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, 2018

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 No. 001-37463

GLAUKOS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**33-0945406**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
229 Avenida Fabricante **San Clemente, California** (Address of principal executive office)	**92672** (Zip Code)

(949) 367-9600

(Registrant's telephone number, including area code)

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

Common Stock, $0.001 par value per share	**New York Stock Exchange**
(Title of each class)	(Name of each exchange on which registered)

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 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 the 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, or a smaller reporting company. (See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

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

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

As of June 29, 2018, the last business day of the registrant's most recently completed second quarter, the aggregate market value of common stock held by non-affiliates of the registrant, based on the closing sales price for the registrant's common stock as reported on The New York Stock Exchange, was $1,380 million.

The number of shares of the Registrant's common stock outstanding as of February 26, 2019 (latest practicable date) was 36,157,731 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2019 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's fiscal year ended December 31, 2018.

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We use *Glaukos* , our logo, *iStent* , *iStent inject* , *iStent Infinite* , *iStent SA* , *iStent Supra* , *iPrism* , *iDose* , *MIGS* and other marks as trademarks. This report contains references to our trademarks and service marks and to those belonging to other entities. Solely for convenience, trademarks and trade names referred to in this report, including logos, artwork and other visual displays, may appear without the ® or ™ symbols, but such references are not intended to indicate in any way that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these trademarks and trade names. We do not intend our use or display of other entities' trade names, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, any other entity.

References throughout this document to "we," "us," "our," or "Glaukos" refer to Glaukos Corporation and its consolidated subsidiaries.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). These statements are based on management's beliefs and assumptions and on information currently available to management. Some of the statements under Item 1 - "Business," Item 1A - "Risk Factors," Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report on Form 10-K contain forward-looking statements. In some cases, you can identify forward-looking statements by the following words: "may," "will," "could," "would," "should," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "project," "potential," "continue," "ongoing" or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words.

These statements involve risks, uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Although we believe that we have a reasonable basis for each forward-looking statement contained in this report, we caution you that these statements are based on a combination of facts and factors currently known by us and our projections of the future, about which we cannot be certain.

In addition, you should refer to the "Risk Factors" section of this report for a discussion of other important factors that may cause actual results to differ materially from those expressed or implied by the forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this report will prove to be accurate. Furthermore, if the forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

This Annual Report on Form 10-K contains market data and industry forecasts that were obtained from industry publications. These data involve a number of assumptions and limitations, and you are cautioned not to give undue weight to such information. Although we believe that the industry publications on which the market and industry statements are based are reliable and we are not aware of any misstatements regarding any market data or industry forecasts presented herein, we have not independently verified any of the third party information. Statements in this Annual Report on Form 10-K regarding our market position, market opportunity, market size and our general expectations involve risks and uncertainties and are subject to change based on various factors, including those discussed under Item 1A - "Risk Factors" and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

Overview

We are an ophthalmic medical technology and pharmaceutical company focused on the development and commercialization of novel surgical devices and sustained pharmaceutical therapies designed to treat glaucoma, one of the world's leading causes of blindness. We developed Micro-Invasive Glaucoma Surgery (MIGS) to serve as an alternative to the traditional glaucoma treatment and management paradigms. We launched the *iStent* , our first MIGS device, in the United States in July 2012 and launched our next-generation *iStent inject* device in September 2018. We are also developing additional products and platforms designed to treat the full range of glaucoma progression.

Glaucoma is a group of eye diseases characterized by progressive, irreversible and largely asymptomatic vision loss caused by optic nerve damage which is most commonly associated with elevated levels of pressure within the eye, or intraocular pressure. Elevated intraocular pressure often occurs when aqueous humor, the thin watery fluid that fills the front part of the eye, is not circulating normally and draining properly. Glaucoma is a chronic condition that progresses slowly over long periods of time and can have a devastating impact on a patient's vision and quality of life.

Reducing intraocular pressure is the only proven treatment for glaucoma. Glaucoma has traditionally been treated through a range of approaches that often require patients to use multiple types of prescription eye drops for the rest of their lives, and sometimes undergo complex and invasive eye surgery. Unfortunately, these medications can be ineffective over time due to patient noncompliance and other factors. Complex and invasive glaucoma surgical options are typically reserved for more advanced glaucoma and have remained largely unchanged since the 1970's.

We developed MIGS to address the shortcomings of traditional glaucoma treatment options. MIGS procedures involve the insertion of a micro-scale device or drug delivery system from within the eye's anterior chamber through a small corneal incision. Our MIGS devices are designed to reduce intraocular pressure by restoring the natural outflow pathways for aqueous humor. Our MIGS drug delivery systems are designed to reduce intraocular pressure by continuously eluting a glaucoma drug from within the eye, potentially providing sustained pharmaceutical therapy for extended periods of time.

Our *iStent* , a trabecular micro-bypass stent that is designed to reduce intraocular pressure by restoring the natural physiologic pathways for aqueous humor, was the first commercially available MIGS treatment solution. Our next generation *iStent inject* , includes two stents pre-loaded in an auto-injection inserter that are also designed to lower intraocular pressure. The *iStent* and *iStent inject* are approved by the United States Food and Drug Administration (U.S. FDA) for insertion in combination with cataract surgery and are currently reimbursed by Medicare and all major national private payors. The *iStent* and *iStent inject* are also commercially available in select markets outside the U.S. In these non-U.S. markets, they are approved for use in conjunction with cataract surgery or as a standalone procedure, even though reimbursement may not always be available for all such procedures.

We are developing additional *iStent* pipeline products: the *iStent Infinite,* the *iStent Supra* , and the *iStent SA* . The *iStent Infinite* , which includes three stents pre-loaded in an auto-injection inserter and is intended to lower intraocular pressure in refractory glaucoma patients in a standalone procedure, is currently being evaluated in a U.S. investigational device exemption (IDE) study. The *iStent Supra* is designed to reduce intraocular pressure by accessing an alternative drainage space within the eye and is being evaluated in combination with cataract surgery in a U.S. pivotal IDE trial, which completed enrollment in 2017. Similar in design to the *iStent inject* , the *iStent SA* is a two-stent product that uses a different auto-injection inserter and is designed for use in a standalone procedure.

We are also pursuing regulatory approval of our first sustained pharmaceutical therapy using our *iDose* drug delivery system. A U.S. investigational new drug (IND) Phase II study of our initial *iDose* platform product, *iDose Travoprost* , completed enrollment in 2017 and U.S. Phase III clinical trials for this product commenced in 2018. We are also conducting research and development (R&D) activities to explore other potential drugs that may benefit from the use of the *iDose* drug delivery system. In addition, other proprietary R&D efforts are underway on early-stage technologies, including, without limitation, an intraocular pressure (IOP) sensor system that is designed to capture and

store a glaucoma patient's short-interval IOP measurements over extended periods of time, and transmit data to the patient's physician in order to enhance treatment decisions.

We have a commercial organization which includes a direct sales force in the United States and 16 other countries, as well as distribution partners in regions of Europe, Asia Pacific, Latin America and other targeted international geographies. Information about geographic revenue is set forth in Note 11 of our notes to consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Our net sales increased to $181.3 million in 2018 from $159.3 million in 2017 and $114.4 million in 2016, and we incurred a net loss of $13.0 million for the year ended December 31, 2018, compared with a net loss of $0.1 million for the year ended December 31, 2017, and net income of $4.5 million for the year ended December 31, 2016.

Glaucoma Treatment Overview and Limitations

Glaucoma and the eye's drainage system

Glaucoma is a group of eye diseases characterized by progressive, irreversible and largely asymptomatic vision loss in which elevated levels of intraocular pressure are often associated with optic nerve damage. While some glaucoma patients do not experience an increase in intraocular pressure, it is widely considered a major risk factor in glaucoma's progression and reduction in intraocular pressure is the only clinically proven treatment. Elevated intraocular pressure occurs when aqueous humor is not circulating normally or properly draining from the front part of the eye. Normally, this fluid flows through the trabecular meshwork, an area of spongy mesh-like tissue in the eye located around the base of the cornea, and into Schlemm's canal, a circular channel in the eye that collects the aqueous humor and delivers it back into the bloodstream. This trabecular meshwork pathway is also known as the conventional outflow pathway.

A second outflow pathway is located in the suprachoroidal space, which lies between the sclera and the choroid, where we estimate 20% of the eye's total aqueous humor outflow occurs. This pathway is also known as the unconventional or uveoscleral pathway. The suprachoroidal space is characterized as an area of less venous resistance to aqueous humor outflow than Schlemm's canal.

Open-angle glaucoma is the most common type of glaucoma. In open-angle glaucoma, structures of the eye may appear normal, but aqueous humor outflow through the trabecular meshwork and into Schlemm's canal is reduced due to gradual degeneration and obstruction causing a permanent and progressive loss of retinal cells and associated vision loss. Direct causes of this blockage are unknown, but the disease is linked to age, ethnicity and hereditary factors. Loss of aqueous humor drainage leads to increased resistance and thus a chronic, painless buildup of pressure in the eye.

Glaucoma is a progressive disease that can be categorized based on severity levels ranging from ocular hypertension (or pre-glaucoma) to severe glaucoma. An eye doctor usually diagnoses glaucoma as part of a comprehensive exam that includes measuring intraocular pressure and corneal thickness, evaluating optic nerve damage and testing visual fields. Intraocular pressure is measured in millimeters of mercury (mm Hg), with normal eye pressures ranging from 10 to 21 mm Hg. Glaucoma is typically characterized by an intraocular pressure greater than 21 mm Hg.

Glaucoma treatment overview

The traditional treatment of glaucoma encompasses a variety of medication regimens, laser treatments and surgical procedures to lower intraocular pressure.

Multiple clinical trials have shown that medications can reduce intraocular pressures to baseline targets that can minimize vision loss. However, poor adherence to, and lack of persistence with, glaucoma medication regimens have been documented in numerous independent studies, which often place the incidence of patient noncompliance up to or above 50%, particularly in patients on two or more prescription eye drops. Even daily, single glaucoma medication use has been associated with noncompliance rates as high as 75%.

Because glaucoma progresses slowly and with few symptoms, patients often do not adhere to their medication regimens as prescribed until the disease has progressed to the point of significant vision loss. As a result, despite the availability of medication therapies to combat glaucoma, progressive visual loss and blindness still occur.

Laser treatments have been developed to provide an alternative to lifelong medication treatments. Typically performed at an outpatient surgical center, these treatments involve the use of lasers to create changes in eye tissue and improve aqueous humor outflow. Ophthalmic surgeons may perform laser procedures as an initial treatment or for patients who are noncompliant with prescription eye drops or whose intraocular pressure is not well controlled by medications. According to Market Scope, selective laser trabeculoplasty (SLT) is the most frequently performed glaucoma laser procedure in the United States. Although SLT can help to lower intraocular pressure, the procedure's effectiveness often wears off within one to five years according to the Glaucoma Research Foundation. While additional laser procedures can be performed, the results can be less predictable and less effective than those of the first procedure. Additionally, medication therapy may still be required post-treatment.

Where medication therapy and laser treatment are unsuccessful in managing glaucoma, invasive surgeries such as trabeculectomies or implantation of tube shunts are performed, usually as outpatient procedures. In a trabeculectomy, the surgeon cuts open the conjunctiva and sclera to create flaps, removes a plug of scleral tissue and sometimes a portion of the trabecular meshwork to create an opening into the anterior chamber. The conjunctiva and scleral flaps are sutured back down and a small blister, or bleb, is created between the conjunctiva and sclera. The surgery results in a new drainage channel that allows increased outflow of aqueous humor into the bleb. While some patients experience significant reductions in intraocular pressure, trabeculectomy failure rates can approach 50% according to published research. A common complication is scarring, which can prevent fluid drainage from the eye and interfere with the proper function of the bleb. If the bleb doesn't work properly, more surgery may be needed. Among the other complications associated with trabeculectomies are blurred vision, bleeding in the eye, bleb leaks, low intraocular pressure or hypotony, infection, persistent corneal edema, choroidal detachment and cataract development. Implantations of tube shunts, devices that divert the aqueous humor from the anterior chamber, are generally reserved for eyes in which a trabeculectomy has failed or has a poor likelihood of success. A tube shunt surgery is similar to a trabeculectomy, except that the device's tube is inserted through the scleral channel to maintain the channel and the device's reservoir end is placed deep under the conjunctiva to maintain the drainage space. While invasive glaucoma surgery often leads to significant reductions in intraocular pressure, it is associated with high long-term failure rates, long recovery times and significant complication risks. Additionally, as with laser treatment, the effects may dissipate over time, requiring additional procedures, and medication therapy may still be required post-treatment.

Our Products

iStent trabecular micro-bypass stent . We launched our first micro-scale MIGS treatment solution, the *iStent* , in the United States following FDA approval in June 2012. The *iStent* was the first FDA-approved surgical device available for insertion in conjunction with cataract surgery for the reduction of intraocular pressure in adult patients with mild-to-moderate open-angle glaucoma. The *iStent* is a micro-bypass stent made of surgical-grade non-ferromagnetic titanium that is coated with heparin and is 1.0 mm long and 0.33 mm wide. Packaged in a sterile, pre-loaded configuration, the *iStent* is inserted through the small corneal incision made during cataract surgery and placed into Schlemm's canal. Once inserted, the *iStent* is designed to improve aqueous humor outflow while fitting naturally within Schlemm's canal. The ergonomic rail design protects and accesses underlying collector channels while the *iStent* 's three retention arches help ensure secure placement. The *iStent* is currently approved in the United States only for insertion in conjunction with cataract surgery because this was the subject population evaluated in the U.S. IDE pivotal trial that was included in the pre-market approval (PMA). The *iStent* procedure is currently reimbursed in the U.S. by Medicare and all major national private payors. The *iStent* is also commercially available in certain European Union countries, Brazil, Canada, Australia, Japan and other countries, even though reimbursement may not always be available for all such procedures.

iStent inject trabecular micro-bypass stent. In June 2018, the FDA approved the *iStent inject* for the reduction of intraocular pressure in mild-to-moderate open-angle glaucoma in combination with cataract surgery and we commenced a U.S. launch in September 2018. The *iStent inject* includes two stents pre-loaded in an auto-injection system designed to allow the surgeon to inject stents into multiple trabecular meshwork locations through a single corneal entry. The *iStent inject* is FDA-approved for insertion in combination with cataract surgery, and the procedure is currently reimbursed by Medicare and all major national private payors. Each *iStent inject* stent is approximately one-third the size of the *iStent* and relies on a similar fluidic method of action to improve aqueous humor outflow into Schlemm's canal. The *iStent inject* has also been approved for marketing in the European Union, Canada, Brazil,

Australia and certain other countries. In these non-U.S. markets, it is approved for use in conjunction with cataract surgery or as a standalone procedure, even though reimbursement may not always be available for all such procedures.

Our Pipeline

We are developing several pipeline products: the *iStent Infinite* , the *iStent Supra,* the *iStent SA,* and *iDose Travoprost* .

iStent Infinite trabecular micro-bypass system. Th *e iStent Infinite* is designed for use as a standalone procedure in patients with refractory glaucoma. The *iStent Infinite* consists of three stents that are pre-loaded in an auto-injection system that allows the surgeon to inject stents across a wider span of Schlemm's canal. In 2018, we commenced an IDE study of *iStent Infinite* in order to pursue FDA clearance through a 510(k) pre-market submission. We have not commercialized the *iStent Infinite.*

iStent Supra suprachoroidal micro-bypass stent. The *iStent Supra* is designed to reduce intraocular pressure by accessing the suprachoroidal space in the eye, an area that we estimate is responsible for 20% of the eye's total aqueous outflow. Enrollment for the U.S. pivotal IDE trial for the *iStent Supra* used in conjunction with cataract surgery was completed in 2017 and the two-year follow-up will conclude in 2019. The *iStent Supra* device has been approved for marketing in the European Union and certain other countries, primarily in the Middle East. There has not been a commercial launch of the *iStent Supra* .

In August 2018, Alcon, Inc. withdrew from the market its Cypass ® suprachoroidal implant, a competitive MIGS device that is also designed to be implanted in the suprachoroidal space of the eye, due to patient safety concerns that arose in a post-approval safety study. The FDA, and other federal, state, local and foreign regulatory authorities, may impose more stringent or higher standards in evaluating the *iStent Supra* for approval based upon the safety issues experienced with the Cypass ® device. There is also a risk that the potential market for a suprachoroidal device has significantly narrowed and physicians may choose not to use our *iStent Supra* product if and when it is approved and commercially launched because of concerns over patient safety similar to those related to the Cypass ® implant, which could limit our potential for increased revenue and sales growth attributable to this product.

iStent SA trabecular micro-bypass system. The *iStent SA* is designed for use as a standalone glaucoma procedure. Similar in design to the *iStent inject* , the *iStent SA* is a two-stent product that uses a different auto-injection inserter designed for use in a standalone procedure. The system allows the surgeon to inject stents into multiple trabecular meshwork locations through a single corneal entry point and is designed to make its own self-sealing corneal needle penetration in order to achieve insertion without an incision. In order to prioritize clinical development work with the *iDose Travoprost* product we have repurposed our investigator sites initially designated for the *iStent SA* U.S. pivotal IDE trial to the *iDose Travoprost* trials. We intend to evaluate the *iStent SA* for the reduction of intraocular pressure in pseudophakic mild-to-moderate open-angle glaucoma patients when the *iDose Travoprost* trials are fully enrolled. Pseudophakic refers to patients who have previously undergone cataract surgery and no longer have a natural crystalline lens. We have not commercialized the *iStent SA.*

iDose. The *iDose* drug delivery system is a targeted injectable implant that is based on our micro-scale device-platform designed to be pre-loaded into a small gauge needle and injected into the eye via a self-sealing corneal needle penetration, where it is secured within the eye. Once secured in the eye, the *iDose* implant is designed to continuously deliver therapeutic levels of medication from within the eye for extended periods of time. The titanium implant is similar in size to our other proprietary MIGS devices. The implant is capped with a membrane that is designed for continuous controlled drug elution into the anterior chamber. When depleted, the implant can be removed and replaced in a similar, subsequent procedure. We designed the product to be an alternative to chronic, daily topical glaucoma medication use, which is shown to have high rates of patient noncompliance and may cause long-term ocular surface damage to glaucomatous eyes.

In November 2015, we submitted an IND application to the FDA seeking authorization to study our initial *iDose* platform product, *iDose Travoprost* , for investigational use in the reduction of elevated intraocular pressure in patients with glaucoma. In December 2015, the FDA notified us that it was allowing the Phase II IND clinical trial to

proceed. In this Phase II clinical trial, the *iDose Travoprost* implant was filled with a special formulation of travoprost, a prostaglandin analog used to reduce elevated intraocular pressure. In 2017, we completed the 154-patient, randomized, 12-week masked Phase II clinical trial, which was designed to assess the safety and preliminary efficacy of two models of *iDose Travoprost* with different travoprost elution rates compared to topical timolol maleate ophthalmic solution, 0.5% and conducted an End-of-Phase II meeting with the FDA. We commenced our Phase III IND clinical trials for *iDose Travoprost* in 2018. We have not commercialized the *iDose Travoprost.*

Research & Development

Our research and development efforts are focused primarily on continuous improvement of our *iStent* devices, *iDose* drug delivery systems, related injector systems and development of new innovations that are based on our proprietary MIGS surgical and sustained pharmaceutical therapy platforms. Our research and development objectives are:

- To advance glaucoma patient care through continuous improvement of our MIGS platforms by providing viable MIGS alternatives to lifelong medication regimens and invasive surgical procedures for intraocular pressure management;
- To introduce micro-scale injectable therapies that can be performed in minor surgical suites or in-office settings with topical anesthetic; and
- To leverage our expertise in micro-scale design and continue to expand our core research and development capabilities in order to identify and develop additional micro-invasive ophthalmic innovations that complement our existing product offerings and address important unmet clinical needs.

Clinical

Clinical trials are one of the final stages of our research and development process for our pipeline and approved products. Our clinical trials are designed primarily to evaluate the safety and efficacy of a device or combination drug and device product, that is in development. These trials also provide valuable information on which devices or procedures work best for certain groups of people or certain disease stages and possible adverse events. Every clinical trial has a protocol that specifies how the trial must be conducted at each study site, why the trial is necessary, and the guidelines and eligibility criteria for who can and cannot participate in the trial. The results of clinical trials are used by the U.S. FDA and foreign regulatory bodies to determine whether to approve a new device, and used by healthcare providers to determine the appropriate course of treatment for their patients. The results of post-approval clinical trials are used to continue to monitor the safety and effectiveness of our products. Clinical trial costs include submissions to institutional review boards and ethics committees, evaluation, training and monitoring of investigational study sites, payments to investigational sites for their protocol-specified patient treatment and measurements and data collection, subject recruitment costs, data management, data analyses and generation of study reports.

Our research and development process is supported by multiple clinical trials and regulatory affairs activities. We expect our research and development and clinical expenditures to continue to increase as we continue to devote significant resources to clinical trials and regulatory approvals of our new products.

Sales and Marketing

In the United States, we sell our products through a direct sales organization that includes primarily regional business managers, sales directors, marketing professionals and reimbursement specialists. Our sales organization is primarily responsible for training ophthalmic surgeons on the *iStent* and *iStent inject* procedures, helping these physicians integrate the technology into their practices and providing resources to support reimbursement. We continue to recruit experienced sales professionals with extensive sales and/or clinical experience in ophthalmic medical technologies.

We invest significant time and expense to provide comprehensive training to our sales professionals so that they are proficient in all aspects of our *iStent* and *iStent inject* technologies, including features and benefits, procedure

techniques and reimbursement. In addition, we provide technical education regarding the eye's anatomy, glaucoma diagnosis, disease states and treatment, and cataract surgery.

