationships and Related Party Transactions.”

### **Item 14. Principal Accountant Fees and Services**

The information required by this Item is incorporated by reference to the section of the Proxy Statement under the heading “Principal Accountant Fees and Services.”

With the exception of the information specifically incorporated by reference in Part III to this Annual Report from our Proxy Statement, our Proxy Statement shall not be deemed to be filed as part of this report.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

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

*(1) Financial Statements*

The Financial Statements of the Company are included herein as required under Part II, Item 8, *Financial Statements and Supplementary Data*, of this Annual Report. See Index to Financial Statements on page F-1.

*(2) Financial Statement Schedule*

For the three fiscal years ended December 31, 2017 — Schedule II Valuation and Qualifying Accounts

Schedules not listed above have been omitted because information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

*(3) Exhibits* (numbered in accordance with Item 601 of Regulation S-K)

See Part IV, Item 15(b) below.

(b) The following exhibits are filed or incorporated by reference into this Annual Report:

Exhibit	Description	Form	Incorporation By Reference		
			SEC File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation	8-K	001-36545	3.1	7/30/2014
3.2	Amended and Restated Bylaws	S-1	333-196974	3.4	7/9/2014
4.1	Form of Common Stock Certificate of the Registrant	S-1	333-196974	4.1	7/14/2014
10.1**	Form of Indemnity Agreement between the Registrant and its directors and officers	S-1	333-196974	10.1	7/9/2014
10.2**	2003 Equity Incentive Plan, as amended, and Form of Stock Option Grant Notice, Option Agreement and Form of Notice of Exercise	S-1	333-196974	10.2	7/14/2014
10.3**	2013 Equity Incentive Plan and Form of Stock Option Grant Notice, Option Agreement and Form of Notice of Exercise	S-1	333-196974	10.3	7/14/2014
10.4**	2014 Equity Incentive Plan and Form of Stock Option Grant Notice, Option Agreement and Form of Notice of Exercise	S-1	333-196974	10.4	7/14/2014
10.5**	Form of Restricted Stock Unit Award Agreement and Restricted Stock Unit Grant Notice under the 2014 Equity Incentive Plan	8-K	001-36545	10.2	1/20/2017
10.6**	2014 Employee Stock Purchase Plan	S-1	333-196974	10.5	7/14/2014
10.7**	2018 Compensation Arrangements with Named Executive Officers	8-K	001-36545	10.1	1/19/2018
10.8**	Offer Letter by and between the registrant and Lisa D. Earnhardt, dated as of January 28, 2008, as amended	S-1	333-196974	10.8	6/23/2014

Exhibit	Description	Form	Incorporation By Reference		
			SEC File No.	Exhibit	Filing Date
10.9**	Offer Letter by and between the registrant and Jeryl L. Hilleman, dated as of May 15, 2014	S-1	333-196974	10.10	6/23/2014
10.10**	Offer Letter by and between the registrant and Richard E. Kaufman, dated as of December 6, 2006, as amended	S-1	333-196974	10.11	6/23/2014
10.11**	Offer Letter by and between the registrant and James W. Stambaugh, dated as of September 15, 2006, as amended	S-1	333-196974	10.12	6/23/2014
10.12**	Amendment to Offer Letter by and between the registrant and Lisa D. Earnhardt, dated as of January 26, 2015	10-Q	001-36545	10.2	5/11/2015
10.13**	Amendment to Offer Letter by and between the registrant and Jeryl L. Hilleman, dated as of January 26, 2015	10-Q	001-36545	10.3	5/11/2015
10.14**	Amendment to Offer Letter by and between the registrant and Richard E. Kaufman, dated as of January 26, 2015	10-Q	001-36545	10.4	5/11/2015
10.15**	Amendment to Offer Letter by and between the registrant and James W. Stambaugh, dated as of January 28, 2015	10-Q	001-36545	10.5	5/11/2015
10.16**	Offer Letter by and between the registrant and Charles S. McKhann, dated as of January 21, 2015	10-Q	001-36545	10.7	5/11/2015
10.17**	Offer Letter by and between the registrant and David A. Lehman, dated as of February 8, 2016	10-Q	001-36545	10.2	5/9/2016
10.18**	Amendment to Offer Letter by and between the registrant and Charles S. McKhann, dated as of March 16, 2016	10-Q	001-36545	10.3	5/9/2016
10.19**	Offer Letter by and between the registrant and Gwen R. Carscadden, dated as of May 30, 2016	10-Q	001-36545	10.1	8/8/2016
10.20**	Compensatory Arrangement between the registrant and Richard E. Kaufman, dated as of May 8, 2017	8-K	001-36545	—	5/9/2017
10.21**	Amendment to Offer Letter by and between the registrant and Richard E. Kaufman, dated as of May 8, 2017	10-Q	001-36545	10.1	8/4/2017
10.22**	Offer Letter by and between the registrant and Drake R. Parker, dated as of July 12, 2017	10-Q	001-36545	10.1	11/6/2017
10.23**	Non-Employee Director Compensation Policy	8-K	001-36545	10.1	4/10/2015
10.24	Third Amended and Restated Investor Rights Agreement, dated as of February 15, 2013, by and among the Registrant and certain of its stockholders	S-1	333-196974	10.6	6/23/2014
10.25	Lease by and between the registrant and Menlo Business Park, LLC, dated as of March 2, 2012	S-1	333-196974	10.7	6/23/2014

Exhibit	Description	Form	Incorporation By Reference		
			SEC File No.	Exhibit	Filing Date
10.26	First Amendment to Lease by and between the registrant and Menlo Prepi I, LLC, dated as of December 17, 2014	8-K	001-36545	10.1	12/18/2014
10.27	Loan and Security Agreement by and between the registrant and Silicon Valley Bank, dated as of August 30, 2013	S-1	333-196974	10.15	6/23/2014
10.28#	Supply Agreement by and between the registrant and HOVIONE Inter Ltd, dated as of April 14, 2014	S-1	333-196974	10.16	6/23/2014
10.29#	Supply Agreement by and between the registrant and AIM Plastics Inc., dated as of Supply January 28, 2014	S-1	333-196974	10.17	6/23/2014
10.30#	Amendment No. 1 to Supply Agreement by and between the registrant and AIM Plastics Inc., dated as of February 22, 2016	10-Q	001-36545	10.4	5/9/2016
10.31#	Supply Agreement by and between the registrant and Stephen Gould Corporation, dated as of November 14, 2013	S-1	333-196974	10.18	6/23/2014
10.32#	Amendment No. 1 to Supply Agreement by and between the registrant and Stephen Gould Corporation, dated as of October 7, 2015	10-K	001-36545	10.26	2/25/2016
10.33#	Amendment No. 2 to Supply Agreement by and between the registrant and Stephen Gould Corporation, dated as of August 17, 2016	10-K	001-36545	10.30	2/28/2017
10.34#	Master Services Agreement by and between the registrant and Polymer Solutions Corporation, dated as of April 9, 2014	S-1	333-196974	10.20	6/23/2014
10.35#	Master Services Agreement by and between the registrant and Polymer Solutions Incorporated, dated as of April 1, 2016	10-Q	001-36545	10.5	5/9/2016
10.36#	Analytical Testing Partnership Program 2016-2017 by and between the registrant and Exova Group Limited, dated as of October 6, 2015	10-K	001-36545	10.28	2/25/2016
23.1	Consent of Independent Registered Public Accounting Firm.				
24.1	Power of Attorney (see signature page hereto).				
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				

Exhibit	Description	Form	Incorporation By Reference		
			SEC File No.	Exhibit	Filing Date
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	XBRL Instance Document.				
101.SCH	XBRL Taxonomy Extension Schema Document.				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.				

\*\* Management compensatory contract or arrangement.

# Confidential Treatment Granted.

\* Exhibit 32.1 is being furnished and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section, nor shall such exhibit be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as otherwise specifically stated in such filing.

#### Item 16. Form 10-K Summary

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **Intersect ENT, Inc.**

Date: February 28, 2018

By: /s/ LISA D. EARNHARDT

Lisa D. Earnhardt  
President and Chief Executive Officer

Date: February 28, 2018

By: /s/ JERYL L. HILLEMAN

Jeryl L. Hilleman  
Chief Financial Officer

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Lisa D. Earnhardt and Jeryl L. Hilleman, jointly and severally, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<div style="display: flex; justify-content: space-between;"> <div> <u>/s/ LISA D. EARNHARDT</u>  Lisa D. Earnhardt </div> <div> President and Chief Executive Officer  (Principal Executive Officer)  and Director </div> <div> February 28, 2018 </div> </div>		
<div style="display: flex; justify-content: space-between;"> <div> <u>/s/ JERYL L. HILLEMAN</u>  Jeryl L. Hilleman </div> <div> Chief Financial Officer  (Principal Financial and  Accounting Officer) </div> <div> February 28, 2018 </div> </div>		
<div style="display: flex; justify-content: space-between;"> <div> <u>/s/ KIERAN T. GALLAHUE</u>  Kieran T. Gallahue </div> <div> Lead Director </div> <div> February 28, 2018 </div> </div>		
<div style="display: flex; justify-content: space-between;"> <div> <u>/s/ TERESA L. KLINE</u>  Teresa L. Kline </div> <div> Director </div> <div> February 28, 2018 </div> </div>		
<div style="display: flex; justify-content: space-between;"> <div> <u>/s/ CYNTHIA L. LUCCHESI</u>  Cynthia L. Lucchese </div> <div> Director </div> <div> February 28, 2018 </div> </div>		
<div style="display: flex; justify-content: space-between;"> <div> <u>/s/ DANA G. MEAD, JR.</u>  Dana G. Mead, Jr. </div> <div> Director </div> <div> February 28, 2018 </div> </div>		
<div style="display: flex; justify-content: space-between;"> <div> <u>/s/ FREDERIC H. MOLL</u>  Frederic H. Moll </div> <div> Director </div> <div> February 28, 2018 </div> </div>		
<div style="display: flex; justify-content: space-between;"> <div> <u>/s/ W. ANTHONY VERNON</u>  W. Anthony Vernon </div> <div> Director </div> <div> February 28, 2018 </div> </div>		

**INTERSECT ENT, INC.**  
**Index to Financial Statements**  
**For the Three Fiscal Years Ended**  
**December 31, 2017**  
**INDEX TO FINANCIAL STATEMENTS**

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of  
Intersect ENT, Inc.

### **Opinion on the Financial Statements**

We have audited the accompanying balance sheets of Intersect ENT, Inc. (the Company) as of December 31, 2017 and 2016, the related statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 28, 2018 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatements of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2008.

Redwood City, California  
February 28, 2018

**INTERSECT ENT, INC.**  
**BALANCE SHEETS**  
(in thousands, except per share data)

	December 31,	
	2017	2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 19,837	\$ 9,859
Short-term investments, available-for-sale . . . . .	82,483	94,086
Accounts receivable, net . . . . .	16,589	14,421
Inventory . . . . .	8,474	5,613
Prepaid expenses and other current assets . . . . .	2,908	1,313
Total current assets . . . . .	130,291	125,292
Property and equipment, net . . . . .	4,848	4,127
Other non-current assets . . . . .	436	358
Total assets . . . . .	<u>\$ 135,575</u>	<u>\$ 129,777</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable . . . . .	\$ 3,400	\$ 3,267
Accrued compensation . . . . .	13,152	10,152
Other current liabilities . . . . .	1,125	945
Total current liabilities . . . . .	17,677	14,364
Deferred rent and other non-current liabilities . . . . .	679	1,016
Total liabilities . . . . .	18,356	15,380
Commitments and contingencies (note 7)		
Stockholders' equity:		
Preferred stock, \$0.001 par value;		
Authorized shares: 10,000 at December 31, 2017 and 2016;		
Issued and outstanding shares: none . . . . .	—	—
Common stock, \$0.001 par value;		
Authorized shares: 150,000 at December 31, 2017 and 2016;		
Issued and outstanding shares: 29,678 and 28,673 at December 31, 2017 and		
2016, respectively . . . . .	30	29
Additional paid-in capital . . . . .	282,121	262,882
Accumulated other comprehensive loss . . . . .	(92)	(37)
Accumulated deficit . . . . .	(164,840)	(148,477)
Total stockholders' equity . . . . .	117,219	114,397
Total liabilities and stockholders' equity . . . . .	<u>\$ 135,575</u>	<u>\$ 129,777</u>

See Accompanying Notes to Financial Statements

**INTERSECT ENT, INC.**  
**STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(in thousands, except per share data)

	Fiscal Years Ended December 31,		
	2017	2016	2015
Revenue .....	\$ 96,301	\$ 78,708	\$ 61,593
Cost of sales .....	15,499	13,003	12,288
Gross profit .....	80,802	65,705	49,305
Operating expenses:			
Selling, general and administrative .....	80,045	72,926	59,637
Research and development .....	18,360	18,890	16,608
Total operating expenses .....	98,405	91,816	76,245
Loss from operations .....	(17,603)	(26,111)	(26,940)
Interest income and other, net .....	1,240	889	306
Net loss .....	(16,363)	(25,222)	(26,634)
Other comprehensive (loss) income:			
Unrealized (loss) gain on short-term investments .....	(55)	(45)	8
Comprehensive loss .....	<u>\$(16,418)</u>	<u>\$(25,267)</u>	<u>\$(26,626)</u>
Net loss per share, basic and diluted .....	<u>\$ (0.56)</u>	<u>\$ (0.89)</u>	<u>\$ (1.02)</u>
Weighted average common shares used to compute net loss per share, basic and diluted .....	<u>29,119</u>	<u>28,420</u>	<u>26,159</u>