Outside the United States, we sell our products through direct sales organizations in 16 countries and a network of distribution partners in other markets. As of December 31, 2018, our direct sales organization outside the United States consisted of 88 commercial professionals. We continually monitor our international sales progress and consider conversion to a direct sales approach on a country-by-country basis, depending on our assessment of market conditions, net sales and profitability trends, reimbursement coding and coverage potential, and other factors. As of December 31, 2018, we had agreements with approximately 19 distributor organizations. No single distributor accounted for more than 10% of our total net sales for the years ended December 31, 2018, December 31, 2017 or December 31, 2016.

Our global sales efforts and promotional activities are currently aimed at ophthalmic surgeons and other eye care professionals. Our primary customers include hospitals and ambulatory surgery centers (ASCs).

Reimbursement

United States reimbursement

Reimbursement for iStent and iStent inject procedures

There are three key aspects of reimbursement in the United States:

- Coding refers to distinct numeric and alphanumeric billing codes that are used by healthcare providers to report the provision of medical procedures and the use of supplies for specific patients to payors. There are different categories of Current Procedural Terminology (CPT) codes (Category I, II and III) based on the procedure or supply.
- Coverage refers to decisions made by individual payors as to whether or not to pay for a specific procedure and related supplies and if so, under what conditions (*i.e.* , for which specific diagnoses and clinical indications). Payors typically base coverage decisions on reviews of the published medical literature.
- Payment refers to the amount paid to providers for specific procedures and supplies. Payment is generally determined for the specific billing code and, in addition, there may be separate numeric codes, under which the billing code is classified, to establish a payment amount.

In 2008, in consultation with and with the approval of the American Academy of Ophthalmology, we applied for and received a temporary Category III CPT code to describe insertion of devices such as the *iStent* using MIGS procedures.

Category III codes expire five years after the date they become effective. Prior to expiration, there are two options: submit an application to convert to a Category I code; or submit an application for a five-year extension of Category III status. CPT code 0191T, which describes the insertion of the *iStent,* as well as the *iStent inject, iStent SA,* and *iStent Infinite* devices, was first effective in 2008 and our most recent application for an additional extension was approved in early 2017 and expires on December 31, 2023.

The *iStent* and *iStent inject* are approved by the FDA for reduction of intraocular pressure in adult patients with mild-to-moderate open-angle glaucoma undergoing cataract surgery who are currently treated with prescription eye drops. Based on data released by Centers for Medicare & Medicaid Services (CMS) regarding total cataract surgery volume in the Medicare Fee for Service program and data published by Market Scope, we estimate that Medicare pays for approximately 80% of all cataract surgeries performed in the United States.

We estimate that 20% of patients who meet the FDA indication for *iStent* or *iStent inject* insertion are covered by private health insurance companies and we have secured coverage policies for *iStent* and *iStent inject* insertion with all major national private payors.

iStent and *iStent inject* insertion in the United States is almost always performed in an outpatient setting and virtually all U.S. *iStent* sales are to ASCs and hospital outpatient departments (HOPDs). National payment rates by

Medicare to ASCs and HOPDs are determined each year through a complex formula, which takes into account reported costs for each claim submitted. When two procedures are performed in an ASC on the same patient on the same day (*e.g.* , *iStent* insertion and cataract surgery), Medicare reduces the payment of the lower-paying procedure by 50%. The ASC facility payment for cataract surgery is generally lower than the payment for *iStent* insertion. Therefore, when these two procedures are performed together in an ASC, the payment for cataract surgery is reduced by 50%.

For *iStent* and *iStent inject* insertion and cataract procedures performed in HOPDs, the Medicare fee-for-service facility reimbursement is a single, all-inclusive payment. We estimate that approximately 25% of U.S. *iStent* procedures are currently performed in HOPDs and that a majority of these procedures are reimbursed through traditional Medicare fee-for-service.

Physicians are paid separately from the facility for surgical procedures. Unlike the CPT code used to pay facilities for *iStent* insertion, there is no published Medicare payment schedule at the national level for the physician payment, leaving the amount of such payment to the discretion of the individual Medicare contractor.

Unlike Medicare, commercial payors do not publish fee schedules. In general, based on selected feedback from facilities and surgeons, payments for *iStent* insertion from the commercial payors who cover the procedure are generally comparable to local Medicare payments.

Reimbursement for additional trabecular meshwork stents

Our application for a CPT code to describe the insertion of additional trabecular meshwork stents (as with the FDA-approved and commercialized *iStent inject* , as well as *iStent SA* and *iStent Infinite* pipeline products) was approved by the American Medical Association (AMA) in early 2014, resulting in the creation of Category III CPT code 0376T. While this code was available beginning on January 1, 2015 for the reporting of procedures in which more than one *iStent* is inserted in the same eye, it currently does not result in any incremental facility payment from Medicare. In addition, it is unclear whether any other third-party payor will provide reimbursement for the insertion of a second stent or that a professional fee payment for a second stent will be adequate. Our application for an extension of the Category III status of code 0376T was approved in early 2017 and expires on December 31, 2023.

Reimbursement for future products

Our application for a CPT code to describe insertion of the *iStent Supra* was approved by the AMA in 2011 resulting in the creation of a Category III CPT code 0253T. Our application for another extension of the Category III status of code 0253T was approved in early 2017 and expires on December 31, 2023. We have not yet filed any applications for CPT codes that describe our *iDose* drug delivery system.

Reimbursement outside the United States

Outside the United States, reimbursement levels vary significantly by country and by region within some countries. Reimbursement is obtained from a variety of sources, including government-sponsored and private health insurance plans, and combinations of both. Some countries require additional clinical data before granting or expanding coverage and reimbursement for our products. In general, obtaining broad-based reimbursement and adequate payment for new technologies is more difficult in these markets than in the United States. Many countries require new medical technologies to not only be safe and effective, but also to be able to demonstrate clinical benefits that outweigh the costs when compared to the standard of care.

In some countries, applications for reimbursement can be approved, but additional approvals or negotiations for payment have to be obtained. For example, in France, our customers can obtain reimbursement from the government by obtaining a code that describes *iStent* insertion. Certain customers, including hospitals, can obtain an incremental facility fee if the *iStent* were to be included on the list of devices approved for pass-through payment. In 2013, our application for a code to describe *iStent* insertion and our application to add the *iStent* to the list of devices approved for pass-through payment were denied. Following publication of data on *iStent inject* , we submitted new applications for both devices in 2014. In November 2015, the French government approved the *iStent* application for reimbursement, but since the *iStent* had not been added to the list of devices approved for pass-through payment, the incremental facility payment

had never been paid. In 2018, we submitted an application to have the *iStent inject* added to the list of devices approved for pass-through payment (the liste en sus). This request was approved in September 2018 with an effective date in the first quarter of 2019.

As in the United States, reimbursement decisions can change, resulting in the elimination or reduction of reimbursement payments. Governments and private health plans regularly assess and propose changes to their coverage and reimbursement policies. Some of these policies could deny coverage for the MIGS procedures using the *iStent* or *iStent inject* , or our pipeline products in the future. Changes in existing policies impact the profit margin of the hospital or surgery center where the surgery is performed and increase costs to customers. Any decline in the amount foreign governments or third party payors are willing to reimburse our customers, or denial of coverage or reimbursement, for MIGS procedures could make it difficult for existing customers to continue using, or new customers to adopt, any of our *iStent* devices and could create additional pricing pressure for us in these international markets. If we were forced to lower the price we charge for our products, our gross margins would decrease, which would adversely affect our financial results and our ability to invest in and grow our business.

Competition

Until recently, our *iStent* was the only MIGS device approved for sale in the United States by the FDA. Thus, for several years we had commercialized the *iStent* in the United States without any direct MIGS competitors. Alcon, Inc. obtained FDA approval and commenced a commercial launch of its Cypass ® suprachoroidal implant, a competitive MIGS device, in 2016. Although Alcon withdrew its Cypass ® implant from the market in August 2018, it has indicated its intention to potentially reintroduce the product at a later date. In 2018, Ivantis Inc. obtained FDA approval of its Hydrus Microstent device, which is a trabecular meshwork implant that is indicated for use in conjunction with cataract surgery for the reduction of intraocular pressure in adult patients with mild-to-moderate primary open-angle glaucoma. These MIGS products, or other products that may be developed and receive regulatory approval, could achieve greater commercial acceptance, demonstrate better safety or effectiveness, clinical results, ease of use or lower costs than our *iStent, iStent inject* or our other products under development, which may reduce demand for our primary products, the *iStent* , and *iStent inject* as well as for our products in development.

We also compete with other glaucoma therapies such as pharmaceuticals and other medical devices. Manufacturers of medical devices used in surgical therapy procedures for treating glaucoma include Alcon, Inc., Johnson & Johnson (through its acquisition of Abbott Medical Optics Inc.), Allergan plc (through its acquisition of AqueSys, Inc. and its Xen ® Glaucoma Treatment System), STAAR Surgical Company, Lumenis Ltd., NeoMedix, Inc., New World Medical, Inc., Iridex Corporation and Ellex Medical Lasers Limited. These and other manufacturers provide a variety of surgical products, including tubes, aqueous shunts, laser systems, trabeculotomy, blades and other filtration devices. We are aware of other companies, including, but not limited to, Santen Pharmaceutical Co., Ltd. (which acquired InnFocus, Inc.) and iSTAR Medical SA, that are conducting clinical trials or have filed for regulatory approval of glaucoma treatment devices.

Many of our current and potential competitors (including MIGS competitors) are large publicly traded companies or divisions of publicly-traded companies and have several competitive advantages, including:

- greater financial and human resources for product development, sales and marketing and patent litigation;
- significantly greater name recognition;
- longer operating histories;
- established relationships with healthcare professionals, customers and third-party payors;
- additional lines of products and the ability to offer rebates or bundle products to offer higher discounts or incentives;
- more established sales and marketing programs and distribution networks; and

- greater experience in conducting research and development, manufacturing, clinical trials, preparing regulatory submissions and obtaining regulatory clearance or approval for drug and device products and marketing approved products.

In addition to competing for market share for our products, we also compete against these companies for personnel, including qualified sales representatives that are necessary to grow our business, as well as scientific and clinical personnel from universities and research institutions that are important to our research and development efforts.

We believe the principal factors on which our products compete include:

- improved outcomes for glaucoma;
- exceptional safety profile;
- acceptance by ophthalmic surgeons;
- ease of use and reliability;
- product price and availability of reimbursement;
- technical leadership;
- effective marketing and distribution; and
- speed to market.

Facilities, Manufacturing and Distribution

Our corporate headquarters and our manufacturing operations are located in an approximately 98,000 square foot campus in San Clemente, California which is comprised of two main buildings. This location serves as our sole manufacturing location where we manufacture, inspect, package, release and ship nearly all of our final products. We maintain finished goods inventory in San Clemente, California; Memphis, Tennessee; Europe and certain other international locations. All of our headquarters-based employees, including our manufacturing and distribution employees, work at this campus. While these facilities are sufficient for our current needs, in the fourth quarter of 2018, we entered into an office building lease pursuant to which we will lease one property containing three existing office buildings, comprising approximately 160,000 rentable square feet of space, located in Aliso Viejo, California (Aliso Facility). The term of the lease will commence on May 1, 2019 and continue for thirteen years. We intend to relocate our corporate administrative headquarters, along with certain laboratory, research and development and warehouse space, to the Aliso Facility. We currently intend to maintain manufacturing facilities at our San Clemente location for the foreseeable future. Our international subsidiaries also lease facilities in Australia, Brazil, Canada, Germany, Japan and the United Kingdom.

We manufacture, inspect, package and ship finished products from our San Clemente facility. We source components used in our proprietary manufacturing process from outside vendors and we assemble them to produce *iStent* and *iStent inject* devices and disposable insertion instruments. These components include both off-the-shelf materials and custom made parts. The *iStent* and *iStent inject* devices and some insertion instrument and other components are supplied by single vendors, and in some cases there may not be alternate suppliers who are capable or qualified to supply such devices and components in a timely manner, or at all. The loss of any of these suppliers, or their inability to provide us with an adequate supply of materials or components, could prevent us from manufacturing and selling our products, causing significant harm to our business.

Our manufacturing processes must be validated as required by the FDA and other regulatory bodies. As a medical device and combination drug/device manufacturer, our manufacturing facility and the facilities of our critical suppliers are subject to periodic inspection by the FDA and other regulatory agencies.

Intellectual Property

The strength of our competitive position depends substantially upon our ability to obtain and enforce intellectual property rights protecting our technology both domestically and internationally. We rely on a combination of intellectual property rights, including patents, trademarks, service marks, copyrights, trade secrets and other similar intellectual property, as well as customary contractual protections and security measures used to protect our proprietary, trade secret information.

In the aggregate, our intellectual property assets are of material importance to our business. We are significantly dependent on our patent and other intellectual property rights and the failure to protect such rights or succeed in litigation could negatively impact our ability to sell current or future products, or prohibit us from enforcing our patents or other intellectual property rights against others. For additional information see "Risks Related to Our Intellectual Property."

As of December 31, 2018, we owned or exclusively licensed in certain fields of use over 200 issued patents, pending U.S. patent applications, issued foreign patents and pending foreign patent applications. We may, from time to time, choose to acquire or license additional patents and patent applications, or we may choose to abandon, sell, or license certain Company patents and patent applications, depending on our needs. Our issued patents that protect our commercial products and current product pipeline will expire between 2020 and 2038. While we have pursued and continue to pursue patent protection for our existing and pipeline technologies in the U.S. and certain jurisdictions abroad, we do not know how many of our pending patent applications will result in the issuance of patents or the extent to which the examination process could require us to narrow our claims. In addition, any of our issued patents may be successfully challenged and invalidated or found to lack the scope necessary to prevent a competitor from entering the marketplace.

The ophthalmology industry in which we operate has been subject to a large number of patent filings and patent infringement litigation. If an infringement allegation is made against us, we may seek to invalidate the asserted patent claim and may allege non-infringement of the asserted patent claim. Also, for business reasons, we may take similar actions before any such infringement allegation is made. In order for us to invalidate a U.S. patent claim, we would need to rebut the presumption of validity afforded to issued patents in the United States with clear and convincing evidence of invalidity, which is a high burden of proof. Similar or greater effort and proof may be required to invalidate foreign patents owned by third parties, including those owned by our competitors.

In some circumstances, we may rely on trade secrets to protect our technology. However, trade secrets can be difficult to protect. We seek to protect our proprietary technology and manufacturing processes, in part, by confidentiality and invention assignment agreements with employees and certain third-party service providers.

We also seek to preserve the integrity and confidentiality of our data and trade secrets by maintaining physical security of our premises and physical and electronic security of our information technology systems. While we have confidence in these individuals, organizations and systems, agreements or security measures may be breached and we may not have adequate remedies for any breach. In addition, our trade secrets may otherwise become known or be independently discovered by competitors. To the extent that our consultants, contractors or collaborators use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions.

Government Regulation

Our products and operations are subject to extensive and rigorous regulation by the FDA and other federal, state and local authorities, as well as foreign regulatory authorities. The FDA and these other governmental agencies regulate, among other things, the research, development, testing, manufacturing, approval, labeling, storage, recordkeeping, advertising, promotion and marketing, distribution, post approval monitoring and reporting, and import and export of medical devices (such as our *iStent* and *iStent inject* products), as well as combination drug/device products (such as *iDose*) in the United States, or their respective jurisdictions, to assure the safety and effectiveness of medical products for their intended use. The U.S. Federal Trade Commission also regulates the advertising of our products. Further, we are subject to laws directed at preventing fraud and abuse, which subject our sales and marketing, training and other practices to government scrutiny.

U.S. government regulation—medical devices

Unless an exemption applies, each new or significantly modified medical device we seek to commercially distribute in the United States will require either a premarket notification to the FDA requesting permission for commercial distribution under Section 510(k) of the Federal Food, Drug and Cosmetic Act (FDCA), also referred to as a 510(k) clearance, or approval from the FDA of a PMA. Both the 510(k) clearance and PMA processes can be expensive, and lengthy, and require payment of significant user fees, unless an exemption is available.

A manufacturer may utilize the 510(k) premarket notification process for a device if it can demonstrate that the device is "substantially equivalent," as defined in the statute, to another commercially available, similar device that was approved for marketing by the FDA. To be "substantially equivalent," the proposed device must have the same intended use as the predicate device, and either have the same technological characteristics as the predicate device or have different technological characteristics and not raise different questions of safety or effectiveness than the predicate device. Clinical data is sometimes required to support substantial equivalence. If the FDA determines that the device is not "substantially equivalent" to a predicate device, the device sponsor must then fulfill the much more rigorous premarketing requirements of the PMA approval process.

A PMA approval application typically includes, but is not limited to, extensive technical information regarding device design and development, pre-clinical and clinical trial data, manufacturing information, labeling and financial disclosure information for the clinical investigators in device studies. The PMA application must provide valid scientific evidence that demonstrates to the FDA's satisfaction reasonable assurance of the safety and effectiveness of the device for its intended use. In the United States, absent certain limited exceptions, human clinical trials intended to support medical device clearance or approval require an IDE application. There can be no assurance that submission of an IDE will result in the ability to commence clinical trials. All clinical trials must be conducted in accordance with the FDA's IDE regulations that govern investigational device labeling, prohibit promotion and specify an array of recordkeeping, reporting and monitoring responsibilities of study sponsors and study investigators. Clinical trials must further comply with the FDA's regulations for institutional review board (IRB) approval and for informed consent and other human subject protections. Required records and reports are subject to inspection by the FDA. The results of clinical testing may be unfavorable, or, even if the intended safety and efficacy success criteria are achieved, may not be considered sufficient for the FDA to grant marketing approval or clearance of a product. The commencement or completion of any clinical trial may be delayed or halted or be inadequate to support approval of a PMA application for numerous reasons, including, but not limited to, the conduct of the trial or its patient participants, the results of the trial, or FDA, IRB or other third party oversight action.

Following receipt of a PMA application, the FDA conducts an administrative review to determine whether the application is sufficiently complete to permit a substantive review. If it is not, the agency will refuse to file the PMA. If it is, the FDA will accept the application for filing and begin the substantive review. During this review period, the FDA may request additional information or clarification of information already provided, and the FDA may issue a major deficiency letter to the applicant, requesting the applicant's response to deficiencies communicated by the FDA. The FDA may conduct a bioresearch monitoring inspection of the clinical trial data and clinical trial sites and a Quality System Regulation (QSR) inspection of the manufacturing facility and processes. Overall, the FDA review of a PMA application generally takes between one and three years, but may take significantly longer. The FDA can delay, limit or

deny approval of a PMA application for many reasons, including the insufficiency of pre-clinical and clinical data provided, the demonstrated safety and efficacy of the device, the results of site and process inspections and changes in FDA policies or regulations.

In approving a PMA application, the FDA may also require some form of postmarket studies or postmarket surveillance, whereby the applicant follows certain patient groups for a number of years and makes periodic reports to the FDA on the clinical status of those patients when necessary to protect the public health or to provide additional safety and effectiveness data for the device. FDA may also require postmarket surveillance for certain devices cleared under a 510(k) notification, such as implants or life-supporting or life-sustaining devices used outside a device user facility. The FDA may also approve a PMA application with other post-approval conditions intended to ensure the safety and effectiveness of the device, such as, among other things, restrictions on labeling, promotion, sale, distribution and use. For example, the FDA approval of the *iStent* PMA on June 25, 2012 imposed post-approval conditions, including three postmarket studies (two of which are now completed), and a requirement that we implement a three-part training program for physicians who will use the *iStent* device. The *iStent inject* PMA approval on June 21, 2018 required two post-market studies and a similar physician training requirement. Additionally, new PMA applications or PMA supplements may be required for modification to the manufacturing process, labeling, device specifications, materials or design of a device that has been approved through the PMA process.

If the FDA's evaluation of a PMA application or manufacturing facilities is not favorable, the FDA will deny approval of the PMA or issue a not approvable letter. The FDA also may determine that additional tests or clinical trials are necessary, in which case the PMA approval may be delayed for several months or years while the trials are conducted and data is submitted in an amendment to the PMA, or the PMA is withdrawn and resubmitted when the data are available. The PMA process can be expensive, uncertain and lengthy and a number of devices for which FDA approval has been sought by other companies have never been approved by the FDA for marketing.

The FDA review process may involve substantial delays that adversely affect the marketing and sale of our products. Our pipeline device products are pending regulatory approval or clearance to begin commercial sales in various markets. Ultimately, the FDA may not authorize the commercial release of a medical device if it determines the device is not safe and effective or does not meet other standards for clearance. Additionally, even if a product is cleared or approved, the FDA may require post-approval testing and surveillance programs to monitor the effects of these products once commercialized.

After the FDA permits a device to enter commercial distribution, numerous regulatory requirements apply. These include, but are not limited to registration and listing regulations, the QSR, labeling and tracking requirements, restrictions on advertising, distribution, sale and promotion (including a prohibition on "off-label" promoting), adverse event and recall reporting requirements (including Medical Device Reporting (MDR) requirements), and PMA annual reporting requirements.

Our facilities, records and manufacturing processes are subject to periodic unscheduled inspections by the FDA. Failure to comply with the applicable United States medical device regulatory requirements could result in, among other things, warning letters, untitled letters, fines, injunctions, consent decrees, civil penalties, unanticipated expenditures, repairs, replacements, refunds, recalls or seizures of products, operating restrictions, total or partial suspension of production, the FDA's refusal to issue certificates to foreign governments needed to export products for sale in other countries, the FDA's refusal to grant future premarket clearances or approvals, withdrawals or suspensions of current product clearances or approvals and criminal prosecution.

U.S. government regulation—drug delivery implant

In the United States, the FDA regulates drugs and combination drug/device products under the FDCA and related regulations. Drugs are also subject to other federal, state and local statutes and regulations, which along with the FDCA govern, among other things, the research, development, testing, manufacture, storage, recordkeeping, approval, labeling, advertising, promotion and marketing, distribution, post-approval monitoring and reporting, and import and export of pharmaceutical products. Failure to comply with the applicable U.S. regulatory requirements at any time during the drug product development process, approval process or post-approval, may subject an applicant to administrative or

judicial sanctions, including refusal by the FDA to approve pending applications, withdrawal of an approval, imposition of a clinical hold, issuance of warning letters and other types of letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, fines, refusals of government contracts, restitution, disgorgement of profits, or civil or criminal investigations and penalties brought by FDA and the Department of Justice, or other governmental entities. Any agency or judicial enforcement action could have a material adverse effect on us.