See Accompanying Notes to Financial Statements

**INTERSECT ENT, INC.**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance at December 31, 2014 . . . . .	23,379	\$ 23	\$150,410	\$ —	\$ (96,621)	\$ 53,812
Issuance of common stock upon exercise of stock options . . . . .	560	1	908	—	—	909
Issuance of common stock through employee stock purchase plan . . . . .	53	—	811	—	—	811
Issuance of common stock upon exercise of warrants . . . . .	48	—	69	—	—	69
Issuance of common stock for follow-on offering, net of issuance costs . . . . .	4,119	4	96,388	—	—	96,392
Stock-based compensation expense . . . . .	—	—	4,864	—	—	4,864
Unrealized gain on short-term investments . . . . .	—	—	—	8	—	8
Net loss . . . . .	—	—	—	—	(26,634)	(26,634)
Balance at December 31, 2015 . . . . .	28,159	28	253,450	8	(123,255)	130,231
Issuance of common stock upon exercise of stock options . . . . .	379	1	551	—	—	552
Issuance of common stock through employee stock purchase plan . . . . .	135	—	1,414	—	—	1,414
Stock-based compensation expense . . . . .	—	—	7,467	—	—	7,467
Unrealized loss on short-term investments . . . . .	—	—	—	(45)	—	(45)
Net loss . . . . .	—	—	—	—	(25,222)	(25,222)
Balance at December 31, 2016 . . . . .	28,673	29	262,882	(37)	(148,477)	114,397
Issuance of common stock upon exercise of stock options . . . . .	849	1	7,689	—	—	7,690
Issuance of common stock through employee stock purchase plan . . . . .	156	—	1,730	—	—	1,730
Stock-based compensation expense . . . . .	—	—	9,820	—	—	9,820
Unrealized loss on short-term investments . . . . .	—	—	—	(55)	—	(55)
Net loss . . . . .	—	—	—	—	(16,363)	(16,363)
Balance at December 31, 2017 . . . . .	<u>29,678</u>	<u>\$ 30</u>	<u>\$282,121</u>	<u>\$ (92)</u>	<u>\$ (164,840)</u>	<u>\$ 117,219</u>

See Accompanying Notes to Financial Statements

**INTERSECT ENT, INC.**  
**STATEMENTS OF CASH FLOWS**  
(in thousands)

	Fiscal Years Ended December 31,		
	2017	2016	2015
<b>Operating activities:</b>			
Net loss	\$ (16,363)	\$ (25,222)	\$ (26,634)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation and amortization	1,464	1,166	826
Stock-based compensation expense	9,820	7,467	4,864
Amortization of net investment premium	19	148	682
Loss on sales of short-term investments	—	—	20
Changes in operating assets and liabilities:			
Accounts receivable, net	(2,168)	(2,953)	(3,131)
Inventory	(2,861)	(1,664)	(1,402)
Prepaid expenses and other assets	(914)	202	(544)
Accounts payable	203	1,180	(230)
Accrued compensation	3,000	564	4,503
Deferred rent and other liabilities	(241)	(947)	959
Net cash used in operating activities	(8,041)	(20,059)	(20,087)
<b>Investing activities:</b>			
Purchases of short-term investments	(116,622)	(153,919)	(184,672)
Sales of short-term investments	—	—	6,516
Maturities of short-term investments	128,151	149,131	123,011
Purchases of property and equipment	(2,281)	(2,069)	(1,524)
Net cash provided by (used in) investing activities	9,248	(6,857)	(56,669)
<b>Financing activities:</b>			
Proceeds from issuance of common stock	8,771	1,966	1,770
Proceeds from public offering, net of issuance costs	—	—	96,392
Net cash provided by financing activities	8,771	1,966	98,162
Net increase (decrease) in cash and cash equivalents	9,978	(24,950)	21,406
Cash and cash equivalents:			
Beginning of the period	9,859	34,809	13,403
End of the period	\$ 19,837	\$ 9,859	\$ 34,809
<b>Non-cash investing activities:</b>			
Property and equipment included in accounts payable	\$ 146	\$ 215	\$ 43

See Accompanying Notes to Financial Statements

**INTERSECT ENT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Organization**

**Description of Business**

Intersect ENT, Inc. (the “Company”) is incorporated in the state of Delaware and its facilities are located in Menlo Park, California. The Company is a commercial drug delivery company committed to improving the quality of life for patients with ear, nose and throat conditions. The Company’s approved and in-development products are steroid releasing implants designed to treat the spectrum of needs among patients who are managed by ear, nose and throat (“ENT”) physicians for chronic sinusitis, one of the most prevalent chronic diseases in the United States. The Company’s current commercial products comprise the PROPEL® family of products, which are PROPEL®, PROPEL® Mini and PROPEL® Contour. The PROPEL family of products are used predominantly in hospitals and ambulatory surgical settings, although they may also be used in the physician office setting of care. In addition to these commercial products, the Company recently received approval from the U.S. Food and Drug Administration (“FDA”) to market another steroid releasing implant, SINUVA™, previously known as the RESOLVE product, in December 2017. SINUVA is designed for use in the physician’s office for treatment of patients who have had ethmoid sinus surgery yet suffer from recurrent sinus obstruction due to polyps.

**Liquidity and Business Risks**

As of December 31, 2017, the Company had cash, cash equivalents and short-term investments of \$102.3 million, and an accumulated deficit of \$164.8 million. The Company expects its cash, cash equivalents and short-term investments will be sufficient to fund its operations through at least twelve months after the date the financial statements are issued.

**2. Summary of Significant Accounting Policies**

**Basis of Preparation**

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”).

*Follow-on Offering*

In June 2015, the Company completed its follow-on offering by issuing 4,119,300 shares of common stock, including 537,300 shares pursuant to the full exercise by the underwriters of their option to purchase additional shares, at an offering price of \$25.00 per share, for net proceeds of approximately \$96.4 million, after deducting underwriting discounts and commissions of \$6.2 million and offering expenses of \$0.4 million.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements. Management uses significant judgment when making estimates related to its stock-based compensation, as well as certain accrued liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

## **Cash and Cash Equivalents**

The Company considers all highly liquid securities, readily convertible to cash, that mature within 90 days or less from the date of purchase to be cash equivalents.

## **Short-term Investments, Available-for-Sale**

Short-term investments, which are available-for-sale, represent highly liquid debt instruments with maturities greater than 90 days at date of purchase. Such investments are recorded at fair value and unrealized holding gains and losses are reported as a separate component of accumulated comprehensive income (loss) in stockholders' equity until realized. The Company reviews its investment portfolio periodically to assess for other-than-temporary impairment. Should the Company determine that any unrealized losses on the investments are other-than-temporary, the amount of that impairment to be recognized in earnings will depend on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current period credit loss. The specific identification method is used to determine the cost of securities disposed of, with realized gains and losses reflected in interest and other income or expense, as appropriate, in the statement of operations.

## **Fair Value of Financial Instruments**

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents and short-term investments, available-for-sale. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

- Level 1 — Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — Other inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant inputs are observable in the market or can be derived from observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activities, which would require the Company to develop its own assumptions.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following is a summary of cash, cash equivalents and short-term investments, available-for-sale, by type of instrument measured at fair value on a recurring basis (in thousands):

	December 31,							
	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash .....	\$ 7,646	\$ —	\$ —	\$ 7,646	\$ 5,222	\$ —	\$ —	\$ 5,222
Money market funds .....	12,191	—	—	12,191	4,637	—	—	4,637
Corporate debt securities ...	—	61,627	—	61,627	—	51,738	—	51,738
Commercial paper .....	—	20,856	—	20,856	—	42,348	—	42,348
	<u>\$ 19,837</u>	<u>\$ 82,483</u>	<u>\$ —</u>	<u>\$102,320</u>	<u>\$ 9,859</u>	<u>\$ 94,086</u>	<u>\$ —</u>	<u>\$103,945</u>
Reported as:								
Cash and cash equivalents .....				\$ 19,837				\$ 9,859
Short-term investments, available-for-sale ...				82,483				94,086
				<u>\$102,320</u>				<u>\$103,945</u>

There were no transfers in and out of Level 1 and Level 2 during the years ended December 31, 2017 and 2016.

### Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash equivalents, short-term investments and accounts receivable. The Company believes that the credit risk in its accounts receivable is mitigated by its credit evaluation process, relatively short collection terms and diversity of its customer base. The Company generally does not require collateral and losses on accounts receivable have historically been within management's expectations.

The Company's investment policy limits investments to certain types of debt securities issued by the U.S. government, its agencies, and institutions with investment-grade credit ratings, as well as corporate debt or commercial paper issued by the highest quality financial and non-financial companies, and places restrictions on maturities and concentration by type and issuer. The Company is exposed to credit risk in the event of a default by the financial institutions holding its cash and cash equivalents and issuers of investments to the extent recorded on the balance sheets. The Company has limited its credit risk associated with cash, cash equivalents and short-term investments by placing its investments with banks it believes are highly creditworthy and with highly rated investments.

### Allowance for Doubtful Accounts

The Company provides for uncollectible accounts receivable by recording an allowance for doubtful accounts for balances deemed uncollectible. The Company evaluates the collectability of its accounts receivable based on known collection risks and historical experience. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations to the Company (e.g., bankruptcy filings, substantial downgrading of credit ratings), the Company records a specific allowance for bad debts against amounts due to reduce the carrying amount of accounts receivable to the amount it reasonably believes will be collected. Based on the high creditworthiness of the customers that the Company sells to, the Company has not experienced any significant collection issues.

### Inventory

Inventory is valued at the lower of cost or market, computed on a first-in, first-out basis, or net realizable value. This requires the Company to make estimates regarding the recoverability of its inventory, including an

assessment of excess or obsolete inventory. The Company determines excess and obsolete inventory based on future demand for products within a specified time horizon, generally twelve months, product life cycles and any expiration of inventory prior to sale. Any inventory written down creates a new cost basis for the inventory value.

### **Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is determined using the straight-line method over the estimated useful lives of the respective assets, generally three to five years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the lease. Any amortization of assets under capital leases is included in depreciation and amortization expense. Maintenance and repairs are charged to operations as incurred.

### **Impairment of Long-lived Assets**

Long-lived assets consists primarily of property and equipment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require that a long-lived asset be tested for possible impairment, the Company compares the undiscounted cash flows expected to be generated by the asset group to the carrying amount of the asset group. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. The Company determines fair value using the income approach based on the present value of expected future cash flows or other appropriate measures of estimated fair value. The Company's cash flow assumptions consider historical and forecasted revenue and operating costs and other relevant factors. Since inception, the Company has not recorded impairment charges on its long-lived assets.

### **Revenue Recognition**

Revenue is derived from the sale of the PROPEL family of products to hospitals and ambulatory surgery centers almost entirely in the United States. The Company recognizes revenue when persuasive evidence of an arrangement exists, product delivery has occurred or there is no further obligation, pricing is fixed or determinable and collection is reasonably assured. The Company must make assumptions regarding the future collectability of amounts receivable from customers to determine whether revenue recognition criteria have been met. If collectability is not reasonably assured at the time of shipment, the Company defers revenue until such criteria have been met. In general, the Company's standard terms and conditions of sale do not allow for product returns. The Company expenses shipping and handling costs as incurred and includes them in the cost of sales. In those cases where shipping and handling costs are billed to customers, the Company classifies the amounts billed as a component of revenue.

### **Cost of Sales**

Cost of sales consists primarily of manufacturing overhead costs, material costs and direct labor. A significant portion of the Company's cost of sales currently consists of manufacturing overhead costs. These overhead costs include the cost of quality assurance, material procurement, inventory control, facilities, information technology, equipment and operations supervision and management. Cost of sales also includes depreciation expense for production equipment and certain direct costs such as shipping costs.

### **Research and Development**

Research and development expenses consist primarily of product development, clinical and regulatory affairs, consulting services and other costs associated with products and technologies in development. These expenses include employee compensation, stock-based compensation, supplies, quality assurance and related travel and allocated facilities and information technology expenses. Clinical expenses include clinical trial design, clinical site reimbursement, data management and travel expenses, and the cost of manufacturing products for clinical trials.

## **Stock-based Compensation**

The Company maintains equity incentive plans to provide long-term incentives for employees, consultants and members of the board of directors. The plans allow for the issuance of non-statutory and incentive stock options to employees and non-statutory stock options to consultants and non-employee directors.

The Company is required to determine the fair value of equity incentive awards and recognize compensation expense for all equity incentive awards made to employees and directors, including employee stock options. Stock-based compensation expense is recognized over the requisite service period in the statements of operations and comprehensive loss. The Company uses the straight-line method for expense attribution. Effective January 1, 2017, the Company adopted Accounting Standards Update (“ASU”) No. 2016-9, *Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-9”), and elected to account for forfeitures when they occur. Prior to the adoption of ASU 2016-9, the Company estimated the awards ultimately expected to vest based on the Company’s historical forfeiture experience and an analysis of similar companies, therefore reducing the amount of stock-based compensation expense for estimated forfeitures. To the extent actual forfeitures differed from the estimates, the Company recorded the difference as a cumulative adjustment in the period that any estimate was revised.

The valuation model used for calculating the fair value of awards for stock-based compensation expense is the Black-Scholes option-pricing model (the “Black-Scholes model”). The Black-Scholes model requires the Company to make assumptions and judgments about the variables used in the calculation, including the expected term (weighted average period of time that the options granted are expected to be outstanding), the volatility of common stock and an assumed risk-free interest rate. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected term of the option.