In order to obtain approval to market a drug product in the United States, a marketing application must be submitted to the FDA that includes data to establish the safety and effectiveness of the new drug product for the proposed indication. This NDA includes all relevant data available from pertinent preclinical and clinical trials, including negative or ambiguous results as well as positive findings, together with detailed information relating to the product's chemistry, manufacturing, controls and proposed labeling, among other things. The NDA filing must also be accompanied by a substantial user fee.

Prior to conducting the clinical trials generally required for an NDA, the FDA must authorize the administration of an investigational drug to humans through submission of an IND request. The IND submission must include the general investigational plan and the protocol(s) for human studies, as well as results of animal studies or other human studies, as appropriate, analytical data and any available data or literature to support the use of the investigational new drug. Any preclinical laboratory and animal tests must have been conducted in compliance with the FDA's Good Laboratory Practices. An IND will automatically become effective 30 days after receipt by the FDA, unless before that time the FDA raises concerns or questions related to the proposed clinical trials. The FDA's primary objectives in reviewing an IND are to assure the safety and rights of patients and to help assure that the quality of the investigation will be adequate to permit an evaluation of the drug's effectiveness and safety. Additionally, approval must also be obtained from the IRB at each clinical site before trials may be initiated. The IRB will consider, among other things, ethical factors, the safety of human subjects and the possible liability of the institution. Accordingly, submission of an IND may or may not result in the FDA or the IRB allowing clinical trials to begin.

If clinical trials are allowed to proceed, they are conducted under protocols detailing, among other things, the objectives of the study, how the study will be carried out, the parameters to be used in monitoring safety, and the efficacy criteria to be evaluated. The IRB must also monitor the trial until completed. The decision to terminate development of an investigational drug product may be made by either the FDA, an IRB or ethics committee, or by the study sponsor for various reasons, including if it is determined that the participants or patients are being exposed to an unacceptable risk to health or lack of protection of patient rights. Other reasons for suspension or termination may include changes in business objectives or the economic environment. All participants in our clinical trials must provide their informed consent in writing. In addition, there are requirements and industry guidelines that require the posting of ongoing clinical trials on public registries and the disclosure of designated clinical trial results.

The clinical investigation of an investigational drug product is generally divided into three phases. Phase I includes the initial introduction of an investigational new drug into humans. These studies are designed to evaluate the safety, dosage tolerance, metabolism and pharmacologic actions of the investigational drug product in humans, the side effects associated with increasing doses, and if possible, to gain early evidence on effectiveness. Sufficient information about the investigational drug's pharmacokinetics and pharmacological effects should be obtained During Phase I clinical trials to permit the design of well-controlled and scientifically valid Phase II clinical trials. Phase II includes the controlled clinical trials conducted to preliminarily evaluate the effectiveness of the investigational drug for a particular indication in patients with the disease or condition under study, to determine dosage tolerance and optimal dosage, and to identify possible adverse side effects and safety risks associated with the drug product. Phase III clinical trials are typically controlled clinical trials conducted in an expanded patient population at multiple clinical trial sites. They are performed after preliminary evidence suggesting effectiveness of the drug product has been obtained and are intended to further evaluate dosage, clinical effectiveness and safety, to establish the overall benefit-risk profile of the investigational drug product, and to provide an adequate basis for product approval and adequate information for product labeling. In most cases, the FDA requires two adequate and well-controlled Phase III clinical trials to demonstrate the efficacy of the drug.

Once an NDA has been submitted and the FDA has determined it is sufficiently complete, the FDA begins an in-depth substantive review. The FDA reviews NDAs to determine, among other things, whether the proposed product is safe and effective for its intended use, and whether the product is being manufactured in accordance with cGMP to assure and preserve the product's identity, strength, quality and purity. Before approving an NDA, the FDA will review

the proposed product labeling and may request changes. FDA will also inspect the facilities at which the product is manufactured. The FDA will not approve the product unless it determines that the manufacturing processes and facilities are in compliance with cGMP requirements and adequate to assure consistent production of the product within required specifications. In addition, before approving an NDA, the FDA will typically inspect one or more clinical sites to assure compliance with GCP. The FDA endeavors to review applications in six to 12 months, with higher priority for new molecular entities. If the FDA determines the application, manufacturing process or manufacturing facilities are not acceptable, it will communicate the deficiencies to the applicant and often will request additional testing or information, including new clinical trials. Even with the submission of additional information, the FDA ultimately may decide that the application does not satisfy the regulatory standards for approval. If and when an approval letter is issued, it will authorize commercial marketing of the drug with specific prescribing information for specific indications.

The clinical testing and drug approval process requires substantial time, effort and financial resources, and each may take several years to complete. Data obtained from clinical activities are not always conclusive and may be susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. The FDA may not grant approval on a timely basis, or at all. Even if the FDA approves a product, the agency may limit the approved indications for use, impose prominent warnings, or place other conditions on approval that could restrict the commercial application of the products, such as special risk management measures through a Risk Evaluation and Mitigation Strategy. After approval, some types of changes to the approved product, such as adding new indications, manufacturing changes and additional labeling claims, are subject to further testing requirements and FDA review and pre-approval.

Section 505(b)(2) of the FDCA expressly permits the FDA to rely, in approving an NDA, on data not developed by the applicant. Thus, if a 505(b)(2) applicant can establish that reliance on the FDA's previous findings of safety and effectiveness is scientifically appropriate, it may eliminate the need to conduct certain preclinical or clinical studies of the new product. We are pursuing a Section 505(b)(2) NDA regulatory strategy for our *iDose* implant which we expect will allow us to rely in our NDA filing on certain nonclinical and clinical safety findings made by the FDA in previous approvals if and when we are prepared to submit an application for marketing to the FDA. For changes to a previously approved drug product, an application may rely on the FDA's finding of safety and effectiveness of the previously approved drug, coupled with the information needed to support the change from the approved drug product. The additional information could be new studies conducted by the applicant or published data. The FDA may approve the new product candidate for all, or some, of the label indications for which the reference drug has been approved, as well as for any new indication sought by the 505(b)(2) applicant.

The filing or approval of a Section 505(b)(2) application may be delayed due to patent or exclusivity protections covering an approved product. Section 505(b)(2) applications must include patent certifications and must provide notice of certain patent certifications to the NDA holder and patent owner. A Section 505(b)(2) application may be granted three years of Hatch-Waxman data exclusivity if one or more of the clinical investigations, other than bioavailability/bioequivalence studies, was essential to approval of the application and was conducted or sponsored by the applicant. Such exclusivity would cover only the new condition of use that was supported by the clinical trials that were essential to approval.

Circumstances could change that may cause a Section 505(b)(2) application for our product to no longer be an appropriate pathway. For example, if an equivalent drug product were approved before our application is submitted, the applicable pathway for our drug product might be an Abbreviated New Drug Application (ANDA). An ANDA seeks approval of a drug product that has the same active ingredient(s), dosage form, strength, route of administration, and conditions of use (labeling) as a so-called "reference listed drug" approved under an NDA with full supporting data to establish safety and effectiveness. Limited exceptions exist to this ANDA sameness requirement, including certain limited variations approved by the FDA through a special petition process. An ANDA must contain certifications relating to patents for the reference listed drug. An ANDA also generally contains limited clinical data to demonstrate that the product covered by the ANDA is absorbed in the body at the same rate and to the same extent as the reference listed drug, which is known as bioequivalence. In addition, the ANDA must contain information regarding the manufacturing processes and facilities that will be used to ensure product quality, and must contain certifications to patents listed with the FDA for the reference listed drug.

After regulatory approval of a drug or combination drug/device product is obtained under an NDA, we are required to comply with pervasive and continuing post-approval regulation by the FDA, including, among other things,

requirements relating to drug listing and registration, recordkeeping, periodic reporting, product sampling and distribution, advertising, marketing and promotion and reporting of adverse experiences and production problems with the product. For example, as a condition of approval of an NDA, the FDA may require post-marketing testing, including Phase IV clinical trials, and surveillance to further assess and monitor the product's safety and effectiveness after commercialization. Drugs may be marketed only for the approved indications and in accordance with the provisions of the approved label. For a combination drug/device product, such as our *iDose* implant, certain device reporting requirements might also apply, such as MDR requirements and reports of corrections and removal. Our quality control and manufacturing facilities and procedures must continue to conform to cGMP post-approval, which may include all or particular QSR, and are subject to periodic inspection by the FDA. Accordingly, manufacturers must continue to expend time, money and effort in the area of production and quality control to maintain compliance with cGMP, QSR, and other aspects of regulatory compliance.

After approval, most changes to the approved product, such as adding new indications or other labeling claims, as well as some manufacturing and supplier changes, are subject to prior FDA review and approval of a new NDA or an NDA supplement. The manufacturer and/or sponsor under an approved NDA are also subject to annual product and establishment user fees, as well as new application fees for certain supplemental applications.

Discovery of previously unknown problems with a product or the failure to comply with applicable requirements may result in restrictions on a product, manufacturer or holder of an approved NDA, including withdrawal or recall of the product from the market or other voluntary, FDA-initiated or judicial action that could delay or prohibit further marketing. Other potential consequences include, among other things:

- fines, warning letters or holds on post-approval clinical trials;
- refusal of the FDA to approve pending applications or supplements to approved applications, or suspension or revocation of product license approvals;
- product seizure or detention, or refusal to permit the import or export of products; or
- injunctions or the imposition of civil or criminal penalties.

Newly discovered or developed safety or effectiveness data may require changes to a product's approved labeling, including the addition of new warnings and contraindications, and also may require the implementation of other risk management measures and/or additional clinical studies. In addition, the FDA strictly regulates marketing, labeling, advertising and promotion of products that are placed on the market. Drugs may be promoted only for the approved indications and in accordance with the provisions of the approved label. The FDA and other agencies actively enforce the laws and regulations prohibiting the promotion of off-label uses, and a company that is found to have improperly promoted off-label uses may be subject to significant liability. New government requirements, including those resulting from new legislation, may be established, or the FDA's policies may change, which could delay or prevent regulatory approval of our products under development and/or could significantly impact the requirements imposed on us after approval.

Other healthcare laws

We are also subject to healthcare regulation and enforcement by the federal government and the states and foreign governments in which we conduct our business. These laws include, without limitation, state and federal anti-kickback, fraud and abuse, false claims, and physician sunshine laws and regulations.

The federal Anti-Kickback Statute prohibits, among other things, the offer, receipt, or payment of remuneration in exchange for or to induce the use of products or services that are paid for in whole or part by Medicare, Medicaid or other federal healthcare programs. Remuneration has been broadly defined to include anything of value, including cash, improper discounts, and free or reduced price items and services. The government has enforced the Anti-Kickback Statute to reach large settlements with healthcare companies based on sham research or consulting and other financial arrangements with physicians. Further, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it. In addition, 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 (FCA). Many states have similar laws that apply to their state healthcare programs as well as private payors.

Violations of the Anti-Kickback Statute can result in exclusion from federal healthcare programs and substantial civil and criminal penalties.

The FCA imposes civil liability on persons who, among other things, present or cause to be presented false or fraudulent claims for payment by a federal healthcare program. The FCA has been used to prosecute persons submitting claims for payment that are inaccurate or fraudulent, that are for services not provided as claimed, or for services that are not medically necessary. Manufacturers can be held liable under these laws if they are deemed to "cause" the submission of false or fraudulent claims by, for example, providing inaccurate billing or coding information to customers or promoting a product off-label. Actions under the FCA may be brought by the Attorney General or as a qui tam action by a private individual in the name of the government. Violations of the FCA can result in significant monetary penalties and treble damages. The federal government is using the FCA, and the accompanying threat of significant liability, in its investigation and prosecution of device companies throughout the country, for example, in connection with the promotion of products for unapproved uses and other improper sales and marketing practices. The government has obtained multi-million and multi-billion dollar settlements under the FCA. In addition, companies have been forced to implement extensive corrective action plans, and have often become subject to consent decrees or corporate integrity agreements, severely restricting the manner in which they conduct their business.

In addition, there has been a trend of increased federal and state regulation of payments made to physicians and other healthcare providers. The Affordable Care Act (ACA), among other things, imposed new annual reporting requirements on certain device manufacturers for payments made by them to physicians and teaching hospitals, as well as certain ownership and investment interests held by physicians and their immediate family members. Failure to submit required information may result in civil monetary penalties of up to $1 million. Certain states also mandate implementation of commercial compliance programs and/or require the tracking and reporting of gifts, compensation and other remuneration to physicians.

The shifting commercial compliance environment and the need to build and maintain robust systems to comply with different compliance and/or reporting requirements in multiple jurisdictions increase the possibility that a healthcare company may violate one or more of the requirements. If our operations are found to be in violation of any of such laws or any other governmental regulations that apply to us, we may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of our operations, exclusion from participation in federal and state healthcare programs and imprisonment, any of which could adversely affect our ability to operate our business and our financial results.

Regulation outside the United States

In addition to regulations in the United States, we are subject to a variety of regulations in other jurisdictions governing clinical trials, commercial sales and distribution of our products and reporting of payments to physicians. Whether or not we obtain FDA approval for a product, we must obtain authorization before commencing clinical trials or obtain marketing authorization or approval of a product under the comparable regulatory authorities of countries outside the United States before we can commence clinical trials or marketing of the product in those countries. The approval process varies from country to country and the time may be longer or shorter than that required for FDA approval. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary greatly from country to country. In addition, certain countries have adopted transparency legislation that requires us to report contracts with or payments made to physicians in those countries.

Other

Our operations and many of the products we manufacture or sell are subject to extensive regulation by numerous other governmental agencies, both within and outside the United States. In the United States, apart from the agencies discussed above, our facilities, operations, employees, products (their manufacture, sale, import and export) and services are regulated by Environmental Protection Agency, the Occupational Health & Safety Administration, the Department of Labor, Customs and Border Protection, the Department of Commerce, the Department of Treasury, the Department of Justice and others. Furthermore, because we supply products and services to healthcare providers that are reimbursed by federally funded programs such as Medicare, our activities are also subject to regulation by the Centers for Medicare and Medicaid Services and enforcement by the Office of the Inspector General within the Department of

Health and Human Services. We are also required to report payments and other transfers of value to physicians and teaching hospitals, among others. State agencies also regulate our facilities, operations, employees, products and services within their respective states. Government agencies outside the United States also regulate public health, product registration, manufacturing, environmental conditions, labor, exports, imports and other aspects of our global operations.

Employees

As of December 31, 2018, we had 437 employees. We often supplement our research and development and clinical, regulatory and quality assurance departments with independent consultants on a project basis. We believe that our future success will depend in part on our continued ability to attract, hire and retain qualified personnel. None of our employees are represented by a labor union. We consider our relationship with our employees to be good.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Exchange Act, are available on our web site at www.glaukos.com, free of charge, as soon as reasonably practicable after the electronic filing of these reports with, or furnishing of these reports to, the Security and Exchange Commission (SEC). In addition, the SEC maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

Item 1A. R isk Factors

The risks discussed below are not the only ones facing our business but do represent those risks that we believe are material to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business. Please read the cautionary notice regarding forward-looking statements under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risks Related to Our Business

We have incurred significant losses since inception and there can be no guarantee that we reach sustained profitability.

Since the Company's inception in July 1998, we have incurred significant operating losses. As of December 31, 2018, we had an accumulated deficit of approximately $205.1 million. Losses have resulted principally from costs incurred in our clinical trial, research and development programs and from our general and administrative expenses. We have funded our operations to date from the sale of equity securities, including our June 2015 initial public offering (IPO), the issuance of notes payable, cash exercises of stock options and warrants to purchase equity securities and cash generated from commercial operations. We have devoted substantially all of our resources to the research and development of our approved and pipeline products, the commercial launch of the *iStent* and *iStent inject* , the development of our proprietary sales network, and the assembly of a management team to build our business.

To implement our global business strategies we need to, among other things, further grow our global sales and marketing infrastructure to increase global market acceptance of our products and any other products that receive FDA or equivalent foreign approval, fund ongoing research and development activities, expand our manufacturing capabilities, and obtain regulatory clearance or approval to commercialize our existing products in international markets or to commercialize those currently under development in the United States and internationally. As a result, we expect our expenses to increase significantly as we pursue these objectives. Our ability to reach sustained profitability is highly uncertain, especially given our limited commercial history selling our products globally and an increasingly competitive landscape, which makes forecasting our sales more difficult. In addition, we may experience transitory sales impacts related to the commercial launch of our *iStent inject* device, as customers deplete inventory in anticipation of the new product and as physicians participate in ordinary-course training for and sampling of the *iStent inject*. We will need to generate significant additional net sales to reach and maintain profitability. We cannot be sure that we will reach sustained profitability for any substantial period of time. Our failure to sustain profitability could have an adverse effect on the value of our common stock.

Substantially all of our net sales have been generated from sales of the iStent and the iStent inject, which have an increasingly competitive landscape, and we are substantially dependent on their success. If competition or other factors slow the market acceptance or usage of the iStent, the recently-approved iStent inject or our other products under development, our business will suffer.

Our primary sales-generating commercial products have been the *iStent* , which we began selling in the United States in the third quarter of 2012, and the *iStent inject* , which began selling in the United States in the second half of 2018. We rely heavily upon sales in the United States, which comprised 84% of our net sales for the year ended December 31, 2018. We expect to continue to derive a significant portion of our net sales from sales of these two products, particularly the *iStent inject* , in the United States, even if we are successful in continuing to commercialize our *iStent* products outside the United States, or receive necessary approvals to commercialize the *iDose Travoprost, iStent Infinite, iStent Supra, iStent SA* and the *IOP Sensor System* in the United States and other countries . Accordingly, our ability to generate net sales is highly dependent on our ability to market and sell the *iStent* and the *iStent inject* .

We developed MIGS to provide an alternative to the traditional glaucoma treatment and management paradigms. MIGS and our MIGS devices may experience a slowdown of market acceptance among eye care professionals, patients, healthcare payors and the medical community. There are a number of other available therapies marketed for the treatment of glaucoma, including medication therapies that are well established and are widely accepted by the medical community. There are also other MIGS devices that are currently available in the United States and globally or are in development by third parties that have entered or could enter the market and which may affect adoption of or demand for our products. For example, Ivantis, Inc. obtained FDA approval of its Hydrus ® Microstent, a competitive MIGS device, in 2018. The Hydrus device, which is implanted into the trabecular meshwork like the *iStent* and *iStent inject* , is indicated for use in conjunction with cataract surgery for the reduction of IOP in adult patients with mild to moderate primary open-angle glaucoma. Alcon, Inc., which withdrew its Cypass ® suprachoroidal implant, a competitive MIGS device, from the market in August 2018, has indicated its intention to potentially reintroduce the product at a later date. These MIGS products, or other products that may be developed and receive regulatory approval, could achieve greater commercial acceptance or demonstrate better safety or effectiveness, clinical results, ease of use or lower costs than our *iStent* , *iStent inject* , or other products under development, which may reduce demand for our primary products, the *iStent* and the *iStent inject* , as well as for our products in development.

Eye care professionals, patients, healthcare payors and the medical community globally may be slow or fail to adopt our products for a variety of reasons, including, among others:

- lack of experience with our products;
- lack of availability of adequate coverage and reimbursement for hospitals, ambulatory surgery centers and physicians;
- our inability to convince key opinion leaders to provide recommendations regarding our products, or to convince eye care professionals, patients and healthcare payors that our products are attractive alternatives to other products and treatment solutions;
- lack of evidence supporting cost benefits or cost-effectiveness of our products over existing alternatives;
- perception that our products are unproven, investigational or experimental;
- the price of our products relative to competing treatment alternatives;
- physician preference for competitive MIGS devices in the market;
- patient safety concerns regarding the use of MIGS devices;
- liability risks generally associated with the use of new products and procedures; and
- training required to use new products.

Our growth depends on our ability to develop and commercialize additional products, including our recently commercialized iStent inject and our pipeline products consisting of the iDose Travoprost, the iStent Infinite, the iStent Supra and the iStent SA. If we are not able to commercialize additional products, including our pipeline products, in a timely manner, our products may become obsolete over time, customers may not buy our products, our net sales and profitability may decline, and we may not experience growth in our business.

Demand for our products may change in ways we may not anticipate due to:

- changing coverage and reimbursement, coding and payments;
- changing customer needs;
- the introduction of new products and technologies;
- patient safety concerns;
- evolving surgical practices;
- evolving industry standards; and
- other unforeseen reasons.

As a result, it is important that we continue to build a more complete product offering. Developing additional products is expensive and time-consuming, and could divert management's attention away from expanding acceptance of the *iStent* and *iStent inject* and harm our business. Even if we are successful in developing our additional pipeline products, including those currently in development, the success of our new product offerings, if any, will depend on a variety of factors, including our ability to:

- properly identify and anticipate customer needs;
- commercialize new products in a cost-effective and timely manner;
- manufacture and deliver products in sufficient volumes on time;
- obtain regulatory approval for new products;
- receive adequate coverage and reimbursement for procedures performed with our products;
- differentiate our offerings from competitors' offerings;
- achieve positive clinical outcomes;
- satisfy the increased demands from healthcare payors, providers and patients for lower-cost procedures;
- innovate and develop new materials, product designs and surgical techniques; and
- provide adequate medical and consumer education relating to new products and attract key ophthalmologists and other eye care professionals to advocate these new products.