## **Deferred Rent**

Rent expense is recognized on a straight-line basis over the non-cancelable term of the Company’s operating lease and, accordingly, the Company records the difference between cash rent payments and the recognition of rent expense as a deferred rent liability. The Company also records lessor-funded lease incentives, such as leasehold improvements, as a deferred rent liability, which is amortized as a reduction of rent expense over the non-cancelable term of the respective operating lease.

## **Advertising Expenses**

The Company expenses the costs of advertising, including promotional expenses, as incurred. Advertising expenses were \$0.6 million, \$0.6 million and \$0.3 million during the years ended December 31, 2017, 2016 and 2015, respectively.

## **Income Taxes**

The Company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse. Valuation allowances against deferred tax assets are established when necessary to reduce deferred tax assets to the amounts expected to be realized. Currently, the Company has recorded a full valuation allowance against its deferred tax assets and there is no provision for income taxes, as the Company has incurred operating losses to-date. The Company’s policy is to record interest and penalties expense related to uncertain tax positions as “other expense” within interest income and other, net in the statement of operations.

## **Net Loss per Share**

Basic net loss per share is computed by dividing the net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing the net loss by the weighted average number of shares of common stock and dilutive potential shares of common stock

outstanding during the period. Because the Company has reported a net loss for all periods presented, diluted net loss per share is the same as basic net loss per share for those periods as all potentially dilutive securities were antidilutive in those periods.

The following potentially dilutive securities outstanding have been excluded from the computations of weighted average shares outstanding because such securities have an antidilutive impact due to losses reported (in common stock equivalent shares, in thousands):

	Fiscal Years Ended December 31,		
	2017	2016	2015
Common stock options .....	3,788	3,585	2,946
RSUs .....	275	—	—
ESPP shares .....	190	221	252
	<u>4,253</u>	<u>3,806</u>	<u>3,198</u>

### Comprehensive Loss

Comprehensive loss consists of net loss and changes in unrealized gains and losses on short-term investments, available-for-sale.

### Segment, Geographical and Customer Concentration

The Company has one operating segment. The Company's assets and revenue are almost entirely based in the U.S. No single customer accounted for more than 10% of revenue during the years ended December 31, 2017, 2016 and 2015, and no single customer accounted for more than 10% of accounts receivable at December 31, 2017 and 2016.

### Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 requires that credit losses be presented as an allowance rather than as a write-down for available-for-sale debt securities and allows for the reversal of estimated credit losses in the current period, aligning the income statement recognition of credit losses with the reporting period in which changes occur. ASU 2016-13 also broadens the information an entity must consider in developing its expected credit loss estimate for assets measured at amortized costs. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the effect that ASU 2016-13 will have on its financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-9, *Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-9"). ASU 2016-9 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows and an entity can now make an entity-wide election to either estimate the number of awards expected to vest or account for forfeitures when they occur. ASU 2016-9 was effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The Company adopted ASU 2016-9 effective January 1, 2017, which did not have a material impact on the Company's financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-2, *Leases: Amendments to the FASB Accounting Standards Codification* ("ASU 2016-2"). Under ASU 2016-02, a lessee will be required to recognize assets and

liabilities for leases with lease terms of more than twelve months. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. ASU 2016-02 will require both types of leases to be recognized on the balance sheet. ASU 2016-02 also will require disclosures to help investors and other financial statement users to better understand the amount, timing and uncertainty of cash flows arising from the leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. ASU 2016-2 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the effect that ASU 2016-2 will have on its financial statements and related disclosures.

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date* (“ASU 2015-14”), which defers the effective date of ASU No. 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”) by one year, and is now effective for all entities for annual reporting periods beginning after December 15, 2017. ASU 2014-09, 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 and will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In doing so, companies may need to use more judgment and make more estimates than under current guidance. These include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The Company plans to adopt ASU 2014-09 on January 1, 2018 using the cumulative effect transition method and has completed its evaluation of the potential impact. Based on the Company’s work to-date, the Company does not believe the adoption of ASU 2014-09 will have an effect on the Company’s financial condition or results of operations. The Company will continue to monitor industry activities and any additional guidance provided by regulators, standards setters or the accounting profession and may adjust the Company’s assessment and implementation plans accordingly.

### 3. Composition of Certain Financial Statement Items

#### Accounts Receivable (in thousands):

	December 31,	
	2017	2016
Accounts receivable . . . . .	\$16,739	\$14,583
Allowance for doubtful accounts . . . . .	(150)	(162)
	<u>\$16,589</u>	<u>\$14,421</u>

#### Inventory (in thousands):

	December 31,	
	2017	2016
Raw materials . . . . .	\$ 1,221	\$ 778
Work-in-process . . . . .	302	247
Finished goods . . . . .	6,951	4,588
	<u>\$ 8,474</u>	<u>\$ 5,613</u>

**Property and Equipment (in thousands):**

	December 31,	
	2017	2016
Computer equipment and software . . . . .	\$ 1,330	\$ 1,137
Furniture and office equipment . . . . .	548	423
Laboratory equipment . . . . .	5,892	4,314
Leasehold improvements . . . . .	1,739	1,618
	<u>9,509</u>	<u>7,492</u>
Less: accumulated depreciation and amortization . . . . .	(4,661)	(3,365)
	<u>\$ 4,848</u>	<u>\$ 4,127</u>

**4. Cash, Cash Equivalents and Short-term Investments**

The following is a summary of cash, cash equivalents and short-term investments, available-for-sale, by type of instrument (in thousands):

	December 31,							
	2017				2016			
	Amortized Cost	Gross Unrealized Gains	Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Unrealized Losses	Estimated Fair Value
Cash . . . . .	\$ 7,646	\$ —	\$ —	\$ 7,646	\$ 5,222	\$ —	\$ —	\$ 5,222
Money market funds . . . . .	12,191	—	—	12,191	4,637	—	—	4,637
Corporate debt securities . . . . .	61,695	1	(69)	61,627	51,761	3	(26)	51,738
Commercial paper . . . . .	20,880	—	(24)	20,856	42,362	6	(20)	42,348
	<u>\$102,412</u>	<u>\$ 1</u>	<u>\$ (93)</u>	<u>\$102,320</u>	<u>\$103,982</u>	<u>\$ 9</u>	<u>\$ (46)</u>	<u>\$103,945</u>
Reported as:								
Cash and cash equivalents . . . . .				\$ 19,837				\$ 9,859
Short-term investments, available-for-sale . . . . .				82,483				94,086
				<u>\$102,320</u>				<u>\$103,945</u>

As of December 31, 2017 and 2016, the Company had no investments with a contractual maturity of greater than one year.

Based on an evaluation of securities that have been in a loss position, the Company did not recognize any other-than-temporary impairment charges during the years ended December 31, 2017, 2016 and 2015. The Company considered various factors which included a credit and liquidity assessment of the underlying securities and the Company's intent and ability to hold the underlying securities until the estimated date of recovery of its amortized cost.

**5. Stockholders' Equity****2014 Equity Incentive Plan**

In July 2014, the Company's board of directors approved the 2014 Equity Incentive Plan (the "2014 Plan"). Under the 2014 Plan, the Company may grant stock options, stock appreciation rights, restricted stock, restricted stock units and certain other awards to individuals who are employees, officers, directors or consultants of the Company. A total of 4,750,000 shares of common stock were initially reserved for issuance under the 2014 Plan. The number of shares of common stock reserved for issuance under the 2014 Plan will automatically increase on January 1 of each year, beginning on January 1, 2015, and continuing through and including January 1, 2024, by

3% of the total number of shares of the Company's capital stock outstanding on December 31 of the preceding calendar year, or a lesser number of shares determined by the Company's board of directors. The maximum number of shares that may be issued upon the exercise of ISOs under the 2014 Plan is 10.0 million. Incentive stock options ("ISOs") and non-statutory stock options ("NSOs") may be granted with exercise prices at no less than 100% of the fair value of the common stock on the date of grant. ISOs granted under the 2014 Plan generally vest 25% after the completion of twelve months of service and the balance vests in equal monthly installments over the next 36 months of service and expire 10 years from the grant date. NSOs vest per the specific agreement and expire 10 years from the date of grant. New shares are issued upon exercise of options under the stock plan. On January 1, 2017, the total number of shares of common stock reserved for issuance increased by 860,019 shares to 7,156,121 shares. In January 2017, the Company began issuing restricted stock units ("RSUs") under the 2014 Plan. The RSUs generally vest annually over three years.

A summary of the Company's stock option activity and related information is as follows (in thousands, except price data):

	<b>Fiscal Year Ended December 31, 2017</b>	
	<b>Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding, beginning of period . . . . .	3,585	\$ 14.81
Granted . . . . .	1,286	16.04
Exercised . . . . .	(849)	9.06
Forfeited . . . . .	(230)	18.84
Expired . . . . .	(4)	2.62
Outstanding, end of period . . . . .	<u>3,788</u>	16.28
Exercisable . . . . .	<u>1,881</u>	14.77

As of December 31, 2017, the aggregate pre-tax intrinsic value of options outstanding was \$61.0 million and options outstanding and exercisable was \$33.2 million, the weighted-average remaining contractual term of options outstanding was 7.9 years and options outstanding and exercisable was 7.2 years. The aggregate pre-tax intrinsic value of options exercised was \$14.6 million, \$5.5 million and \$12.7 million during the years ended December 31, 2017, 2016 and 2015, respectively.

A summary of the Company's RSU activity and related information (RSUs in thousands):

	<b>Fiscal Year Ended December 31, 2017</b>	
	<b>RSUs</b>	<b>Weighted Average Fair Value</b>
Outstanding, beginning of period . . . . .	—	\$ —
Awarded . . . . .	288	13.74
Forfeited . . . . .	(13)	15.57
Outstanding, end of period . . . . .	<u>275</u>	13.65

As of December 31, 2017, the aggregate pre-tax intrinsic value of RSUs outstanding was \$8.9 million, calculated based on the closing price of the Company's common stock at the end of the period, and the weighted-average remaining contractual term of RSUs outstanding was 2.0 years.

## 2014 Employee Stock Purchase Plan

In July 2014, the Company's board of directors approved the 2014 Employee Stock Purchase Plan ("2014 ESPP"). The 2014 ESPP became effective on the effective date of the IPO. A total of 496,092 shares were

initially reserved for issuance under the 2014 ESPP. Shares issued during each of the years ended December 31, 2017, 2016 and 2015 were 0.2 million, 0.1 million and 0.1 million, respectively.

## 6. Stock-Based Compensation Expense

Total stock-based compensation expense recognized is as follows (in thousands):

	Fiscal Years Ended December 31,		
	2017	2016	2015
Cost of sales .....	\$ 892	\$ 708	\$ 417
Selling, general and administrative .....	7,292	5,606	3,812
Research and development .....	1,636	1,153	635
	<u>\$9,820</u>	<u>\$7,467</u>	<u>\$4,864</u>

As of December 31, 2017, the amount of unearned stock-based compensation currently estimated to be expensed through the year 2021 related to unvested employee stock-based awards was \$18.1 million and the weighted average period over which the unearned stock-based compensation is expected to be recognized was 2.4 years. If there are any modifications or cancellations of the underlying unvested securities, the Company may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that the Company grants additional share-based payments.

The Company estimates the fair value of stock-based compensation on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes model determines the fair value of stock-based payment awards based on the fair market value of the Company's common stock on the date of grant and is affected by assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the fair market value of the Company's common stock, volatility over the expected term of the awards and actual and projected employee stock option exercise behaviors. The Company has opted to use the "simplified method" for estimating the expected term of options, whereby the expected term equals the arithmetic average of the vesting term and the original contractual term of the option. Due to the Company's limited operating history and a lack of company specific historical and implied volatility data, the Company has based its estimate of expected volatility on the historical volatility of a group of similar companies that are publicly traded. When selecting these public companies on which it has based its expected stock price volatility, the Company generally selected companies with comparable characteristics to it, including enterprise value, stages of clinical development, risk profiles, position within the industry and with historical share price information sufficient to meet the expected life of the stock-based awards. The historical volatility data was computed using the daily closing prices for the selected companies' shares during the equivalent period of the calculated expected term of the share-based payments. The Company will continue to analyze the historical stock price volatility and expected term assumptions as more historical data for the Company's common stock becomes available. The risk-free rate assumption is based on the U.S. Treasury instruments with maturities similar to the expected term of the Company's stock options. The expected dividend assumption is based on the Company's history of not paying dividends and its expectation that it will not declare dividends for the foreseeable future.

Effective January 1, 2017, the Company adopted ASU 2016-9 and elected to account for forfeitures when they occurred. Prior to the adoption of ASU 2016-9, the Company estimated the awards ultimately expected to vest based on the Company's historical forfeiture experience and an analysis of similar companies, therefore reducing the amount of stock-based compensation expense for estimated forfeitures. To the extent actual forfeitures differed from the estimates, the Company recorded the difference as a cumulative adjustment in the period that any estimate was revised.