Moreover, we will need to make a substantial investment in research and development before we can determine the commercial viability of any innovations, and we may not have the financial resources required to fund such research and development. In addition, even if we are able to successfully develop product enhancements or new products, these enhancements or new products may not produce net sales in excess of the costs of development, or they may be quickly rendered obsolete by changing customer preferences or the introduction by our competitors of products embodying superior technologies or features.

Research programs to identify new products will require substantial technical, financial and human resources, whether or not any such products are ultimately identified. We may determine that one or more of our pre-clinical programs does not have sufficient potential to warrant the allocation of such resources. Our research programs may initially show promise in identifying potential products, yet fail to yield product candidates for clinical development for many reasons, including the following:

- the research methodology used may not be successful in identifying potential products;

- competitors may develop alternatives that render our future products, if any, obsolete;
- our products may not be deployed safely or effectively;
- our future products, if any, may, on further study, be shown to have harmful side effects or other characteristics that indicate they are unlikely to be effective;
- our clinical trials may not be successful; and
- we may not receive regulatory approval.

If we are not successful in obtaining market acceptance of our products globally, overall utilization of our products may fall below targeted levels. If we are unable to establish a global sales and marketing organization, we may not be able to effectively commercialize our products, which would adversely affect our business prospects, results of operations and financial condition.

Because of the numerous risks and uncertainties associated with our global commercialization efforts, our products may not obtain market acceptance outside of the United States, which would adversely impact the overall utilization of our products. International markets differ significantly from the U.S. market, including as a result of differences in payor systems, reimbursement, competitive dynamics, market size, regulations and patient treatment regimens. As a result of the differences in these markets, you should not compare our financial results in the U.S. market to any potential results in the international markets nor should you rely on our past results as an indication of our future performance.

In order to generate increased sales, we will need to establish a global sales organization. Our future success will depend largely on our ability to train, retain and motivate skilled regional sales managers and direct sales representatives and distributors around the world with significant technical knowledge of MIGS and our products. Because of the competition for their services, we cannot assure you we will be able to retain such representatives on favorable or commercially reasonable terms, if at all. If we are unable to establish a global sales and marketing organization, we may not be able to effectively commercialize our products globally, which would adversely affect our business prospects, results of operations and financial condition.

Our global growth strategy requires us to enter new foreign markets to increase international sales. If we fail to obtain and maintain the regulatory approvals or the favorable reimbursement coverage or payment levels necessary to market our products in foreign jurisdictions, our market penetration opportunities will be limited. Foreign governments tend to impose strict price controls, which could negatively impact our profitability. Additionally, our existing and new potential international operations subject us to certain operating risks, which could adversely impact our results of operations and financial condition.

To implement our global growth strategy, we must continue to market our approved products in the international jurisdictions in which we are currently authorized, as well as expand such operations into additional foreign countries. In order to market our products in the European Union, Asia or other foreign jurisdictions, we must obtain and maintain separate regulatory approvals and comply with numerous and varying regulatory requirements. The approval procedure varies from country to country and can involve additional testing. The time required to obtain approval abroad may be longer than the time required to obtain FDA clearance or approval. Foreign regulatory approval processes include many of the risks associated with obtaining FDA clearance or approval and we may not obtain foreign regulatory approvals on a timely basis, if at all. FDA clearance or approval does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries. However, the failure to obtain clearance or approval in one jurisdiction may have a negative impact on our ability to obtain clearance or approval elsewhere. If we do not obtain or maintain necessary approvals to commercialize our products in markets outside the United States, it would negatively affect our overall market penetration.

Even when we receive the necessary approvals to market our products in a foreign jurisdiction, we face challenges to reaching or maintaining profitability. In some foreign countries, particularly in the European Union, the pricing of medical devices is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we may be required to supply data that compares the cost-effectiveness of our

products to other available therapies. If reimbursement of our products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, it may not be profitable to sell our products in certain foreign countries, which could negatively affect the long-term growth of our business.

Our existing foreign operations, as well as our planned international growth, expose us to additional uncertainty and risks beyond regulatory authorization and reimbursement levels. Outside the United States, we sell our products through direct sales organizations in sixteen countries and a network of third-party distribution partners in other markets. These international operations expose us and our subsidiaries and third-party distributors to a variety of risks including, without limitation, the following:

- compliance with foreign regulations and laws, as well as U.S. laws that apply to activities in foreign jurisdictions, the adherence to which can be costly. Such regulations and laws expose us to penalties for non-compliance. These laws and regulations include various anti-bribery laws, including the U.S. Foreign Corrupt Practices Act, the United Kingdom Bribery Act, the French Sunshine Act, as well as privacy regulations such as the European Union's General Data Protection Regulation (GDPR), which took effect in May 2018, and export control regulations. Any failure to comply with applicable legal and regulatory obligations could impact us in a variety of ways that include, but are not limited to, significant criminal, civil and administrative penalties, including imprisonment of individuals, fines and penalties, denial of export privileges, seizure of shipments, restrictions on certain business activities and exclusion or debarment from government contracting;
- difficulties enforcing our intellectual property rights and defending against third-party threats and intellectual property enforcement actions against us, our distributors, or any of our third-party suppliers;
- reduced or varied protection for intellectual property rights in some countries;
- pricing pressure that we may experience internationally;
- foreign currency exchange rate fluctuations;
- a shortage of high-quality sales people and distributors, and the difficulties of managing foreign operations;
- the availability and level of third-party coverage and reimbursement within prevailing foreign healthcare systems that may require some of the patients who would be good candidates for the *iStent* or our other products to directly absorb medical costs, the ability of those patients to elect to privately pay for the *iStent* or our other products, or the potential necessity to reduce the selling prices of our products;
- relative disadvantages compared to competitors with more recognizable names, longer operating histories and better established distribution networks and customer relationships;
- the imposition of additional U.S. and foreign governmental controls or regulations;
- political and economic instability;
- changes in duties and tariffs, license obligations and other non-tariff barriers to trade;
- the imposition of restrictions on the activities of foreign agents, representatives and distributors;
- scrutiny of foreign tax authorities that could result in significant fines, penalties and additional taxes being imposed on us;
- laws and business practices favoring local companies;
- longer sales and payment cycles;
- difficulties in maintaining consistency with our internal guidelines;
- difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- the imposition of costly and lengthy new export licensing requirements and restrictions, particularly relating to technology;
- international terrorism and anti-U.S. sentiment;

- the imposition of U.S. or international sanctions against a country, company, person or entity with whom we do business that would restrict or prohibit continued business with the sanctioned country, company, person or entity; and
- the imposition of new trade restrictions.

If we experience any of these risks, our sales in non-U.S. jurisdictions may be harmed, our results of operations would suffer and our business prospects would be negatively impacted.

We currently operate primarily at a facility in a single location and any crippling accident, natural disaster or other force majeure event or disruption at this facility could materially affect our ability to operate and produce saleable products and could shut down our manufacturing capacity for an extended period. This and other manufacturing risks may adversely affect our ability to manufacture products and could reduce our gross margins and negatively affect our operating results.

Our business strategy depends on our ability to manufacture our current and proposed products in sufficient quantities and on a timely basis so as to meet customer demand, while adhering to product quality standards, complying with regulatory requirements and managing manufacturing costs.

Our corporate headquarters and our manufacturing operations are currently located in an approximately 86,000 square foot campus located in San Clemente, California, comprised of two main buildings adjacent to U.S. Marine Corps Base Camp Pendleton and wilderness area susceptible to brushfires, earthquakes and other natural disasters. This location serves as our sole manufacturing location where we manufacture, inspect, package, release and ship nearly all of our final products pursuant to numerous U.S. and foreign regulatory approvals. This is also the location where we currently conduct substantially all of our research and development activities, customer and technical support, and management and administrative functions. In addition, in the fourth quarter of 2018, we entered into an office building lease pursuant to which we will lease one property containing three existing office buildings, comprising approximately 160,000 rentable square feet of space, located in Aliso Viejo, California. The term of the lease will commence on May 1, 2019 and continue for thirteen years. The agreement contains an option to extend the lease for two additional five year periods at market rates. We intend to relocate our corporate administrative headquarters, along with certain laboratory, research and development and warehouse space, to this new facility. Despite our efforts to safeguard our current San Clemente facility, including acquiring insurance on commercially reasonable terms, adopting environmental health and safety protocols and utilizing off-site storage of computer data, vandalism, terrorism or a natural or other disaster, such as an earthquake, fire or flood, could damage or destroy our manufacturing equipment or our inventory of component supplies or finished goods, cause substantial delays in our operations, result in the loss of key information, and cause us to incur additional expenses, including relocation expenses. If this facility or our future facility in Aliso Viejo suffers a crippling event, or a force majeure event, this could materially impact our ability to operate. Our insurance may not cover our losses in any particular case, or insurance may not be available on commercially reasonable terms to cover certain of these catastrophic events. In addition, regardless of the level of insurance coverage, damage to our facilities may have a material adverse effect on our business, financial condition and operating results. Additionally, if we are unable to continue to expand our manufacturing facility in compliance with regulatory requirements or to hire additional necessary manufacturing personnel, we may encounter operational interruptions, delays or additional costs in achieving our research, development and commercialization objectives, including in obtaining regulatory approvals of our product candidates and meeting customer demand, which could materially damage our business and financial position. As our business expands, we will require additional space, which could also result in a higher cost structure that could reduce our gross margin and negatively affect our operating results.

We are also subject to numerous other risks relating to our manufacturing capabilities, including:

- quality and reliability of product components that we source from third-party suppliers, including the risk of receiving components that do not meet our quality, sterility or manufacturing design standards ;
- our inability to secure product components in a timely manner or in sufficient quantities to meet customer demand, or on commercially reasonable terms;
- our inability to maintain compliance with quality system requirements;
- our failure to increase production capacity or volumes to meet demand;

- our inability to design or modify production processes to enable us to produce efficiently future products or implement changes in current products in response to design or regulatory requirements; and
- difficulty identifying and qualifying alternative suppliers for components in a timely manner, or at all.

As demand for our products increases, we will have to invest additional resources to purchase components, hire and train employees and enhance our manufacturing processes. If we fail to increase our production capacity efficiently, our sales may not increase in line with our expectations and our operating margins could fluctuate or decline. In addition, although we expect some of our products in development to share product features and components with the *iStent* and *iStent inject* , the manufacture of these products may require the modification of our current production processes or unique production processes, the hiring of specialized employees, the identification of new suppliers for specific components or the development of new manufacturing technologies. It may not be possible for us to manufacture these products at a cost or in quantities sufficient to make these products commercially viable or to maintain current operating margins.

We depend on a limited number of third-party suppliers for certain components and pharmaceuticals, and the loss of any of these suppliers, or their inability to provide us with an adequate supply of materials, could harm our business.

We rely on a limited number of third-party suppliers to supply components for the *iStent* , the *iStent inject* and its unique injector system and our other pipeline products, as well as drugs for our *iDose* drug delivery system in development. Other than agreements with key suppliers, we generally do not enter into long-term supply agreements with our suppliers, and we order most components and other products on a purchase order basis. With respect to some components and other products, we have a sole supplier or a limited number of suppliers, and in some cases there may not be alternate suppliers who are capable or qualified to supply such components and products in a timely manner, or at all. The loss of these suppliers, or their inability to provide us with an adequate supply of components or products, could cause delay in the manufacture of our products, thereby impairing our ability to meet the demand of our customers and causing significant harm to our business. Although we strive to maintain inventory to mitigate supply interruptions, we are nevertheless exposed to risks, including limited control over costs, availability, quality, delivery schedules and supplier disputes.

We have been and may continue to be required to make significant “last time” purchases of components that are being discontinued by the supplier to ensure supply continuity. In addition, given our limited experience with certain suppliers, it may be difficult for us to assess their ability to timely meet our demand in the future based on past performance. If any one or more of our suppliers cease to provide us with sufficient quantities of components or drugs in a timely manner or on terms acceptable to us, we would have to seek alternative sources of supply. Because of factors such as the proprietary nature of our products, our quality control standards and regulatory requirements, we cannot quickly engage additional or replacement suppliers for some of our critical components. Even if we are able to identify and qualify a suitable second source to replace one of our key suppliers, if necessary, that replacement supplier would not have access to our previous supplier’s proprietary processes and would therefore be required to develop its own, which could result in further delay.

Failure of any of our suppliers to deliver products at the level our business requires would limit our ability to meet our sales commitments, which could harm our reputation and could have a material adverse effect on our business. We may also have difficulty obtaining similar components or drugs from other suppliers that are acceptable to the FDA or other regulatory agencies, and the failure of our suppliers to comply with strictly enforced regulatory requirements could expose us to regulatory action including warning letters, product recalls, termination of distribution, product seizures or civil penalties. It could also require us to cease using the components or drugs, seek alternative components, drugs or technologies and modify our products to incorporate alternative components, drugs or technologies, which could result in a requirement to seek additional regulatory approvals. Our suppliers may also encounter financial or other hardships unrelated to our demand for their products, which could inhibit their ability to fulfill our orders and meet our requirements. Any disruption of this nature or increased expense could harm our commercialization efforts and adversely affect our operating results.

In addition, we rely on our suppliers to supply us with components and pharmaceuticals that comply with regulatory requirements, Current Good Manufacturing Practices and quality control standards, and meet agreed upon specifications at acceptable costs and on a timely basis. Although we expect our third-party suppliers to act consistent with such standards, we do not control our suppliers, as they operate and oversee their own businesses. There is a risk

that our suppliers will not always act consistent with our best interests, and may not always supply components that meet our needs. Unexpected safety or efficacy concerns can arise with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals, or declining sales, as well as product liability, consumer fraud and/or other claims, including potential civil or criminal governmental actions. Accordingly, if we fail to obtain sufficient quantities of high-quality components and pharmaceuticals to meet demand for our products on a timely basis, we could lose customer orders, our reputation may be harmed and our business could suffer.

Failure to secure and maintain adequate coverage or reimbursement by third-party payors for procedures using the iStent, iStent inject or our other products in development, or changes in current coverage or reimbursement, could materially impact our net sales and future growth.

We currently derive a substantial portion of our net sales from sales in the United States of the *iStent* and *iStent inject* and expect this to continue for the next several years. Hospitals and ambulatory surgery centers that purchase the *iStent* and *iStent inject* typically bill various third-party payors, including Medicare, Medicaid, private commercial insurance companies, health maintenance organizations and other healthcare-related organizations, to cover all or a portion of the costs and fees associated with the MIGS procedures in which the *iStent* and the *iStent inject* are used and bill patients for any applicable deductibles or co-payments. Access to adequate coverage and reimbursement for the procedures using the *iStent* and the *iStent inject* (and our other approved products and products in development) by third-party payors is essential to the acceptance of our products by our customers.

Because there is generally no separate reimbursement for medical devices and other supplies used in such procedures, including the *iStent* and the *iStent inject* , the additional cost associated with the use of our *iStent* devices could impact the profit margin of the hospital or surgery center where the cataract surgery is performed if the incremental facility fee payment is not sufficient. Additionally, the implantation of more than one stent in a single procedure (as is the case with our *iStent inject* two-stent product) is considered by Medicare to be bundled with the first stent, and therefore there is no additional, incremental facility reimbursement available for implantation of a second stent. Some of our target customers may be unwilling to adopt our *iStent* or *iStent inject* in light of the additional associated cost. Further, any decline in the amount payors are willing to reimburse our customers for MIGS procedures could make it difficult for existing customers to continue using, or new customers to adopt, our *iStent* devices and could create additional pricing pressure for us. If we are forced to lower the price we charge for our products, our gross margins would decrease, which would adversely affect our ability to invest in and grow our business.

In addition, a key component of our global expansion strategy is obtaining reimbursement for the *iStent* and *iStent inject* devices and procedures by governmental or private payors within the foreign countries in which we are seeking to commercialize our products. The requirements and processes for obtaining approval for such reimbursement may vary significantly from country to country, entail prolonged delay, or be more difficult for foreign manufacturers with new, unfamiliar products and treatments. If we face one or more of these challenges as we pursue commercializing our products internationally, our business prospects will suffer.

Third-party payors, whether foreign or domestic, or governmental or commercial, are developing increasingly sophisticated methods of controlling healthcare costs. In addition, in the United States, no uniform policy of coverage and reimbursement for medical device products and services exists among third-party payors. Therefore, coverage and reimbursement for medical device products and services can differ significantly from payor to payor. In addition, payors continually review new technologies for possible coverage and can, without notice, deny coverage for these new products and procedures. As a result, the coverage determination process is often a time-consuming and costly process that will require us to provide scientific and clinical support for the use of our products to each payor separately, with no assurance that coverage and adequate reimbursement will be obtained, or maintained if obtained.

Many third-party payors in the United States model their coverage policies and payment amounts after those determined by the Center for Medicare & Medicaid Services (CMS), the federal agency responsible for administering the Medicare program. CMS relies on an extensive network of Medicare Administrative Contractors (MACs) to develop coverage policies when no national coverage determination exists for a procedure. Because there currently is no Medicare national coverage determination for procedures using our *iStent* devices, we are required to provide scientific and clinical support for the use of the *iStent* and *iStent inject* (including the *iStent Infinite* , *iStent Supra* and *iStent SA* devices, if approved) to each MAC separately, with no assurance that coverage and adequate reimbursement will be obtained. Although all MACs currently provide coverage and reimbursement for the MIGS procedure using the *iStent* and the *iStent inject* , difficulties in processing reimbursement or regional differences or reductions in the reimbursement

amount for the physician professional services could negatively impact *iStent* and *iStent inject* penetration or usage by customers. These differences in MAC reimbursement could also negatively impact the amount paid by private commercial insurance companies, further negatively affecting customer penetration or usage.

Third-party payors, including CMS, regularly assess and propose changes to their coverage and reimbursement policies. Changes in these current policies impact the profit margin of the hospital or surgery center where the surgery is performed and increase costs to customers. For example, beginning in 2016, Medicare started to make a single, comprehensive payment for combination *iStent* insertion and cataract procedures performed in hospital outpatient departments (HOPDs), eliminating the separate payments that were available for the procedures in prior years and reducing the total reimbursement amount for the combination procedure in the HOPD. Further, any decline in the amount payors are willing to reimburse our customers for MIGS procedures could make it difficult for existing customers to continue using, or new customers to adopt, any of our *iStent* devices and could create additional pricing pressure for us. If we were forced to lower the price we charge for our products, our gross margins would decrease, which would adversely affect our ability to invest in and grow our business. Conversely, although the reimbursement payments from Medicare to surgery centers for the *iStent* procedure was increased effective January 1, 2017, there can be no assurance that this increase will remain in effect in future years or that the amount of reimbursement will not be decreased in future years. Any reduction in the amount of Medicare reimbursement payments will have a negative effect on our net sales.

Some third-party payors in the United States, including Medicaid and certain commercial payors, have developed policies that deny coverage for the MIGS procedures using the *iStent* or *iStent inject* . To support changes in these policies, we may need to conduct prospective, randomized controlled clinical trials and present data from such trials to these payors to demonstrate the medical necessity or cost-effectiveness of the *iStent* or our other approved products or products in development. There can be no assurance that coverage for our products will be expanded. In addition, those private payors that do not follow the Medicare guidelines may adopt different coverage and reimbursement policies for MIGS procedures performed with the *iStent* or the *iStent inject* , though we cannot predict whether coverage will be sufficient or if there will be coverage at all. Failure to obtain favorable payor policies could have a material adverse effect on our business and operations.

We believe that Medicare coverage and existing coverage by third-party payors represents more than 90% of our target patient population. U.S. third-party payors representing more than 90% of individuals covered by commercial insurance currently reimburse the *iStent* procedure. While we anticipate gaining coverage and reimbursement from additional third-party payors, we cannot guarantee that we will be successful or that coverage and reimbursement will be at levels that support continued penetration and usage by our customers. Moreover, compliance with the administrative procedures and requirements of third-party payors may result in delays in processing approvals by those third-party payors for customers to obtain coverage and reimbursement for procedures using the *iStent* or the *iStent inject* . Failure to secure or maintain adequate coverage or reimbursement for procedures using our *iStent* devices by third-party payors, or delays in processing approvals by those payors, could result in the cancellations of procedures to insert the *iStent* or *iStent inject* in combination with cataract surgery, resulting in the loss of net sales from these procedures. If these issues remain unresolved, they could have a material adverse effect on our business, financial condition and operating results.

Failure to secure or maintain adequate coverage or reimbursement for procedures using the *iStent* or *iStent inject* by third-party payors, or delays in processing approvals by those payors, could result in the cancellations of procedures to insert the *iStent* devices in combination with cataract surgery, resulting in the loss of net sales from these procedures. If these issues remain unresolved, they could have a material adverse effect on our business, financial condition and operating results.

In addition, although we have obtained temporary Category III Current Procedural Terminology (CPT) codes for the MIGS procedures associated with the insertion of our *iStent* products, including a separate CPT code for the additional stent inserted with the *iStent inject* product (for which there is no associated facility fee under Medicare), there is no guarantee that these billing codes or the payment amounts associated with such codes will not change in the future. Prior to expiration, there are two options: submit an application to convert to a permanent Category I code; or submit an application for a five-year extension of Category III status. If we are unable to maintain our existing codes or obtain new permanent Category I codes for procedures using our *iStent* products, or obtain new reimbursement codes for our other products in development, we will be subject to significant pricing pressure, which could harm our business, results of operations, financial condition and prospects. Additionally, if we do obtain a permanent Category I Code for procedures using our *iStent* products, certain national reimbursement levels for such procedures may be adjusted at that time. These

fee reimbursement levels may be decreased or significantly decreased, which would have a material adverse effect on our business, financial condition and operating results.

Physicians are typically paid separately from the facility for surgical procedures involving the *iStent* or *iStent inject* . Unlike the facility payment amounts associated with the CPT codes that describe *iStent* and the additional *iStent inject* insertion, there is no published Medicare payment schedule at the national level for physician payment amounts. The physician payment rate is left to the discretion of the individual MAC. In order to adopt a new procedure, one of the factors that the surgeon evaluates is whether or not payment for the procedure adequately covers the surgeon's time. As with the facility payment, the incremental payment the physician receives for inserting the *iStent* device, or the additional *iStent inject* stent, could play a role in a surgeon's decision to adopt the technology. Accordingly, changes in the payment the physician receives could affect the extent to which physicians recommend the *iStent* or *iStent inject* procedure to patients, which could have a material adverse effect on our business, financial condition and operating results.

Further, we believe that future coverage and reimbursement will likely be subject to increased restrictions both in the United States and in international markets. Coverage decisions may depend upon clinical and economic standards that disfavor new products when more established or lower cost therapeutic alternatives are already available or subsequently become available. Adequate coverage and reimbursement from governmental and commercial payors are critical to new product acceptance. Third-party coverage and reimbursement for our products or any of our product candidates for which we may receive regulatory approval may not be available or adequate in either the United States or international markets.

If our competitors are better able to develop and market products that are safer, more effective, less costly or otherwise more attractive than the iStent, iStent inject or any new products that we may develop, our commercial opportunity may be reduced or eliminated.

The medical device industry is highly competitive and subject to rapid and profound technological, market and product-related changes. Our success depends, in part, upon our ability to maintain a competitive position in the development of MIGS products. Our competitors, medical companies, academic and research institutions or others could develop new drugs, therapies, medical devices or surgical procedures to treat glaucoma that could render our products obsolete.

Until recently, our *iStent* was the only MIGS device approved for sale in the United States by the FDA. Thus, for several years we had commercialized the *iStent* in the United States without any direct MIGS competitors. Alcon, Inc. obtained FDA approval and commenced a commercial launch of its Cypass ® suprachoroidal implant, a competitive MIGS device, in 2016. Although Alcon withdrew its Cypass ® implant from the market in August 2018, it has indicated its intention to potentially reintroduce the product at a later date. In 2018, Ivantis Inc. obtained FDA approval of its Hydrus Microstent device, which is a trabecular meshwork implant that is indicated for use in conjunction with cataract surgery for the reduction of intraocular pressure in adult patients with mild-to-moderate primary open-angle glaucoma. These MIGS products, or other products that may be developed and receive regulatory approval, could achieve greater commercial acceptance, demonstrate better safety or effectiveness, clinical results, ease of use or lower costs than our *iStent, iStent inject* or our other products under development, which may reduce demand for our primary products, the *iStent* , and *iStent inject* as well as for our products in development. Demand for the *iStent* , the *iStent inject* or our future products may decline when such products and technologies are introduced, and our business may be harmed.

We also compete with other glaucoma therapies such as pharmaceuticals and other medical devices. Manufacturers of medical devices used in surgical therapy procedures for treating glaucoma include Alcon, Inc., Johnson & Johnson (through its acquisition of Abbott Medical Optics Inc.), Allergan plc (through its acquisition of AqueSys, Inc. and its Xen ® Glaucoma Treatment System), STAAR Surgical Company, Lumenis Ltd., NeoMedix, Inc., New World Medical, Inc., Iridex Corporation and Ellex Medical Lasers Limited. These and other manufacturers provide a variety of surgical products, including tubes, aqueous shunts, laser systems, trabeculotomy, blades and other filtration devices. We are aware of other companies, including, but not limited to, Santen Pharmaceutical Co., Ltd. (which acquired InnFocus, Inc.) and iSTAR Medical SA, that are conducting clinical trials or have filed for regulatory approval of glaucoma treatment devices.

Many of our current and potential competitors (including MIGS competitors) are large publicly traded companies or divisions of publicly traded companies and have several competitive advantages, including:

- greater financial and human resources for product development, sales and marketing and patent litigation;
- significantly greater name recognition;
- longer operating histories;
- established relationships with healthcare professionals, customers and third-party payors;
- additional lines of products, and the ability to offer rebates or bundle products to offer higher discounts or incentives;
- more established sales and marketing programs and distribution networks; and
- greater experience in conducting research and development, manufacturing, clinical trials, preparing regulatory submissions and obtaining regulatory clearance or approval for drug and device products and marketing approved products.

As discussed above, the Xen device is being marketed by Allergan plc, a publicly traded company, and the Cypass ®, although it was withdrawn from the market by Alcon, Inc., which is a division of Novartis International AG, a publicly traded multinational pharmaceutical company, may be reintroduced at a later date. InnFocus, Inc. was acquired by Santen Pharmaceutical Co., Ltd., a publicly traded multinational pharmaceutical company dedicated to the ophthalmic field. As a result of these transactions, we are competing directly against other MIGS providers that have the efficiencies and advantages identified above.

The training required for surgeons to use our products could reduce the market acceptance of our products.

As with any new method or technique, ophthalmic surgeons must undergo a thorough training program before they are qualified to perform procedures using our products. Surgeons could experience difficulty with the technique necessary to successfully insert our products, including intraoperative gonioscopy, and not achieve the technical competency necessary to be qualified to insert our devices. Also, even after successfully completing the training program, the physicians could experience difficulty inserting our products and cease utilizing them or limit their use significantly in practice. Surgeons may also experience greater success or competency with a competitive MIGS product.

We could also experience difficulty meeting expected levels of ophthalmic surgeons who complete our training program. This could happen due to less demand than expected, preference for competitive MIGS products, the length of time necessary to train each surgeon being longer than expected, the capacity of our sales representatives to train surgeons being less than anticipated, or if we are unable to sufficiently increase our sales organization. All of these events would lead to fewer trained ophthalmic surgeons qualified to insert our products, which could negatively impact our operating and financial results.

Ophthalmic surgeons may not use our products if they do not believe they are safe, efficient, effective and preferable alternatives to other treatment solutions in the market. If subsequent or continuing patient studies on the iStent or the iStent inject, patient outcomes, or studies on or patient outcomes from competitive MIGS products, demonstrate results that are inferior to or inconsistent with our existing data, our sales could be adversely impacted. Additionally, ophthalmic surgeons not completing the iStent device training program may nevertheless elect to perform iStent device procedures and experience inferior clinical outcomes.

We believe that ophthalmic surgeons will not use our products unless they conclude that our products provide a safe, efficient, effective and preferable alternative to currently available treatment options. If longer-term patient studies or clinical experience indicate that treatment with our products is less effective, less efficient or less safe than our current data suggest, our sales would be harmed, and we could be subject to significant liability. Further, unsatisfactory patient outcomes or patient injury, due to either our products or competitive MIGS products, could cause negative publicity for our products, particularly in the early phases of product introduction for our products currently under development. For example, in August 2018, Alcon, Inc. withdrew its Cypass ® suprachoroidal implant, a competitive MIGS device that is also designed to be implanted in the suprachoroidal space of the eye, from the market due to patient safety concerns that arose in a post-approval safety study. The FDA, and other federal, state, local and foreign regulatory authorities, may

impose more stringent or higher standards in evaluating the iStent Supra for approval based upon the safety issues experienced with the Cypass ® device. There is also a risk that physicians may choose not to use our *iStent Supra* product if and when it is approved and commercially launched because of concerns over patient safety similar to those related to the Cypass ® implant, which could limit our potential for increased revenue and sales growth. In addition, physicians may be slow to adopt our products if they perceive liability risks arising from their use. It is also possible that as our products become more widely used, latent defects could be identified, creating negative publicity and liability problems for us and adversely affecting demand for our products. Physicians may also conclude that the products offered by our MIGS competitors have greater efficacy than our products, which could result in a decline in our sales.

Ophthalmic surgeons may also determine not to use our products due to other potential risks to patients. For example, the *iStent* is rated "MRI Conditional" by the American Society for Testing and Materials. This means that a patient implanted with the *iStent* can be scanned via magnetic resonance imaging (MRI) only under the following conditions specified on the product label: static magnetic field of 3-Tesla or less, and maximum spatial magnetic field gradient of 4,000-Gauss/cm or less. Therefore, it may not be safe for *iStent* recipients to undergo MRIs in environments that do not match these specified conditions. Physicians may choose not to implant *iStents* because of this limitation, which could have an adverse impact on our net sales growth and financial results.

Additionally, inferior patient outcomes, or patient injury, may result if untrained or unqualified ophthalmic surgeons elect to perform any *iStent* procedures. Although our sales representatives manage the training program for ophthalmic surgeons to become qualified to insert our *iStent* devices in combination with cataract surgery, once training is completed the surgeon and/or surgical facility that the surgeon utilizes are cleared to purchase and maintain an *iStent* or *iStent inject* supply. There is a risk that untrained or unqualified ophthalmic surgeons could gain access to *iStent* devices from a facility's inventory and conduct *iStent* procedures without having received qualified status from us. If performing *iStent* procedures by unqualified ophthalmic surgeons were to become pervasive, this could raise the risk of complications and inferior clinical outcomes, which could result in negative patient experiences or experiences being published and damaging our reputation and that of our *iStent* devices. This could result in lower penetration and utilization by ophthalmic surgeons and could have a material adverse effect on our net sales growth, expected operating results and financial condition.

If an increasing number of ophthalmic surgeons do not continue to adopt the use of our products, our operating and financial results will be negatively impacted.

Product liability suits brought against us could cause us to incur substantial liabilities, limit sales of our existing products and limit commercialization of any products that we may develop.

If our product offerings, including the *iStent* and *iStent inject* , are defectively designed or manufactured, contain defective components, or are used or deployed improperly, or if someone claims any of the foregoing, whether or not such claims are meritorious, we may become subject to substantial and costly litigation. Any product liability claims brought against us, with or without merit, could divert management's attention from our business, be expensive to defend, result in sizable damage awards against us, damage our reputation, increase our product liability insurance rates, prevent us from securing continuing coverage, or prevent or interfere with commercialization of our products. In addition, we may not have sufficient insurance coverage for all future claims. Product liability claims brought against us in excess of our insurance coverage would likely be paid out of cash reserves, harming our financial condition and results of operations.

Operating results could be unpredictable and may fluctuate significantly from quarter to quarter, which could adversely affect our business, financial condition, results of operations and the trading price of our common stock.

Our net sales from the sale of our approved *iStent* devices may experience volatility due to a number of factors, many of which are beyond our control, including:

- our ability to drive increased sales of our products;
- our ability to establish and maintain an effective and dedicated sales organization;
- fluctuations in the demand for our products;

- pricing pressure applicable to our products, including adverse third-party coverage and reimbursement outcomes and competitor pricing;
- results of clinical research and trials on our products or competitive MIGS products;
- fluctuations in the number of cataract procedures performed by our customers, which could decrease significantly during holiday seasons and summer months, when significant numbers of physicians and patients may schedule vacations;
- timing of new product offerings, acquisitions, licenses or other significant events by us or our competitors;
- decisions by customers to defer orders in anticipation of the introduction of new products or product enhancements by us;
- sampling by and additional training requirements for physicians upon the commercialization of a new product by the Company or one of its competitors;
- our ability to manage the risks associated with new product introductions, including, without limitation, managing product inventory levels to ensure we adequately meet product demands and avoid expenses and charges associated with product obsolescence, and shifts and changes in product demands and the associated impact on revenues and cost of goods sold;
- regulatory approvals and legislative changes affecting the products we may offer or those of our competitors;
- interruption in the manufacturing or distribution of our products;
- the ability of our suppliers, including sole suppliers, to timely provide us with an adequate supply of product components;
- the effect of competing technological, industry and market developments;
- changes in our ability to obtain regulatory clearance or approval for our products or to obtain or maintain our CE Certificates of Conformity for our products;
- variances in the sales terms, timing or volume of customer orders from period to period;
- the length of our sales cycle, which varies and may be unpredictable; and
- our ability to expand the geographic reach of our sales and marketing efforts.

As a result, you should not rely on our results in any past period as an indication of future results and you should anticipate that fluctuations in our quarterly and annual operating results may continue and could generate volatility in the price of our common stock. We believe that quarterly comparisons of our financial results should not be relied upon as an indication of our future performance.

If we fail to manage our anticipated growth effectively, or are unable to increase or maintain our manufacturing capacity, we may not be able to meet customer demand for our products and our business could suffer.

Since the commercial launch of the *iStent* in July 2012, we have seen significant period-to-period growth in our business. We anticipate that this growth will continue in the near term as the *iStent* and the *iStent inject* continue to gain market acceptance and we develop and introduce new products. Not only do we expect this growth to continue, but we must continue to grow in order to meet our business and financial objectives. However, continued growth may create numerous challenges, including:

- new and increased responsibilities for our management team;
- increased pressure on our operating, financial and reporting systems;
- increased pressure from our competitors;
- increased pressure to anticipate and satisfy market demand;

- additional manufacturing capacity requirements;
- strain on our ability to source a larger supply of components that meet our required specifications on a timely basis;
- management of an increasing number of relationships with our customers, suppliers and other third parties;
- entry into new international territories with unfamiliar regulations and business approaches; and
- the need to hire, train and manage additional qualified personnel.

Although we believe we have plans in place sufficient to ensure we have adequate capacity to meet our current business plans, there are uncertainties inherent in expanding our manufacturing capabilities, and we may not be able to sufficiently increase our capacity in a timely manner. For example, manufacturing and product quality issues may arise as we increase production rates at our manufacturing facility or launch new products. Also, we may not manufacture the right product mix to meet customer demand as we introduce new products. As a result, we may experience difficulties in meeting customer demand, in which case we could lose customers or be required to delay new product introductions, and demand for our products could decline. If we fail to manage any of the above challenges effectively, our business may be harmed.

Our future growth depends on our ability to retain members of our senior management and other key employees. If we are unable to retain or recruit qualified personnel for growth, our business results could suffer.

We have benefited substantially from the leadership and performance of our senior management as well as certain key employees. For example, our chief executive officer, as well as other key members of our senior management, has experience successfully developing novel technologies and scaling early-stage medical device companies to achieve profitability. Our success will depend on our ability to retain our current management and key employees, and to attract and retain qualified personnel in the future. Competition for senior management and key employees in our industry is intense and we cannot guarantee that we will be able to retain our personnel or attract new, qualified personnel. The loss of services of certain members of our senior management or key employees could prevent or delay the implementation and completion of our strategic objectives, or divert management's attention to seeking qualified replacements. Each member of senior management as well as our key employees may terminate employment without notice and without cause or good reason. The members of our senior management are not subject to non-competition agreements. Accordingly, the adverse effect resulting from the loss of certain members of senior management could be compounded by our inability to prevent them from competing with us.

In addition to competing for market share for our products, we also compete against our competitors for personnel, including qualified sales representatives that are necessary to grow our business. Also, we compete with universities and research institutions for scientific and clinical personnel that are important to our research and development efforts.

We also rely on consultants and advisors in our research, operations, clinical and commercial efforts to implement our business strategies. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability to us.

Our strategic plan requires us to continue growing our sales, marketing, clinical and operational infrastructure in order to generate, and meet, the demand for our products. If we fail to retain or attract these key personnel, we could fail to take advantage of the market for our *iStent* technologies and our business, financial condition and operating results could be adversely affected.

Our iDose implant will be regulated as a drug and be subject to a different regulatory approval process than our other products in development. iDose is in early stages of development and may never be commercialized.

As a drug delivery implant, *iDose* will be subject to a regulatory approval process similar to that for pharmaceuticals. This process is often a more lengthy, costly and complex process than obtaining regulatory approval for a medical device. The future success of our *iDose* drug delivery systems depends on our ability to complete clinical trials, and will require significant development activities, clinical trials, regulatory approvals, and substantial additional investment.

This development program may not lead to a commercially viable product for several reasons. For example, we may fail to demonstrate safety and efficacy in pre-clinical tests or clinical trials, or we may have inadequate financial or other resources to pursue drug development efforts. From time to time, we may establish and announce certain development goals for our *iDose* product candidate; however, it is difficult to predict accurately if and when we will achieve these goals. We may be unsuccessful in advancing this drug delivery implant into clinical testing or in obtaining FDA approval, and our long-term business prospects could be harmed.

Our business requires substantial capital and operating expenditures to operate and grow.

Although we raised net proceeds of approximately $113.6 million from our IPO in 2015 and generate net sales from our approved products, we may nevertheless need to raise substantial additional capital in the future to:

- expand our sales and marketing organization in the United States and internationally;
- fund our operations, clinical trials and commercialization efforts for new products, if any such products receive regulatory approval for commercial sale;
- scale-up our manufacturing operations;
- pursue additional research and development;
- enforce or defend, in litigation or otherwise, our patent or other intellectual property rights against infringement, misappropriation or other violation by third parties or any claims that we infringe or have otherwise violated third-party patent or other intellectual property rights; and
- acquire companies or in-license products or intellectual property.

We believe that our available cash, cash equivalents, investment balances and interest we earn on these balances and cash generated from operations will be sufficient to fund our operations and satisfy our liquidity requirements for at least the next 12 months from the date our consolidated financial statements for the year ended December 31, 2018 are made publicly available. However, our future funding requirements will depend on many factors, including:

- the scope, rate of progress and cost of our clinical trials and other research and development activities;
- the cost of filing and prosecuting patent applications and defending and enforcing our patent and other intellectual property rights;
- the cost of asserting or defending, in litigation or otherwise, our patent or other intellectual property rights against infringement, misappropriation or other violation by third parties or any claims that we infringe or have otherwise violated third-party patent or other intellectual property rights;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish;
- the cost and timing of regulatory approvals;
- the cost and timing of establishing sales, marketing and distribution capabilities;
- the cost of establishing clinical and commercial supplies of our products and any products that we may develop;
- the effect of competing technological and market developments;
- licensing technologies for future development; and
- the extent to which we acquire or invest in businesses, products and technologies, although we currently have no commitments or agreements relating to any of these types of transactions.

If we raise additional funds through further issuances of equity or issuances of convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing obtained by us in the future would likely be senior to our common stock, would likely cause us to incur interest expense, and could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may

increase our expenses and make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may also be required to secure any such debt obligations with some or all of our assets.

We cannot assure you that we will be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, or if we expend capital on projects that are not successful, our ability to continue to support our business growth and to respond to business challenges could be significantly limited, or we may even have to scale back our operations. In addition, the Company maintains cash balances in excess of amounts insured by the Federal Deposit Insurance Commission.

We have and may continue to enter into acquisitions, collaborations, in-licensing agreements, joint ventures, alliances or partnerships with third parties that fail to result in a commercial product or net sales.

We have and may continue to enter into acquisitions, collaborations, in-licensing agreements, joint ventures, alliances, partnerships or undertake one or more of these transactions in order to retain our competitive position within the marketplace or to expand into new markets. However, we cannot assure you that we would be able to successfully complete any acquisition we choose to pursue, or that we would be able to successfully integrate any acquired business, product or technology in a cost-effective and non-disruptive manner. If we were unable to integrate any acquired businesses, products or technologies effectively, our business would likely suffer. We cannot assure you that any such transaction would result in revenue growth, increased profitability or an enhancement in our business prospects.

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

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage sales and marketing data, accounting and financial functions, inventory management, product development tasks, clinical data, customer service and technical support functions. Our information technology systems are vulnerable to damage or interruption from earthquakes, fires, floods and other natural disasters, terrorist attacks, power losses, computer system or data network failures, security breaches, data corruption and cyber-based attacks. Cyber-based attacks can include computer viruses, computer denial-of-service attacks, worms, and other malicious software programs or other attacks, covert introduction of malware to computers and networks, impersonation of authorized users, and efforts to discover and exploit any design flaws, bugs, security vulnerabilities or security weaknesses, as well as intentional or unintentional acts by employees or other insiders with access privileges, intentional acts of vandalism by third parties and sabotage. In addition, federal, state and international laws and regulations, such as GDPR, can expose us to enforcement actions and investigations by regulatory authorities, and potentially result in regulatory penalties and significant legal liability, if our information technology security efforts fail. In addition, a variety of our software systems are cloud-based data management applications, hosted by third-party service providers whose security and information technology systems are subject to similar risks.

The failure of either our or our service providers' information technology could disrupt our entire operation or result in decreased sales, increased overhead costs, product shortages, loss or misuse of proprietary or confidential information, intellectual property or sensitive or personal information, all of which could have a material adverse effect on our reputation, business, financial condition and operating results.

We cannot be certain that our net operating loss tax carryforwards will be available to offset future taxable income.

At December 31, 2018, we had approximately $154.5 million, $120.6 million and $15.8 million of net operating loss carryforwards for federal, state and foreign purposes, respectively, available to offset future taxable income. The federal net operating loss carryforwards incurred prior to 2018 will being to expire in 2019. A federal net operating loss carryforward of $27.2 million will not expire, but can only be used to offset 80 percent of future taxable income. The state net operating loss carryforwards will begin to expire in 2019. The foreign net operating losses will begin to expire in 2023. At December 31, 2018, we had federal and state research and development carryforwards of approximately $9.1 million and $8.1 million, respectively, which begin to expire in 2021 for federal purposes and carry over indefinitely for state purposes. We have recorded a full valuation allowance against these tax attributes because we believe that uncertainty exists with respect to the future realization of the tax attributes as well as with respect to the amount of the tax attributes that will be available in future periods. To the extent available, we intend to use these net

operating loss carryforwards to offset future taxable income associated with our operations. There can be no assurance that we will generate sufficient taxable income in the carryforward period to utilize any remaining net operating loss carryforwards before they expire.

In addition, Section 382 of the Internal Revenue Code of 1986, as amended (the Code) contains rules that limit for U.S. federal income tax purposes the ability of a corporation that undergoes an "ownership change" to utilize its net operating losses (and certain other tax attributes) existing as of the date of such ownership change. Under these rules, a corporation is treated as having had an "ownership change" if there is more than a 50% increase in stock ownership by one or more "five percent shareholders," within the meaning of Section 382 of the Code, during a rolling three-year period. We believe a portion of our existing net operating losses are subject to limitations arising from previous ownership changes, and if we undergo an ownership change, our ability to utilize our net operating losses to offset future taxable income could be further limited, which could have a negative effect on our liquidity. For these reasons, we may not be able to utilize a material portion of our net operating losses, even if we continue to achieve profitability.