The fair value of options granted to employees or directors during the periods presented below were estimated as of the grant date using the Black-Scholes model assuming the weighted average assumptions listed in the following table:

	Fiscal Years Ended December 31,		
	2017	2016	2015
Expected term (years) . . . . .	6.0	6.0	6.0
Expected volatility . . . . .	45%	44%	48%
Risk-free interest rate . . . . .	2.1%	1.5%	1.6%
Dividend yield . . . . .	0.0%	0.0%	0.0%
Fair value . . . . .	\$ 7.24	\$ 7.83	\$ 10.66

The fair value of options granted under the 2014 ESPP to employees was estimated as of the grant date using the Black-Scholes model assuming the weighted average assumptions listed in the following table:

	Fiscal Years Ended December 31,		
	2017	2016	2015
Expected term (years) . . . . .	1.3	1.3	1.3
Expected volatility . . . . .	44%	48%	38%
Risk-free interest rate . . . . .	1.3%	0.7%	0.4%
Dividend yield . . . . .	0.0%	0.0%	0.0%
Fair value . . . . .	\$ 8.71	\$ 4.46	\$ 7.29

## 7. Commitments and Contingencies

### Contingencies

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and provide for general indemnifications. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such amounts can be reasonably estimated.

### Indemnification

The Company's amended and restated certificate of incorporation contains provisions limiting the liability of directors, and its amended and restated bylaws provide that the Company will indemnify each of its directors to the fullest extent permitted under Delaware law. The Company's amended and restated certificate of incorporation and amended and restated bylaws also provide its board of directors with discretion to indemnify its officers and employees when determined appropriate by the board. In addition, the Company has entered and expects to continue to enter into agreements to indemnify its directors and executive officers.

### Litigation

The Company is not currently a party to any material legal proceedings. The Company may at times be involved in litigation and other legal claims in the ordinary course of business. When appropriate in the Company's estimation, it may record reserves in its financial statements for pending litigation and other claims.

### Building Lease

As of December 31, 2017, the Company has one leased facility under an operating lease agreement entered into in March 2012. In December 2014, the operating lease agreement was amended for an additional 17,900

square feet for a total of 50,400 square feet and the expiration was extended to May 31, 2020. Rental payments are charged to expense on a straight-line basis over the period of the lease. The lease agreement requires the Company to pay executory costs such as real estate taxes, insurance and repairs, and includes a renewal provision allowing the Company to extend this lease for an additional three years at 95% of the then-current fair market rental rate. Because of the terms of the amended lease agreement, the Company is the deemed owner, for accounting purposes only, of the building improvements. Accordingly, the Company recorded an asset of \$1.0 million, representing the total costs of the building improvements payable by the lessor, the legal owner of the building, with a corresponding offset recorded as deferred rent. The building improvements are being amortized over the life of the lease.

Future minimum annual operating lease payments are as follows (in thousands):

<u>Fiscal Years Ending December 31,</u>	<u>December 31,</u> <u>2017</u>
2018 .....	\$ 1,580
2019 .....	1,625
2020 .....	685
Thereafter .....	—
	<u>\$ 3,890</u>

Rent expense was \$1.9 million, \$2.0 million and \$1.9 million during the years ended December 31, 2017, 2016 and 2015, respectively.

## **Purchase Commitments**

As of December 31, 2017, the Company had commitments to suppliers for purchases totaling \$5.4 million.

## **8. Employee Retirement Plan**

In January 2007, the Company established a qualified retirement plan under section 401(k) of the Internal Revenue Code (“IRC”) under which participants may contribute up to 100% of their eligible compensation, subject to maximum deferral limits specified by the IRC. The Company may make a discretionary profit sharing contribution to each eligible employee, subject to limits specified by the IRC, on an annual basis, provided the employee is employed with the Company on the last day of the plan year which is December 31. In addition, the Company may also make matching contributions of up to 3% of an employee’s eligible compensation. The Company’s contributions will vest 25% per year over four years. Total matching contributions were \$0.3 million, \$0.3 million and \$0.2 million during the years ended December 31, 2017, 2016 and 2015, respectively.

## **9. Income Taxes**

The Company has a history of losses and therefore has made no provision for income taxes.

The amount computed by applying the federal statutory rate to loss before income taxes reconciles to the provision for income taxes is as follows (in thousands):

	Fiscal Years Ended December 31,		
	2017	2016	2015
Tax at federal statutory rate .....	\$ (5,563)	\$ (8,575)	\$ (9,056)
State tax, net of federal benefit .....	(575)	(1,210)	(589)
Permanent items .....	460	549	463
Stock-based compensation .....	(2,919)	295	212
R&D tax credit .....	(627)	(536)	(559)
Change in U.S. federal tax rate .....	20,974	—	—
Change in valuation allowance .....	(11,750)	9,477	9,529
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Significant components of net deferred tax assets are as follows (in thousands):

	December 31,	
	2017	2016
Deferred tax assets:		
Net operating losses .....	\$ 38,531	\$ 46,478
R&D tax credit .....	5,983	4,612
Accruals and other .....	6,730	7,456
	<u>51,244</u>	<u>58,546</u>
Deferred tax liabilities:		
Depreciation and amortization .....	(212)	(337)
	<u>(212)</u>	<u>(337)</u>
Net deferred tax assets: .....	51,032	58,209
Valuation allowance .....	(51,032)	(58,209)
	<u>\$ —</u>	<u>\$ —</u>

In December 2017, the U.S. government enacted comprehensive tax legislation, commonly referred to as the Tax Cuts and Jobs Act (“Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; (5) eliminating the corporate alternative minimum tax (“AMT”) and changing how existing AMT credits can be realized; (6) creating the base erosion anti-abuse tax (“BEAT”), a new minimum tax; (7) creating a new limitation on deductible interest expense; and (8) changing the rules related to uses and limitations of net operating loss (“NOL”) carryforwards created in tax years beginning after December 31, 2017.

The Company has not historically had significant non-U.S. operations and, as such, the only significant impact of the Tax Act for the Company will be the reduction in the U.S. corporate tax rate. The Act reduces the corporate tax rate to 21 percent, effective January 1, 2018. Consequently, we have recorded a decrease in our net deferred tax asset balance of \$21.0 million, with a corresponding and fully offsetting adjustment to our valuation allowance for the year ended December 31, 2017.

In December 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or

analyzed in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. As of December 31, 2017, due to the complexities of the new law, we have not completed our accounting for all the tax effects of the Tax Act, however, as noted above we have made a reasonable estimate of the effects on our existing deferred tax balances. We are still analyzing certain aspects of the Tax Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. In all cases, we will continue to make and refine our calculations as additional analysis is completed. In addition, our provisional estimates may also be adjusted as we gain a more thorough understanding of the tax law.

Deferred income taxes reflect the tax effects of NOLs and tax credit carryforwards and the net temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Realization of the deferred tax assets is dependent upon the generation of future taxable income, if any, the amount and timing of which are uncertain. Based on available objective evidence, management believes it is more likely than not that the deferred tax assets are not recognizable and will not be recognizable until the Company has sufficient taxable income. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance decreased by \$7.2 million and increased by \$9.5 million during the years ended December 31, 2017 and 2016, respectively.