Risks Related to the Regulatory Environment

Our failure to obtain and maintain regulatory clearances or approvals on a timely basis, or at all, could prevent us from commercializing our current or pipeline products in the U.S., which could severely impede our ability to grow our business and/or harm our business, financial condition and operating results.

The *iStent* and the *iStent inject* are classified as medical devices. As a result, we are subject to extensive government regulation in the United States by the FDA and state regulatory authorities and by foreign regulatory authorities in the countries in which we conduct business. These regulations relate to, among other things, research and development, design, testing, clinical trials, manufacturing, clearance or approval, environmental controls, safety and efficacy, labeling, advertising, promotion, pricing, recordkeeping, reporting, import and export, post-approval studies and the sale and distribution of the *iStent* , the *iStent inject* and our other products in development.

In the United States, before we can market a new medical device, or a new use of, new claim for, or significant modification to, an existing product, we must first receive either clearance under Section 510(k) of the Federal Food, Drug and Cosmetic Act (FDCA) or approval of a premarket approval application (PMA) from the FDA, unless an exemption applies. The process of obtaining PMA approval, which was required for the *iStent* and the *iStent inject* , is much more costly and uncertain than the 510(k) clearance process. In the 510(k) clearance process, the FDA must determine that a proposed device is "substantially equivalent" to a device legally on the market, known as a "predicate" device, in order to clear the proposed device for marketing. To be "substantially equivalent," the proposed device must have the same intended use as the predicate device, and either have the same technological characteristics as the predicate device or have different technological characteristics and not raise different questions of safety or effectiveness than the predicate device. Clinical data are sometimes required to support substantial equivalence. In the PMA approval process, the FDA must determine that a proposed device is safe and effective for its intended use based, in part, on extensive data, including, but not limited to, technical, pre-clinical, clinical trial, manufacturing and labeling data. The PMA process is typically required for devices for which the 510(k) process cannot be used and that are deemed to pose the greatest risk.

To the extent clinical data are required to support a 510(k) clearance or PMA approval process, clinical testing must be conducted in compliance with FDA requirements pertaining to human research. Depending on the risk posed by a device, we may be required to obtain an IDE from the FDA prior to beginning any clinical trial; similar notifications are required in other countries. Among other requirements, we must obtain approval from an independent Institutional Review Board (IRB) before such studies may begin. We may not be able to obtain FDA and/or IRB approval to undertake clinical trials in the United States for any new devices we intend to market in the United States. If the IDE application is approved, there can be no assurance the FDA will determine that the data derived from the trials support the safety and effectiveness of the device or warrant the continuation of clinical trials. We must also comply with other FDA requirements such as obtaining informed consent, monitoring, record-keeping, reporting and the submission of information regarding certain clinical trials to a public database maintained by the National Institutes of Health. Compliance with these requirements can require significant time and resources and if the FDA determines that we have not complied with such requirements, it may refuse to consider the data to support our applications or initiate enforcement actions.

Modifications to products that are approved through a PMA application generally need FDA approval. Similarly, some modifications made to products cleared through a 510(k) may require a new 510(k). The FDA's 510(k) clearance process usually takes from three to 12 months, but may last longer. The process of obtaining a PMA generally takes from one to three years, or even longer, from the time the PMA is submitted to the FDA until an approval is obtained. Any delay or failure to obtain necessary regulatory approvals would have a material adverse effect on our business, financial condition and prospects.

The FDA can delay, limit or deny clearance or approval of a device for many reasons, including:

- our inability to demonstrate to the satisfaction of the FDA or the applicable regulatory entity or notified body that our products are safe or effective for their intended uses;
- the disagreement of the FDA or the applicable foreign regulatory body with the design or implementation of our clinical trials or the interpretation of data from pre-clinical studies or clinical trials;
- failure of clinical sites to conduct the clinical trial in accordance with applicable regulatory requirements or our clinical protocols;
- serious and unexpected adverse effects experienced by participants in our clinical trials;
- the data from our pre-clinical studies and clinical trials may be insufficient to support clearance or approval, where required;
- our inability to demonstrate that the clinical and other benefits of the device outweigh the risks;
- the manufacturing process or facilities we use may not meet applicable requirements; and
- the potential for approval policies or regulations of the FDA or applicable foreign regulatory bodies to change significantly in a manner rendering our clinical data or regulatory filings insufficient for clearance or approval.

The research, testing, manufacturing, labeling, approval, selling, import, export, marketing and distribution of drug products is also subject to extensive regulation by the FDA and other regulatory authorities in the United States and other countries, which regulations differ from country to country. We are not permitted to market any drug product candidate in the United States until we receive FDA approval of a new drug application (NDA) or other appropriate drug product application. Prior to submitting a marketing application, human clinical studies are required. In order for clinical studies of a new drug to commence in the United States, an Investigational New Drug (IND) application must be filed with the FDA; similar notifications are required in other countries. Informed consent also must be obtained from study participants. In general, studies may begin in the United States without specific approval by the FDA after a 30-day review period has passed. However, the FDA may prevent studies from moving forward, and may suspend or terminate studies once initiated. Studies are also subject to review by an independent review board (IRB) responsible for overseeing studies at particular sites and protecting human research study subjects. An IRB may prevent a study from beginning or suspend or terminate a study once initiated. Furthermore, the FDA may suggest amendments to any study protocol that may be necessary for the results to support approval. These amendments and the associated discussions with the FDA may further delay study initiation and, as a result, approval of our drug product. Generally, studies also may not commence until after receiving approval by an independent IRB. The IRB is responsible for overseeing studies at particular sites and protecting human research study subjects. An IRB may disapprove a study or suspend or terminate an approved study once initiated.

The FDA or other applicable foreign regulatory bodies can delay, limit or deny approval of a drug candidate for many reasons, including, but not limited to, the following:

- our inability to demonstrate to the satisfaction of the FDA or the applicable foreign regulatory body that the drug candidate is safe and effective for the requested indication;
- the FDA's or the applicable foreign regulatory body's disagreement with design or implementation of our clinical trials or the interpretation of data from preclinical studies or clinical trials;
- serious and unexpected drug-related side effects experienced by participants in our clinical trials or by individuals using drugs similar to our product candidates;

- our inability to demonstrate that the clinical and other benefits of the drug candidate outweigh any safety or other perceived risks;
- the FDA's or the applicable foreign regulatory body's requirement for additional preclinical or clinical studies;
- the FDA's or the applicable foreign regulatory body's non-approval of the drug candidate's chemistry, manufacturing or controls or labeling;
- the FDA's or the applicable foreign regulatory body's failure to approve the manufacturing processes or facilities of third-party manufacturers; or
- the potential for approval policies or regulations of the FDA or applicable foreign regulatory bodies to change significantly in a manner rendering our clinical data or regulatory filings insufficient for approval.

Further, we are subject to laws directed at preventing fraud and abuse, which subject our marketing, training and other practices to government scrutiny. To ensure compliance with Medicare, Medicaid and other regulations, government agencies or their contractors often conduct routine audits and request customer records and other documents to support claims submitted for payment of services rendered. Government agencies or their contractors also periodically open investigations and obtain information from healthcare providers. Violations of federal and state regulations can result in severe criminal, civil and administrative penalties and sanctions, including debarment, suspension or exclusion from Medicare, Medicaid and other government reimbursement programs, any of which would have a material adverse effect on our business.

Legislative or regulatory reform of the healthcare system may affect our ability to sell our products profitably .

In the United States and in certain foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the regulatory and healthcare systems in ways that could impact our ability to sell our products profitably, if at all. In the United States in recent years, new legislation has been proposed and adopted at the federal and state levels that is effecting major changes in the healthcare system. In addition, new regulations and interpretations of existing healthcare statutes and regulations are frequently adopted.

For example, in 2011, the FDA announced a Plan of Action to modernize and improve the FDA's premarket review of medical devices, and has implemented, and continues to implement, reforms intended to improve the timeliness and predictability of the premarket review process. In addition, as part of the Food and Drug Administration Safety and Innovation Act of 2012, Congress enacted several reforms entitled the Medical Device Regulatory Improvements and additional miscellaneous provisions that will further affect medical device regulation both pre-and post-approval.

Further, in December 2016, Congress enacted the 21st Century Cures Act (Cures Act), which contained several provisions related to the review and approval of new medical technologies. Along with other changes, the Cures Act established a statutory program for "breakthrough" devices. The FDA will apply additional resources to help speed the approval or clearance of devices that are designated as breakthrough devices. The Cures Act also included provisions related to the "least burdensome" principle with respect to demonstrating substantial equivalence or reasonable assurance of safety and effectiveness and expanded the number of patients that could be treated by a device approved under a Humanitarian Device Exemption, among other provisions.

Similarly, in August 2017, Congress enacted the FDA Reauthorization Act of 2017 (FDARA). FDARA reauthorized the FDA to collect device user fees, including a new user fee for de novo classification requests, and contained substantive amendments to the device provisions of the FDCA. Among other changes, FDARA required that the FDA update and revise its processes for scheduling inspections of device establishments, communicating about those inspections with manufacturers and providing feedback on the manufacturer's responses to Form 483s. The statute also required that the FDA study the impact of device servicing, including third party servicers, and creates a new process for device sponsors to request classification of accessory devices as part of the PMA application for the parent device or to request a separate classification of accessory devices.

If, as a result of legislative or regulatory healthcare reform, we cannot sell the *iStent* or *iStent inject* (or our other products in development, if approved) profitably, our business would be harmed. In addition, any change in the laws or regulations that govern the clearance and approval processes relating to our current and future products could make it

more difficult and costly to obtain clearance or approval for new products, or to produce, market and distribute existing products.

In March 2010, the Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (ACA) was signed into law. While the goal of health care 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 ACA substantially changes the way healthcare is financed by both governmental and private insurers, encourages improvements in the quality of healthcare items and services and significantly impacts the medical device industry. Among other things, the ACA:

- imposes an annual excise tax of 2.3% on any entity that manufactures or imports medical devices offered for sale in the United States, with limited exceptions (described in more detail below), which, under the Protecting Americans from Tax Hikes Act of 2015 (PATH Act), was suspended from January 1, 2016 to December 31, 2017, and, pursuant to HR 195 passed on January 22, 2018, was further suspended through December 31, 2019;
- 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 Congress to reduce Medicare spending if projected Medicare spending exceeds a specified growth rate.

In addition, other legislative changes have been proposed and adopted since the ACA was enacted. On August 2, 2011, the Budget Control Act of 2011 was signed into law, 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 up to 2% per fiscal year, which went into effect on April 1, 2013 and, due to subsequent legislation, will remain in effect through 2025 unless additional Congressional action is taken. On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law, which, among other things, further reduced Medicare payments to several providers, including hospitals, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. On April 16, 2015, President Obama signed into law the Medicare Access and CHIP Reauthorization Act of 2015, which, among other things, repealed the formula by which Medicare made annual payment adjustments to physicians and replaced the former formula with fixed annual updates and a new system of incentive payments beginning in 2019 that are based on various performance measures and physicians' participation in alternative payment models such as accountable care organizations.

The medical device excise tax moratorium imposed by the PATH Act for 2016 and 2017 favorably impacted our gross profit margin in 2017, and will continue to do so through 2019, based upon its recent extension. However, this impact will not continue in 2020 when the tax is automatically reinstated, absent further legislation, as the *iStent* was subject to this excise tax prior to the moratorium and our recently-approved product and products in our pipeline potentially will be subject to this tax. There are no assurances that our business will not be materially adversely affected by the current, or possible future additional tax, provisions implemented under healthcare reform or appropriate legislation. It is also possible that legislation may be introduced and passed by Congress repealing the ACA in whole or in part and signed into law by President Trump. Because of the continued uncertainty about the likelihood or extent of a potential repeal of that legislation, we cannot quantify or predict with any certainty the likely impact of a repeal of ACA on our business model, prospects, financial condition or results of operations.

Additional state and federal healthcare reform measures may 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 product candidates or additional pricing pressures.

In May 2017, the EU adopted a new Medical Devices Regulation (EU) 2017/745 (MDR), which will repeal and replace the Medical Device Directive (MDD). The MDR will take effect beginning May 25, 2020. The MDR does not

set out a substantially different regulatory system, but provides for stricter controls of medical devices, including, among other things, strengthening of conformity assessment procedures, increased requirements as regards clinical data for devices and pre-market regulatory review of high-risk devices. The MDR also provides for greater control over conformity assessment notified bodies and their standards, increased transparency, more robust device vigilance requirements and clarification of the rules for clinical investigations. Under provisions that govern the transition period until the MDR takes effect, medical devices with notified body certificates issued under the MDD prior to May 26, 2020 may continue to be marketed and sold as long as those certificates are valid, until May 27, 2024 at the latest. After the expiration of any applicable transitional period, only devices that have been CE marked under the MDR may be placed on the market in the EU. If, as a result of these regulatory changes, we cannot obtain or maintain the approvals necessary to sell our *iStent* products (including pipeline products, if approved) in the EU, our business would be harmed.

The clinical trial process required to obtain regulatory approvals is lengthy and expensive with uncertain outcomes, and could result in delays in new product introductions.

In order to obtain PMA and FDA approval for a product, the sponsor must conduct well-controlled clinical trials designed to assess the safety and efficacy of the product candidate. We also will be required to conduct clinical trials to obtain approval of products using the *iDose* drug delivery system, new indications for the *iStent, iStent inject* or new product candidates. Conducting clinical trials is a complex and expensive process, can take many years, and outcomes are inherently uncertain. We incur substantial expense for, and devote significant time to, clinical trials but cannot be certain that the trials will ever result in commercial sales. We may suffer significant setbacks in clinical trials, even after earlier clinical trials showed promising results, and failure can occur at any time during the clinical trial process. Any of our products may malfunction or may produce undesirable adverse effects that could cause us or regulatory authorities to interrupt, delay or halt clinical trials. We, the clinical trial investigators, the reviewing IRB, the FDA, or another regulatory authority may suspend or terminate clinical trials at any time to avoid exposing trial participants to unacceptable health risks.

Successful results of pre-clinical studies are not necessarily indicative of future clinical trial results, and predecessor clinical trial results may not be replicated in subsequent clinical trials. Additionally, the FDA may disagree with our interpretation of the data from our pre-clinical studies and clinical trials, or may find the clinical trial design, conduct or results inadequate to prove safety or efficacy, and may require us to pursue additional pre-clinical studies or clinical trials, which could further delay the clearance or approval of our products. The data we collect from our pre- clinical studies and clinical trials may not be sufficient to support FDA clearance or approval, and if we are unable to demonstrate the safety and efficacy of our future products in our clinical trials, we will be unable to obtain regulatory clearance or approval to market our products.

In addition, we may estimate and publicly announce the anticipated timing of the accomplishment of various clinical, regulatory and other product development goals, which are often referred to as milestones. These milestones could include the right to affix the CE Mark in the European Union; the submission to the FDA of an IDE application, or an IND application, to commence a clinical trial for a new product candidate; the enrollment of patients in clinical trials; the release of data from clinical trials; and other clinical and regulatory events. The actual timing of these milestones could vary dramatically compared to our estimates, in some cases for reasons beyond our control. We cannot assure you that we will meet our projected milestones and if we do not meet these milestones as publicly announced, the commercialization of our products may be delayed and, as a result, our stock price may decline.

Clinical trials are necessary to support PMA applications for our device product candidates and may be necessary to support PMA supplements for modified versions of our marketed device products. This would require the enrollment of large numbers of suitable subjects, which may be difficult to identify, recruit and maintain as participants in the clinical trial. The clinical trials supporting the PMA application for the *iStent inject* involved 505 randomized patients who were monitored for twenty-four months. Monitoring of these patients will continue for up to 36 additional months under a post-approval study for the *iStent inject* , and a second *iStent inject* post-approval study will involve 358 patients who will be followed for three years . The clinical trials supporting the PMA application for the *iStent* involved 289 patients. We conducted an extended *iStent* follow-up post-approval study with 108 patients from the pivotal study, and are currently conducting a post-approval study of 180 patients who are being monitored for three years. If the FDA were to require us to submit data on a greater number of patients or a longer follow-up period, we would incur additional expenses that could be significant. Adverse outcomes in the post-approval studies could also result in restrictions or withdrawal of approval of the PMA.

Before we can obtain regulatory approval for any drug product candidate, such as our *iDose* drug delivery implant, we must undertake extensive clinical testing in humans to demonstrate safety and efficacy to the satisfaction of the FDA and other regulatory agencies. Clinical trials of drug product candidates are expensive and take years to complete, and the outcome of such trials is uncertain. We completed a U.S. IND Phase II clinical trial of *iDose Travoprost* in 2017 and we commenced our U.S. Phase III clinical trials in 2018, which will include a large number of patients. Our ability to conduct additional *iDose* clinical trials depends on many factors, including the data obtained in the Phase III clinical trials.

Delays in the commencement or completion of clinical trials or testing could significantly affect our product development costs. We do not know whether planned clinical trials will begin on time, need to be redesigned, enroll an adequate number of patients in a timely manner or be completed on schedule, if at all. The commencement and completion of clinical trials can be delayed or terminated for a number of reasons, including delays or failures related to:

- the FDA or comparable foreign regulatory authorities disagreeing as to the design or implementation of our clinical protocol or studies, or concluding that our trial design is inadequate to demonstrate safety and efficacy;
- IRBs and third-party clinical investigators may delay or reject the trial protocol;
- obtaining FDA or comparable foreign regulatory approval to commence a clinical trial; or having a clinical trial placed on hold by such authorities;
- reaching agreement on acceptable terms with prospective clinical research organizations, or CROs, and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- manufacturing sufficient quantities of a product candidate for use in clinical trials;
- obtaining IRB or ethics committees approval to conduct a clinical trial at each prospective site;
- recruiting and enrolling patients and maintaining their participation in clinical trials;
- having clinical sites observe trial protocol or continue to participate in a trial;
- patient non-compliance with trial protocols;
- addressing any patient safety concerns that arise during the course of a clinical trial;
- addressing any conflicts with new or existing laws or regulations; and
- third-party clinical investigators declining to participate in a trial or not performing the trial on the anticipated schedule.

Patient enrollment in clinical trials and completion of patient follow-up depend on many factors, including the size of the patient population, the nature of the trial protocol, the proximity of patients to clinical sites, the eligibility criteria for the clinical trial, patient compliance, competing clinical trials and clinicians' and patients' perceptions as to the potential advantages of the product being studied in relation to other available therapies, including any new treatments that may be approved for the indications we are investigating. For example, patients may be discouraged from enrolling in our clinical trials if the trial protocol requires them to undergo extensive post-treatment procedures or follow-up to assess the safety and efficacy of a product candidate, or they may be persuaded to participate in contemporaneous clinical trials of a competitor's product candidate. In addition, patients participating in our clinical trials may drop out before completion of the trial or suffer adverse medical events (including death) unrelated to our products. Delays in patient enrollment or failure of patients to continue to participate in a clinical trial or complete patient follow-up may delay commencement or completion of the clinical trial, cause an increase in the costs of the clinical trial and delays, or result in the failure of the clinical trial.

We could also encounter delays if the FDA concluded that our financial relationships with our principal investigators resulted in a perceived or actual conflict of interest that may have affected the interpretation of a study, the integrity of the data generated at the applicable clinical trial site or the utility of the clinical trial itself, or if we fail to disclose such financial relationships. Principal investigators for our clinical trials may serve as scientific advisors or consultants to us from time to time and receive cash compensation and/or stock options in connection with such services.

If these relationships and any related compensation to or ownership interest by the clinical investigator carrying out the study result in perceived or actual conflicts of interest, or the FDA concludes that the financial relationship may have affected interpretation of the study, the integrity of the data generated at the applicable clinical trial site may be questioned and the utility of the clinical trial itself may be jeopardized, which could result in the delay or rejection of our marketing application by the FDA. Any such delay or rejection could prevent us from commercializing any of our products currently in development.

Further, clinical trials may also be delayed as a result of ambiguous, inconclusive or negative interim or final results as to safety or efficacy. In addition, a clinical trial may be suspended or terminated by us, the FDA, the IRB overseeing the clinical trial at issue, the Data Safety Monitoring Board for such trial, any of our clinical trial sites with respect to that site, or other regulatory authorities due to a number of factors, including:

- failure to conduct the clinical trial in accordance with applicable regulatory requirements or our clinical protocols;
- inspection of the clinical trial operations, trial sites or manufacturing facilities by the FDA or other regulatory authorities resulting in the imposition of a clinical hold;
- inability of a clinical investigator or clinical trial site to continue to participate in the clinical trial;
- unforeseen safety issues or adverse patient side effects;
- device malfunctions occurring with unexpected frequency or potential adverse consequences;
- we or third-party organizations do not perform data collection, monitoring and analysis in a timely or accurate manner or consistent with the clinical trial protocol or investigational or statistical plans;
- third-party clinical investigators have significant financial interests related to us or our study such that the FDA deems the study results unreliable, or we or investigators fail to disclose such interests;
- failure to demonstrate a benefit from using the product candidate; and
- lack of adequate funding to continue the clinical trial.

Additionally, changes in regulatory requirements and guidance may occur and we may need to amend clinical trial protocols to reflect these changes. Amendments may require us to resubmit our clinical trial protocols to IRBs for reexamination, which may impact the costs, timing or successful completion of a clinical trial. If we experience delays in completion of, or if we terminate, any of our clinical trials, the commercial prospects for our product candidates may be harmed and our ability to generate product revenues from these product candidates will be delayed or not realized at all. In addition, any delays in completing our clinical trials will increase our costs, slow down our product candidate development and approval process and jeopardize our ability to commence product sales and generate revenues. Any of these occurrences may significantly harm our business, financial condition and prospects significantly. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of a clinical trial may also ultimately lead to the denial of regulatory approval of the subject product candidate.

If the FDA does not conclude that the iDose drug delivery implant satisfies the requirements for the Section 505(b)(2) regulatory approval pathway, or if the requirements for approval of the iDose drug delivery implant under Section 505(b)(2) are not as we expect, the approval pathway will likely take significantly longer, cost significantly more and encounter significantly more complications and risks than anticipated, and in any case may not be successful

We intend to seek FDA approval of an NDA under Section 505(b)(2) of the FDCA for our drug delivery implant, *iDose* . The Drug Price Competition and Patent Term Restoration Act of 1984, also known as the Hatch-Waxman Act, added Section 505(b)(2) to the FDCA. Section 505(b)(2) permits the filing of an NDA where at least some of the information required for approval comes from studies that were not conducted by or for the applicant.

If the FDA does not allow us to pursue the 505(b)(2) regulatory approval pathway for *iDose* as anticipated, we may need to conduct additional clinical trials, provide additional data and information and meet additional standards for regulatory approval. If this were to occur, the time and financial resources required to obtain FDA approval would likely substantially increase. Moreover, the inability to pursue the 505(b)(2) regulatory approval pathway could result in new

competitive products reaching the market faster than our product candidate, which could materially adversely impact our competitive position and prospects. In addition, circumstances could change that would render a 505(b)(2) application for the product no longer appropriate. Even if we are allowed to pursue the 505(b)(2) regulatory approval pathway for *iDose* , we cannot assure you that we will receive the requisite or timely approvals for commercialization of this product candidate.

We and our suppliers are subject to extensive post-marketing regulatory requirements and failure to comply with applicable requirements could subject us to enforcement actions, including substantial penalties, and might require us to recall or withdraw a product from the market.

Once a medical device is approved, a manufacturer must notify the FDA of any modifications to the device. Any modification to a device that has received FDA clearance or approval that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, design or manufacture, requires premarket clearance or approval from the FDA pursuant to a new 510(k) clearance or approval of a PMA supplement. The FDA requires every manufacturer to make the determination in the first instance regarding whether a modification to a cleared or approved device necessitates the filing of a new 510(k) notification or PMA supplement. The FDA may review any manufacturer's decision and can disagree. If the FDA disagrees with any future determination by us that a new clearance or approval is not required, we may need to cease marketing or to recall the modified product until and unless we obtain clearance or approval. In addition, we could also be subject to significant regulatory fines or penalties. Any of these outcomes could harm our business.

A manufacturer must also submit periodic reports to the FDA as a condition of PMA approval. These reports include safety and effectiveness information about the device after its approval. Failure to submit such reports, or failure to submit the reports in a timely manner, could result in enforcement action by the FDA. Following its review of the periodic reports, the FDA might ask for additional information or initiate further investigation.

The PMA approvals for the *iStent* and the *iStent inject* are subject to several conditions of approval, including postmarket study and registry study requirements. Failure to comply with the conditions of approval could result in the withdrawal of PMA approval, and the inability to continue to market these devices. Failure to conduct the required studies in accordance with IRB and informed consent requirements could also be grounds for withdrawal of approval of the PMA.

Medical devices are also subject to other postmarket requirements including establishment registration and device listing, quality system requirements, reporting of adverse events and device malfunctions, reporting of corrections and removals, labeling requirements, and promotional restrictions. The regulations to which we are subject are complex and have become more stringent over time. Regulatory changes could result in restrictions on our ability to continue or expand our operations, higher than anticipated costs, or lower than anticipated sales. Even after we have obtained the proper regulatory clearance or approval to market a product, we have ongoing responsibilities under FDA regulations and applicable foreign laws and regulations. The FDA, state and foreign regulatory authorities have broad enforcement powers. Our failure to comply with applicable regulatory requirements could result in enforcement action by the FDA, state or foreign regulatory authorities, which may include any of the following sanctions:

- untitled letters or warning letters;
- fines, injunctions, consent decrees and civil penalties;
- recalls, termination of distribution, administrative detention, or seizure of our products;
- customer notifications or repair, replacement or refunds;
- operating restrictions or partial suspension or total shutdown of production;
- delays in or refusal to grant our requests for future 510(k) clearances, PMA approvals or foreign regulatory approvals of new products, new intended uses, or modifications to existing products;
- withdrawals or suspensions of current 510(k) clearances or PMAs or foreign regulatory approvals, resulting in prohibitions on sales of our products;
- FDA refusal to issue certificates to foreign governments needed to export products for sale in other countries; and

- criminal prosecution.

Any of these sanctions could result in higher than anticipated costs or lower than anticipated sales and have a material adverse effect on our reputation, business, results of operations and financial condition.

We must continually monitor the performance of our products once approved and marketed for signs that their use may elicit serious and unexpected adverse effects. Any 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 that leads to corrective actions, could have a significant adverse impact on us.

Our ability to achieve our strategic objectives will depend, among other things, on the long-term clinical performance of the *iStent* and the *iStent inject* for lowering intraocular pressure in mild-to-moderate open-angle glaucoma patients undergoing cataract surgery. Our original PMA approvals for the *iStent* and the *iStent inject* included several post-marketing study requirements and future approvals may be subject to similar requirements.

Although we believe follow-up at three years with respect to the *iStent* and two years with respect to the *iStent inject* continues to support efficacy and safety of these products for lowering intraocular pressure in mild-to-moderate open-angle glaucoma patients undergoing cataract surgery, in the future, longer term study outcomes could demonstrate conflicting clinical effectiveness, a reduction of effectiveness, no clinical effectiveness or longer term safety issues with these *iStent* products. This type of differing data could have a detrimental effect on the market penetration and usage of the *iStent* devices by customers treating mild-to-moderate open-angle glaucoma and/or the risk/benefit profile of using the *iStent* devices to treat mild-to-moderate open-angle glaucoma in combination with cataract surgery. As a result, our sales may decline or expected growth would be negatively impacted. This could put pressure on our ability to execute key components of our business strategy and/or negatively impact our operating condition and financial results.

More generally, all medical devices, such as the *iStent* and the *iStent inject* , can experience performance problems that require review and possible corrective action by us or a component supplier. We cannot provide assurance that component failures, manufacturing errors, noncompliance with quality system requirements or good manufacturing practices, design defects and/or labeling inadequacies in any device or drug products that could result in an unsafe condition or injury to the patient will not occur. 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 of a product or in the event that a product poses an unacceptable risk to health. Manufacturers may also, under their own initiative, stop shipment or recall a product if any material deficiency is found, take corrective action with respect to product in the field, or withdraw a product to improve device performance or for other reasons. A government-mandated or voluntary recall by us or one of our distributors could occur as a result of an unacceptable risk to health, component failures, manufacturing errors, noncompliance with good manufacturing practices or quality system requirements, design or labeling defects or other deficiencies and issues. Similar regulatory agencies in other countries have similar authority to recall products because of material deficiencies or defects in design or manufacture that could endanger health. Any recall would divert management attention and financial resources, could cause the price of our stock to decline and expose us to product liability or other claims and harm our reputation with customers. A recall involving our products could be particularly harmful to our business, financial and operating results.

The FDA requires that certain corrections or removals be reported to the FDA within 10 working days after the recall is initiated. Notice to the FDA of a correction or removal is required when undertaken to reduce a risk to health, including when there is a reasonable probability that the product will cause serious adverse health consequences or death, or when use of the device may cause temporary or medically reversible adverse health consequences or an outcome where the probability of serious adverse health consequences is remote. In addition, companies are required to maintain certain records of corrections and removal, even if they are not reportable to the FDA or similar foreign governmental authorities. We may initiate voluntary recalls involving our products in the future that we determine do not require notification of the FDA or foreign governmental authorities. If the FDA or foreign governmental authorities disagree 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 or a foreign governmental authority could take enforcement action for failing to report the recalls when they were conducted.

Depending on the corrective action we take to redress a product's deficiencies or defects, the FDA or applicable foreign regulatory authority may require, or we may decide, that we will need to obtain new approvals or clearances for the device before we may market or distribute the corrected device. Seeking such approvals or clearances may delay our

ability to replace the recalled devices in a timely manner. Moreover, we may face additional regulatory enforcement action, including FDA warning letters, product seizure, injunctions, administrative penalties, civil penalties or criminal fines. We may also be required to bear other costs or take other actions that may have a negative impact on our sales as well as face significant adverse publicity or regulatory consequences, which could harm our business, including our ability to market our products in the future.

In addition, under the FDA's medical device reporting regulations, we are required to report to the FDA any incident in which our product may have caused or contributed to a death or serious injury or in which our product malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury. Repeated product malfunctions may result in a voluntary or involuntary product recall. We are subject to similar obligations in the EEA and other countries in which we market our products.

Any adverse event involving our products, whether in the United States or abroad, could result in future voluntary corrective actions, such as recalls or customer notifications, or agency action, such as inspection, mandatory recall, orders of repair, replacement or refund or other enforcement action. Any corrective action, whether voluntary or involuntary, as well as defending ourselves in a lawsuit, will require the dedication of our time and capital, distract management from operating our business and may harm our reputation and financial results.

If we or our component manufacturers and contract facilities fail to comply with the FDA's Quality System Regulation or Current Good Manufacturing Practice regulations, our manufacturing operations could be interrupted, and our product sales and operating results could suffer.

We and some of our component manufacturers and contract facilities are required to comply with regulatory requirements known as the FDA's Quality System Regulation (QSR), which covers the procedures and documentation of the design, testing, production, control, quality assurance, inspection, complaint handling, recordkeeping, management review, labeling, packaging, sterilization, storage and shipping of our device products. The FDA's Current Good Manufacturing Practices (cGMPs) regulations also apply to the manufacture of our products. The FDA audits compliance with these regulatory requirements through periodic announced and unannounced inspections of manufacturing and other facilities. The FDA may conduct inspections or audits at any time, and we and some of our component suppliers and contract facilities are subject to such inspections. Although we believe our manufacturing facilities and those of our critical component suppliers are in material compliance with the QSR requirements and with applicable cGMPs, we cannot provide assurance that any future inspection will not result in adverse findings. If our manufacturing facilities or those of any of our component suppliers or contract facilities are found to be in violation of applicable laws and regulations, or we or our suppliers have significant noncompliance issues or fail to timely and adequately respond to any adverse inspectional observations or product safety issues, or if any corrective action plan that we or our suppliers propose in response to observed deficiencies is not sufficient, the FDA could take enforcement action, including any of the following sanctions:

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

Any of these sanctions could adversely affect our business, financial conditions and operating results.

Outside the United States, our products and operations are also often required to comply with standards set by industrial standards bodies, such as the International Organization for Standardization. Foreign regulatory bodies may evaluate our products or the testing that our products undergo against these standards and regulations. The specific standards, regulations, types of evaluation and scope of review differ among foreign regulatory bodies. If we fail to

adequately comply with any of these standards, a foreign regulatory body may take adverse actions similar to those within the power of the FDA. Any such action may harm our reputation and could have an adverse effect on our business, results of operations and financial condition.

We may be subject to fines, penalties, injunctions or other enforcement actions if we are determined to be promoting the use of our products for unapproved or "off-label" uses, resulting in damage to our reputation and business.

Our promotional materials and training methods must comply with FDA and other applicable laws and regulations, including the prohibition of the promotion of a drug or medical device for a use that has not been cleared or approved by the FDA. Use of a drug or device outside of its cleared or approved indications is known as "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 warning letters, untitled letters, fines, penalties, consent decrees, injunctions, or seizures, which could have an adverse impact on our reputation and financial results. We could also be subject to enforcement action under other federal or state laws, including the federal False Claims Act (FCA). While we may request additional indications for our products, the FDA may deny those requests, require additional expensive clinical data to support any additional indications or impose limitations on the intended use of any cleared or approved product as a condition of clearance or approval.

In addition to promoting our products in a manner consistent with our clearances, we must have adequate substantiation for the claims we make for our products. If any of our claims are determined to be false, misleading or deceptive, our products could be considered to be misbranded under the FDCA or to violate the Federal Trade Commission Act. We could also face lawsuits from our competitors under the Lanham Act alleging that our marketing materials are false or misleading.

Failure to comply with the Federal Health Insurance Portability and Accountability Act of 1996, the Health Information Technology for Economic and Clinical Health Act, the European Union's General Data Protection Regulation, and implementing regulations affecting the transmission, security and privacy of health and other proprietary and personal information could result in significant penalties.

Numerous federal, and state and international laws and regulations, including the Federal Health Insurance Portability and Accountability Act of 1996 (HIPAA), the Health Information Technology for Economic and Clinical Health Act (HITECH Act), and the GDPR govern the collection, dissemination, security, use, disclosure and confidentiality of patient-identifiable health and other proprietary and personally-identifiable information. HIPAA, the HITECH Act and the GDPR may require us to comply with standards for the use and disclosure of patient-identifiable health and other types of personal information. The Privacy Standards and Security Standards under HIPAA establish a set of basic national privacy and security standards for the protection of patient-identifiable health information by health plans, healthcare clearinghouses and certain healthcare providers, referred to as covered entities, and the business associates with whom such covered entities contract for services. Notably, whereas HIPAA previously directly regulated only these covered entities, the HITECH Act makes certain of HIPAA's privacy and security standards also directly applicable to covered entities' business associates. As a result, both covered entities and business associates are now subject to significant civil and criminal penalties for failure to comply with the Privacy Standards and Security Standards.

HIPAA and the HITECH Act also include standards for common healthcare electronic transactions and code sets, such as claims information, plan eligibility and payment information. Covered entities, such as healthcare providers, are required to conform to such transaction set standards pursuant to HIPAA.

HIPAA requires covered entities to develop and maintain policies and procedures with respect to the use and disclosure of patient-identifiable health information and the adoption of administrative, physical and technical safeguards to protect such information. The HITECH Act expands the notification requirement for breaches of patient-identifiable health information, restricts certain disclosures and sales of patient-identifiable health information and provides a tiered system for civil monetary penalties for HIPAA violations. The HITECH Act also increased the civil and criminal penalties that may be imposed against covered entities, business associates and possibly other persons and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal

HIPAA laws and seek attorney fees and costs associated with pursuing federal civil actions. Additionally, certain states have adopted comparable privacy and security laws and regulations, some of which may be more stringent than HIPAA.

The GDPR, which took effect in Europe in May 2018, creates a range of new compliance obligations and increases financial penalties for non-compliance and extends the scope of the European Union data protection law to all companies processing data of European Union residents, regardless of the company's location. The GDPR and other privacy and data protection laws may be interpreted and applied differently from country to country and may create inconsistent or conflicting requirements. Any failure to comply with GDPR or other data privacy laws could lead to government enforcement actions and significant penalties. Further, any perceived privacy right violation could result in reputational harm, third-party claims, lawsuits or investigations. Such regulations increase our compliance and administrative burden significantly.

If we do not comply with applicable existing or new laws and regulations related to patient health information, we could be subject to criminal or civil sanctions. New data privacy standards, whether implemented pursuant to HIPAA, the HITECH Act, the GDPR, congressional action or otherwise, could have a significant effect on the manner in which we handle healthcare-related and other personal data and the cost of complying with these standards could be significant.

The 2013 final HITECH Act omnibus rule modified the breach reporting standard in a manner that will likely make more data security incidents qualify as reportable breaches. Any liability from a failure to comply with the applicable requirements of HIPAA, the HITECH Act or the GDPR could adversely affect our financial condition. The costs of complying with privacy and security-related legal and regulatory requirements are burdensome and could have a material adverse effect on our results of operations. These provisions, as modified, will be subject to interpretation by various U.S. and international courts and other governmental authorities, thus creating potentially complex compliance issues for us, as well as our clients and strategic partners. In addition, we are unable to predict what changes to these various privacy and security standards might be made in the future or how those changes could affect our business. Any new legislation or regulation in the area of privacy and security of personal information, including personal health information, could also adversely affect our business operations.

If we fail to comply with state and federal healthcare regulatory laws, we could face substantial penalties, damages, fines, disgorgement, exclusion from participation in governmental healthcare programs, and the curtailment of our operations, any of which could adversely affect our business, operations, and financial condition.

Although we do not provide healthcare services, submit claims for third-party reimbursement, or receive payments directly from Medicare, Medicaid or other third-party payors for our products, we are subject to healthcare fraud, abuse and transparency regulation and enforcement by federal and state governments, which could significantly impact our business. To ensure compliance with Medicare, Medicaid and other regulations, government agencies or their contractors often conduct routine audits and request customer records and other documents to support claims submitted for payment of services rendered. Government agencies or their contractors also periodically open investigations and obtain information from healthcare providers. Violations of federal and state regulations can result in severe criminal, civil and administrative penalties and sanctions, including debarment, suspension or exclusion from Medicare, Medicaid and other government reimbursement programs, any of which would have a material adverse effect on our business.

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. A person or entity does not need to have actual knowledge of this statute or specific intent to violate it;
- the civil FCA, which prohibits, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid or other federal payors 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 criminal FCA, 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;
- HIPAA, which created federal criminal laws that prohibit executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;
- the federal civil monetary penalties statute, which prohibits, among other things, the offering or giving of remuneration to a Medicare or Medicaid beneficiary that the person knows or should know is likely to influence the beneficiary's selection of a particular supplier of items or services reimbursable by a Federal or state governmental program;
- the federal Physician Payments Sunshine Act under ACA, which requires certain manufacturers of drugs, devices, biologics, and medical supplies to report annually to the U.S. Department of Health and Human Services information related to payments and other transfers of value to physicians, other healthcare providers, and teaching hospitals, and ownership and investment interests held by physicians and other healthcare providers and their immediate family members. Manufacturers must submit such reports by the 90th day of each subsequent calendar year; and
- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws that may apply to items or services reimbursed by any third-party payor, including commercial insurers; state laws that require pharmaceutical companies to comply with the device industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government, or otherwise restrict payments that may be made to healthcare providers and other potential referral sources; and state laws that require device manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures.

Further, the ACA, among other things, amended 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, ACA provided 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 FCA.

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 and scientific advisory board arrangements with physicians and other healthcare providers, including some who influence the ordering of and use of our products in procedures they perform. Compensation for some of these arrangements includes the provision of stock options. In addition, in connection with our clinical trial recruitment activities, we have entered into compensation arrangements with some of the physicians who recruit subjects to our clinical trials. While we believe we are in material compliance with applicable laws, because of the complex and far-reaching nature of these laws, regulatory agencies may view these transactions as prohibited arrangements that must be restructured, or discontinued, or that affect our ability to use all of the data from the clinical trial to support our marketing applications, or for which we could be subject to other significant penalties. We could be adversely affected if regulatory agencies interpret our financial relationships with providers who influence the ordering of and use our products to be in violation of applicable laws.

The scope and enforcement of each of these laws is 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 and state enforcement bodies scrutinize 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.

If our operations are found to be in violation of any of the laws described above or any other government regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, disgorgement, imprisonment, exclusion from participation in federal and state healthcare programs and the curtailment or restricting of our operations, any of which could harm our ability to operate our business and our financial results.

Our operations involve hazardous materials, and we must comply with environmental laws and regulations, which can be expensive.

We are subject to a variety of federal, state and local regulations relating to the use, handling, storage and disposal of, and human exposure to, hazardous and toxic materials. We could incur costs, fines, and civil and criminal sanctions, third-party property damage or personal injury claims, or could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under environmental laws. Compliance with current or future environmental and safety laws and regulations could restrict our ability to expand our facilities, impair our research, development or production efforts, or require us to incur other significant expenses. There can be no assurance that violations of environmental laws or regulations will not occur in the future as a result of the inability to obtain permits, human error, accident, equipment failure or other causes.

Risks Related to Our Intellectual Property

If we are unable to adequately protect our intellectual property, our competitors and other third parties could develop and commercialize products similar or identical to ours, which would substantially impair our ability to compete.

Our success and ability to compete depends significantly upon our ability to maintain and protect our proprietary rights to the technologies and inventions used in or embodied by our products. We rely on a combination of patents and trademark rights, and to a lesser extent on trade secrets and copyrights, together with licenses and nondisclosure agreements to protect our intellectual property. These legal means, however, afford only limited protection and may not adequately protect our intellectual property rights. We also have not pursued or maintained, and may not pursue or maintain in the future, patent protection for our products in every country or territory in which we sell or will in the future sell our products. In addition, we cannot be sure that any of our pending patent applications or pending trademark applications will issue or that, if issued, they will issue in a form that will be advantageous to us. The United States Patent and Trademark Office (USPTO) or other foreign patent offices may deny or significantly narrow claims made under our patent applications and our issued patents may be successfully challenged, may be designed around, or may otherwise be of insufficient scope to provide us with any meaningful protection for our present or future commercial products. Further, the USPTO or other foreign trademark offices may deny our trademark applications and, even if published or registered, these trademarks may be ineffective in protecting our brand and goodwill and may be successfully opposed or challenged.

The patent prosecution process itself is expensive and time consuming, and we may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. The patent prosecution process requires compliance with complex laws, rules and regulations imposed by patent authorities. Failure to comply with these laws, rules and regulations may derive, among other bases, from various defects of form in the preparation or filing of our patents or patent applications, which may include defects that relate to our making proper priority claims and inventorship determinations. If any such defects are identified, we may need to take corrective action. For example, we have filed petitions with the USPTO to request in part that Dr. Richard Hill, one of our consultants, be added as an inventor on patents related to the *iStent* , *iStent inject, iStent SA, iStent Infinite* and *iStent Supra* . Dr. Hill has assigned his rights in these patents and certain other patent applications to us pursuant to the terms of his consulting agreement. Because Dr. Hill was employed as an Associate Professor at the University of California, Irvine (the University) during the period when these patents and patent applications were developed in December 2014, we entered into an agreement with the University pursuant to which the University agreed not to challenge our ownership of these patents and patent applications. In addition, if any material defects are found in the form or preparation of any of our patents or patent applications, such patents or applications may be invalid and unenforceable. Any of these outcomes could impair our ability to prevent competition from third parties, which could harm our business. 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. Noncompliance with these requirements 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. 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 would have a material adverse effect on our business. In addition, patents are limited in term. Once all of the patents covering a particular product of ours in a particular jurisdiction have expired, we will no longer be able to stop competitors from marketing a product that is the same as or similar to our product in that jurisdiction, which could have a material adverse effect on our business.