On January 1, 2017, the Company adopted ASU 2016-09, which simplified several aspects of accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements and classification in the statement of cash flows. The adoption of ASU 2016-09 did not have an impact on our balance sheet, results of operations, cash flows or statement of stockholders' equity because we have a full valuation allowance on our deferred tax assets. Upon adoption, the Company recognized the previously unrecognized excess tax benefits using the modified retrospective transition method. The previously unrecognized excess tax effects were recorded as a deferred tax asset, which was fully offset by a valuation allowance. Without the valuation allowance, the Company's deferred tax assets would have increased by \$4.6 million.

As of December 31, 2017, the Company's federal NOL carryforwards of \$149.1 million will expire at various dates beginning in 2026, if not utilized, and federal research and development tax credits of \$4.4 million will begin to expire in 2026. In addition, NOL carryforwards for state income tax purposes of \$53.0 million will begin to expire in 2028 and state research and development tax credits of \$3.9 million do not expire.

Utilization of the NOL carryforwards may be subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of the NOL before utilization.

Due to the Company's full valuation allowance against all net deferred tax assets, the Company's unrecognized tax benefits, if recognized, would not affect the effective tax rate.

A reconciliation of the change in the unrecognized tax benefit during the year is as follows (in thousands):

	December 31,		
	2017	2016	2015
Beginning of year . . . . .	\$1,374	\$1,094	\$ 861
Additions for tax positions related to:			
Current year . . . . .	286	294	227
Prior years . . . . .	—	(14)	6
End of year . . . . .	<u>\$1,660</u>	<u>\$1,374</u>	<u>\$1,094</u>

The Company does not expect a significant change to its unrecognized tax benefits over the next twelve months.

The Company files income tax returns in the U.S. federal and various state jurisdictions. Tax years beginning in 2004 through 2017 remain open to examination by the major taxing authorities to which the Company is subject to. The Company's policy is to record interest related to uncertain tax positions as interest expense and any penalties as other expense in its statements of operations and comprehensive loss. The Company has not recorded any interest expense or penalties associated with unrecognized tax benefits.

### Supplemental Quarterly Financial Information (unaudited)

The following table sets forth unaudited statements of operations data for each of the Company's last eight quarters. This quarterly information is unaudited and has been prepared on the same basis as the annual financial statements. In the Company's opinion, this quarterly information reflects all adjustments necessary for a fair presentation of the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

	Fiscal Years Ended December 31,							
	2017				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue .....	\$20,474	\$23,985	\$22,313	\$29,529	\$16,692	\$19,317	\$18,468	\$24,231
Cost of sales .....	2,884	3,684	3,808	5,123	3,210	3,117	2,788	3,888
Gross profit .....	17,590	20,301	18,505	24,406	13,482	16,200	15,680	20,343
Gross margin .....	86%	85%	83%	83%	81%	84%	85%	84%
Operating expenses:								
Sales, general and administrative .....	20,319	18,682	18,746	22,298	17,393	17,795	17,905	19,833
Research and development .....	4,220	4,176	4,346	5,618	4,495	4,588	4,237	5,570
Total operating expenses ...	24,539	22,858	23,092	27,916	21,888	22,383	22,142	25,403
Loss from operations .....	(6,949)	(2,557)	(4,587)	(3,510)	(8,406)	(6,183)	(6,462)	(5,060)
Interest and other income, net .....	268	288	326	358	185	224	236	244
Net loss .....	<u>\$ (6,681)</u>	<u>\$ (2,269)</u>	<u>\$ (4,261)</u>	<u>\$ (3,152)</u>	<u>\$ (8,221)</u>	<u>\$ (5,959)</u>	<u>\$ (6,226)</u>	<u>\$ (4,816)</u>
Basic and diluted net loss per share ...	<u>\$ (0.23)</u>	<u>\$ (0.08)</u>	<u>\$ (0.15)</u>	<u>\$ (0.11)</u>	<u>\$ (0.29)</u>	<u>\$ (0.21)</u>	<u>\$ (0.22)</u>	<u>\$ (0.17)</u>
Shares used to compute basic and diluted net loss per share .....	<u>28,708</u>	<u>28,950</u>	<u>29,269</u>	<u>29,538</u>	<u>28,207</u>	<u>28,379</u>	<u>28,479</u>	<u>28,610</u>

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**INTERSECT ENT, INC.**  
**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**  
**(in thousands)**

	Fiscal Years Ended December 31,		
	2017	2016	2015
<b>Allowance for doubtful accounts:</b>			
Beginning .....	\$ 162	\$ 86	\$ —
Charges .....	62	155	92
Write-offs .....	(74)	(79)	(6)
Ending .....	<u>\$ 150</u>	<u>\$ 162</u>	<u>\$ 86</u>

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## SENIOR LEADERSHIP

Lisa D. Earnhardt  
President, Chief Executive Officer and Director

Jeryl L. Hilleman  
Chief Financial Officer

Gwen R. Carscadden  
Chief People Officer

Richard E. Kaufman  
Senior Vice President, Chief Operating Officer

David A. Lehman  
General Counsel

## BOARD OF DIRECTORS

Kieran T. Gallahue (Lead Director)  
Former Chairman and Chief Executive Officer  
CareFusion Corporation

Lisa D. Earnhardt  
President and Chief Executive Officer  
Intersect ENT, Inc.

Teresa L. Kline  
Executive Vice President  
Henry Ford Health System  
President and Chief Executive Officer  
Health Alliance Plan

Cynthia L. Lucchese  
Chief Administrative Officer and Chief Financial Officer  
Hulman & Company

Dana G. Mead, Jr.  
President and Chief Executive Officer  
Beaver-Visitec International

Frederic H. Moll, M.D.  
Chairman and Chief Executive Officer  
Auris Surgical Robotics, Inc.

W. Anthony Vernon  
Former Chief Executive Officer and Director  
Kraft Foods Group, Inc.

## ANNUAL MEETING OF STOCKHOLDERS

Held at 9:00 a.m. on June 5, 2018  
at the Company's Headquarters at  
1555 Adams Drive  
Menlo Park, CA 94025

## TRANSFER AGENT AND REGISTRAR

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P.O. Box 505000  
Louisville, KY 40233  
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Local & International: +1 (781) 575 3100  
Email: [web.queries@computershare.com](mailto:web.queries@computershare.com)  
Website: [www.computershare.com](http://www.computershare.com)

## CORPORATE HEADQUARTERS

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1555 Adams Drive  
Menlo Park, CA 94025  
Phone: (650) 641-2100  
Fax: (650) 641-2120

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP  
275 Shoreline Drive, Ste 600  
Redwood City, CA 94065

## OUTSIDE COUNSEL

Cooley LLP  
3175 Hanover Street  
Palo Alto, CA 94304

## INVESTOR INFORMATION

Exchange: The NASDAQ Global Market  
Symbol: XENT

## COMPANY INQUIRIES

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