The patent position of medical device companies is generally highly uncertain, involves complex legal and factual questions and has in recent years been the subject of much litigation and administrative proceedings, such as post-grant or *inter partes* review proceedings at the USPTO. In the United States and in many foreign jurisdictions, policies regarding the breadth of claims allowed in patents can be inconsistent. The U.S. Supreme Court and the Court of Appeals for the Federal Circuit have made, and will likely continue to make, changes in how the patent laws of the United States are interpreted. Similarly, foreign courts have made, and will likely continue to make, changes in how the patent laws in their respective jurisdictions are interpreted. We cannot predict future changes in the interpretation of patent laws or changes to patent laws that might be enacted into law by U.S. and foreign legislative bodies. Those changes may materially affect our patents or patent applications and our ability to obtain patents. Future protection for our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage, which could adversely affect our business, financial condition and results of operations.

Patent reform legislation could 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 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, affect patent litigation or administrative proceedings at the USPTO, 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 USPTO 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 could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business and financial condition. In addition, patent reform legislation may pass in the future, in the U.S. or elsewhere, that could 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 to another foreign patent office, or become involved in opposition, interference, 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 or the patent rights of others. An adverse determination in any such submission, proceeding or litigation could 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.

We have a number of foreign patents and patent applications, and expect to pursue patent protection in the most significant markets in which we do business. The laws of other countries in which our product offerings are or may be sold may not protect our product offerings and intellectual property to the same extent as U.S. laws, if at all. Many companies have encountered significant difficulties in obtaining, protecting and defending such rights in such markets. In addition, many countries limit the enforceability of patents against other parties, including government agencies or government contractors. In these countries, the patent owner may have limited remedies, and certain countries have compulsory licensing laws under which a patent owner may be compelled to grant licenses to other parties. We also may be unable to protect our rights in trade secrets and unpatented proprietary technology in these countries. If we encounter such difficulties or we are otherwise precluded from effectively protecting our intellectual property rights in these jurisdictions, our business, financial condition and results of operations could be substantially harmed.

Despite our efforts to safeguard our intellectual property rights, we may not be successful in doing so, or the steps taken by us in this regard may not be adequate to detect or deter misappropriation of our technology or to prevent an unauthorized third party from copying or otherwise obtaining and using our products, technology or other information that we regard as proprietary. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how. Competitors could purchase our products and attempt to replicate some or all of the competitive advantages we derive from our development efforts, infringe our intellectual property rights, design around our protected technology or develop their own competitive technologies that fall outside of our intellectual property rights. Our inability to adequately protect our intellectual property could allow our competitors and other third parties to produce products based on our patented or proprietary technology and other intellectual property rights, which could substantially impair our ability to compete.

We may not be able to accurately estimate or control our future operating expenses in relation to obtaining, enforcing and/or defending intellectual property, which could lead to cash shortfalls. Our operating expenses may fluctuate significantly in the future as a result of the costs of preparing, filing, prosecuting, defending and enforcing patent claims and other patent related costs, including litigation costs and the results of such litigation or costs associated with administrative proceedings and the results of such proceedings.

We have been and may in the future become involved in patent and other intellectual property litigation or administrative proceedings to enforce or defend our intellectual property rights, which could be costly, time consuming and unsuccessful and could interfere with our ability to successfully commercialize our products.

We have asserted and may in the future need to assert claims of infringement against third parties to protect our intellectual property. For example, on April 14, 2018, we filed a patent infringement lawsuit against Ivantis, Inc. in the U.S. District Court for the Central District of California, Southern Division, alleging that Ivantis' Hydrus Microstent device infringes our U.S. Patent Nos. 6,626,858 and 9,827,143. In August 2018, Ivantis filed counterclaims alleging that our *iStent inject* infringes U.S. Patent Nos. 8,540,659, 9,603,741, and 9,833,357, patents which Ivantis had recently acquired (collectively, the "Acquired Patents"). Each party seeks unspecified monetary damages and injunctive relief. The parties are currently engaged in fact discovery. We have filed an early motion seeking a judgment of non-infringement of the Acquired Patents. The Court will hear the motion on March 11, 2019. Trial is set for February 4, 2020.

In May 2018, Ivantis also filed *Inter Partes* Review petitions with the Patent Trial and Appeal Board ("PTAB") on the patents we have asserted in the litigation. The PTAB denied institution of the petitions in December 2018, but Ivantis filed new petitions in January 2019. The PTAB's decision on institution of this second round of petitions is expected in July 2019.

Regardless of the final outcome, any litigation to enforce our intellectual property rights in patents, copyrights, trade secrets or trademarks is highly unpredictable and could result in substantial costs and diversion of resources, which could have a material adverse effect on our business, financial condition and results of operations. Any claims we assert or have asserted against alleged infringers could provoke these third parties to assert counterclaims against us alleging that we infringe their own intellectual property rights, or that our rights are invalid or unenforceable. A court could hold that some or all of our asserted intellectual property rights are not infringed, or could invalidate our rights, hold our rights unenforceable, or substantially narrow the scope of protection. Any such adverse result would undermine our competitive position. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could hurt the price of our common stock. Such litigation proceedings could substantially increase our operating losses and reduce the resources available for development activities or any future sales, marketing or distribution activities.

We may become subject to claims of infringement or misappropriation of the intellectual property rights of others, which could prohibit us from selling our products, require us to obtain licenses from third parties, require us to develop non-infringing alternatives and/or subject us to substantial monetary damages and injunctive relief.

The medical device industry is characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. Third parties could assert infringement or misappropriation claims against us with respect to our current or future commercial products, such as the counterclaims filed by Ivantis in 2018, as described above. Moreover, because patent applications can take many years to issue, there may be currently pending

applications, unknown to us, which may later result in issued patents that materially and adversely affect our business. Our competitors or other interested parties could also pursue additional patent protection related to their earlier patent disclosures with the intent to cover our products. Whether or not any such claims are valid, we cannot be certain that we have not infringed and will not in the future infringe the intellectual property rights of such third parties or others. Additionally, for business reasons, we have challenged and may in the future seek to invalidate or challenge the intellectual property rights of a third party, including those rights owned by our competitors, before any infringement assertion is made. This action could include seeking a declaration or decision from a court or patent office that one or more of our products do not infringe one or more patents or other intellectual property rights owned by third parties and/or that one or more patents owned by one or more third parties are invalid.

Any infringement or misappropriation claim or validity or infringement challenge could result in significant costs, substantial damages and our inability to manufacture, market or sell our existing or future products that are found to infringe. Even if we were to prevail in any such action, the litigation or administrative proceeding could result in substantial cost and diversion of resources that could materially and adversely affect our business. If a court determined, or if we independently discovered, that our product offerings violated third-party proprietary rights, there can be no assurance that we would be able to re-engineer our products to avoid those rights or to obtain a license under those rights on commercially reasonable terms, if at all. As a result, we could be prohibited from selling products that are found to infringe, or we could elect not to sell or to stop selling products that we believe have a substantial probability of infringing a third-party's intellectual property rights. Even if obtaining a license were feasible, it may be costly and time-consuming. A court could also enter orders that temporarily, preliminarily or permanently enjoin us or our customers from making, using, selling, offering to sell, distributing, exporting or importing the *iStent* or *iStent inject* , or future products such as the *iStent SA, iStent Infinite, iStent Supra* or *iDose* , or could enter orders mandating that we undertake certain remedial activities. A court could also order us to pay compensatory damages for such infringement, plus prejudgment interest, and if we are found to have willfully infringed third-party rights, could in addition treble the compensatory damages and award attorneys' fees. These damages could be substantial and could harm our reputation, business, financial condition and results of operations.

Even if resolved in our favor, litigation or other legal or administrative proceedings relating to intellectual property claims may cause us to incur significant expenses, and could distract our technical and management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could hurt the price of our common stock. Such litigation or administrative proceedings could substantially increase our operating losses and reduce the resources available for development activities or any future sales, marketing or distribution activities. We may not have sufficient financial or other resources to conduct such litigation or administrative proceedings adequately. Some of our competitors may be able to sustain the costs of such litigation or administrative proceedings more effectively than we can because of their greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could compromise our ability to compete in the marketplace.

If any of our employees, consultants or others breach their proprietary information agreements, our competitive position could be harmed.

We protect our proprietary technology, in part, through proprietary information and inventions agreements with employees, consultants and other parties. These agreements with employees and consultants generally contain standard provisions requiring those individuals to assign to us, without additional consideration, inventions conceived or reduced to practice by them while employed or retained by us, subject to customary exceptions. Although it is our policy to require each of our employees, consultants and any other parties who may be involved in the development of intellectual property on our behalf to execute such agreements, we may be unsuccessful in doing so with each party who in fact develops intellectual property that we regard as our own. The relevant assignment provisions may not be self-executing or may be breached. As a result, our competitors may learn our trade secrets or we may be required to pursue litigation in order to determine the ownership of the intellectual property rights at issue.

Even if we file suit to prevent or stop such disclosure, there is a risk that a court could find we have not adequately protected the information as a trade secret and allow use of the disclosed information by our competitors. Additionally, we may need to file suit to force the employee, consultant or other party in breach to assign his, her or its rights to us, or we may need to pay additional compensation to such employee, consultant or other party in order to quiet or obtain legal title to the intellectual property rights at issue.

We may be subject to claims that we or our employees have misappropriated the intellectual property of a third party, including trade secrets or know-how, or are in breach of non-competition or non-solicitation agreements with our competitors and third parties may claim an ownership interest in intellectual property we regard as our own.

Many of our employees and consultants were previously employed at or engaged by other medical device, biotechnology or pharmaceutical companies, including our competitors or potential competitors. Some of these employees, consultants and contractors, may have executed proprietary rights, non-disclosure and non-competition agreements in connection with such previous employment. Although we try to ensure that our employees and consultants do not use the intellectual property, proprietary information, know-how or trade secrets of others in their work for us, we may be subject to claims that we or these individuals have, inadvertently or otherwise, misappropriated the intellectual property or disclosed the alleged trade secrets or other proprietary information, of these former employers or competitors. Additionally, we may be subject to claims from third parties challenging our ownership interest in intellectual property we regard as our own, based on claims that our employees or consultants have breached an obligation to assign inventions to another employer, to a former employer, or to another person or entity. Litigation may be necessary to defend against claims, and it may be necessary or we may desire to enter into a license to settle any such claim; however, there can be no assurance that we would be able to obtain a license on commercially reasonable terms, if at all. If our defense to those claims fails, in addition to paying monetary damages, a court could 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 could 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. Even if we are successful in defending against these claims, litigation could result in substantial costs and could be a distraction to management. 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 could hamper or prevent our ability to commercialize our products, which could have an adverse effect on our business, results of operations and financial condition.

Risks Related to Being a Public Company

If we experience material weaknesses in, or otherwise fail to maintain an effective system of, internal controls in the future, 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.

The Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and the effectiveness of our disclosure controls and procedures quarterly. In particular, Section 404(a) of the Sarbanes-Oxley Act requires us to perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting. We were no longer an “emerging growth company” as of December 31, 2017, and consequently, Section 404(b) of the Sarbanes-Oxley Act now requires our independent registered public accounting firm to annually attest to the effectiveness of our internal control over financial reporting.

As a public company, we are required to provide an annual management report on the effectiveness of our internal control over financial reporting and our independent registered public accounting firm is required to audit the effectiveness of our internal control over financial reporting. If we identify material weaknesses in our internal controls over financial reporting, if we are unable to assert that our internal controls over financial reporting are effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be adversely affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources

Risks generally associated with a company-wide implementation of an enterprise resource planning (ERP) system may adversely affect our business and results of operations or the effectiveness of our internal controls over financial reporting.

We are in the process of implementing a company-wide ERP system to upgrade certain existing business, operational, and financial processes. Our ERP implementation is a complex and time-consuming project. Our results of

operations could be adversely affected if we experience time delays or cost overruns during the ERP implementation process, or if the ERP system or associated process changes do not give rise to the benefits that we expect. This project has required and may continue to require investment of capital and human resources, the re-engineering of processes of our business, and the attention of many employees who would otherwise be focused on other aspects of our business. Any deficiencies in the design and implementation of the new ERP system could result in potentially much higher costs than we had incurred and could adversely affect our ability to develop and launch solutions, provide services, fulfill contractual obligations, file reports with the SEC in a timely manner, operate our business or otherwise affect our controls environment. Any of these consequences could have an adverse effect on our results of operations and financial condition. In addition, because the ERP is a new system and we have no prior experience with it, there is an increased risk that one or more of our financial controls may fail. Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition, results of operations or cash flows. If our independent registered public accounting firm determines we have a material weakness or significant deficiency in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our common stock could decline, and we could be subject to sanctions or investigations by the New York Stock Exchange, the SEC, or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

Risks Related to our Common Stock and Ownership of Our Common Stock

We expect that the price of our common stock may fluctuate substantially.

The market price for our common stock may fluctuate depending upon many factors, including, but not limited to:

- the depth and liquidity of the market for our common stock;
- volume, timing and nature of orders for our products;
- developments generally affecting medical device companies;
- actual or anticipated quarterly variation in our results of operations or the results of our competitors;
- the announcements by us or our competitors of new products or product enhancements, significant contracts, commercial relationships or capital commitments;
- developments or disputes concerning our intellectual property or other proprietary rights;
- issuance of new or changes in earnings estimates or recommendations or reports by securities analysts;
- investor perceptions of us and our business, including changes in market valuations of medical device companies;
- actions by institutional or other large stockholders;
- commencement of, or our involvement in, litigation;
- failure to achieve significant sales;
- manufacturing disruptions that could occur if we were unable to successfully expand our production in our current or an alternative facility;
- any future sales of our common stock or other securities;
- any major change to the composition of our board of directors or management;
- our results of operations and financial performance; and
- general economic, industry and market conditions.

In addition, the market price of the stocks of medical device, medical technology, pharmaceutical, biotechnology and other life science companies have experienced significant volatility that often does not relate to the operating performance of the companies represented by the stock. Further, there has been particular volatility in the

market price of securities of early-stage and development-stage life science and medical device companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance.

If securities or industry analysts publish unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will rely in part on the research and reports that equity research analysts publish about us and our business. We will not have any control over the analysts or the content and opinions included in their reports. The price of our stock could decline if one or more equity research analysts downgrade our stock or issue other unfavorable commentary or research. If one or more equity research analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which in turn could cause our stock price or trading volume to decline.

Two members of our board of directors are directors of DOSE Medical Corporation (DOSE).

Two of our current directors, Thomas W. Burns and William J. Link, Ph.D., serve as the only two members of the board of directors of DOSE. This could result in conflicts of interest between their obligations to our company and DOSE. The resolution of any of these conflicts may not always be in our or our investors' best interest.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our restated certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, up to 5,000,000 shares of undesignated preferred stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders may be called only by our board of directors, the chairman of the board of directors, the chief executive officer or the president;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, Class I, Class II and Class III, with each class serving staggered three year terms;
- provide that our directors may be removed only for cause by a supermajority vote of our stockholders;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- specify that no stockholder is permitted to cumulate votes at any election of directors; and
- require a supermajority vote of the stockholders and a majority vote of the board to amend certain of the above-mentioned provisions and our bylaws.

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, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us.

We have never paid dividends on our capital stock and do not anticipate paying cash dividends in the foreseeable future.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Accordingly, investors may have to sell some or all of their shares of our common stock in order to generate cash flow from their investment. Investors may not receive a gain on their investment when they sell shares and may lose the entire amount of the investment.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease two adjacent facilities located in San Clemente, California. During December 2018, we extended the term of these facilities by three years, both of which now expire on December 31, 2024. Each agreement contains an option to extend the lease for one additional three-year period at market rates. The total leased square footage of both facilities equals approximately 98,000. On November 14, 2018, we entered into an office building lease pursuant to which we will lease one property containing three existing office buildings, comprising approximately 160,000 rentable square feet of space, located in Aliso Viejo, California (the Aliso Facility). On December 18, 2018, we also purchased approximately 2.5 acres of vacant land located adjacent to the Aliso Facility for future expansion purposes. The term of the Aliso Facility will commence on May 1, 2019 and continue for thirteen years. The agreement contains an option to extend the lease for two additional five year periods at market rates. We intend to relocate our corporate administrative headquarters, along with certain laboratory, research and development and warehouse space, to the Aliso Facility. We currently intend to maintain manufacturing facilities at our San Clemente location for the foreseeable future. Our additional U.S.-based and foreign subsidiaries' leased office space, which includes small administrative offices in Germany, Australia, Canada, Brazil, Japan and the United Kingdom, totals less than 14,000 square feet.

We believe our existing properties are well maintained, in good operating condition and are adequate to support our present level of operations.

ITEM 3. LEGAL PROCEEDINGS

For a description of our legal proceedings, see Note 10, *Commitments and Contingencies* , of our notes to consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K , which is incorporated by reference in response to this item.

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

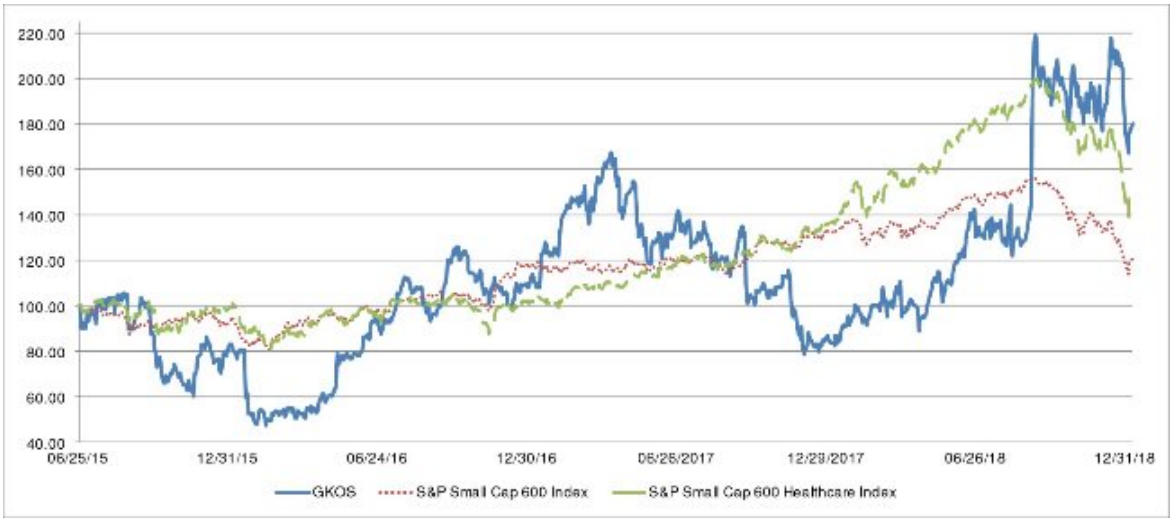
Market Information for Common Stock

Our common stock trades on the New York Stock Exchange (NYSE) under the symbol "GKOS".

As of February 19, 2019, we had 16 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees. The number of record holders also does not include stockholders whose shares may be held in trust by other entities.

Stock Performance Graph

The following performance graph shows the cumulative total stockholder return of an investment of $100 at the close of market on June 25, 2015 (the first day of trading of our common stock on the NYSE) in (i) our common stock, (ii) the S&P Small Cap 600 index and (iii) the S&P Small Cap 600 Healthcare index. The graph assumes that all dividends were reinvested. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.



	6/25/2015	12/31/2015	12/30/2016	12/29/2017	12/31/2018
GKOS	$ 100.00	79.08	$ 109.87	$ 82.16	$ 179.92
S&P Small Cap 600 index	$ 100.00	92.03	$ 116.47	$ 131.89	$ 120.70
S&P Small Cap 600 Healthcare index	$ 100.00	98.73	$ 100.89	$ 135.91	$ 149.41

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that section and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act.

Dividend Policy

We have never declared or paid any cash dividends on our common stock or any other securities. We anticipate that we will retain all available funds and any future earnings, if any, for use in the operation of our business and do not anticipate paying cash dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DAT A

The selected consolidated financial information set forth below for each of the years ended December 31, 2018, December 31, 2017, December 31, 2016, December 31, 2015 and December 31, 2014 has been derived from our audited consolidated financial statements. The information below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements and notes thereto included in Items 7 and 8, respectively, of this Annual Report on Form 10-K.

	Year ended December 31,				
(in thousands, except per share amounts)	2018	2017	2016	2015	2014
Statements of Operations Data:					
Net sales	$ 181,278	$ 159,254	$ 114,397	$ 71,700	$ 45,587
Cost of sales	25,075	21,050	16,177	12,988	11,418
Gross profit	156,203	138,204	98,220	58,712	34,169
Operating expenses:					
Selling, general and administrative	119,529	96,260	64,756	43,961	28,135
In-process research and development	—	5,320	—	—	—
Research and development	49,676	38,905	29,223	25,047	19,205
Total operating expenses	169,205	140,485	93,979	69,008	47,340
(Loss) income from operations	(13,002)	(2,281)	4,241	(10,296)	(13,171)
Loss on deconsolidation of DOSE	—	—	—	(25,685)	—
Non-operating income (expense), net	634	2,282	324	(2,307)	(868)
Provision for income taxes	583	93	43	33	18
Net (loss) income	$ (12,951)	$ (92)	$ 4,522	$ (38,321)	$ (14,057)
Net loss attributable to noncontrolling interest	—	—	—	(1,080)	(1,931)
Net (loss) income attributable to Glaukos Corporation	$ (12,951)	$ (92)	$ 4,522	$ (37,241)	$ (12,126)
Basic net (loss) income per share attributable to Glaukos Corporation stockholders	$ (0.37)	$ (0.00)	$ 0.14	$ (2.13)	$ (5.29)
Diluted net (loss) income per share attributable to Glaukos Corporation stockholders	$ (0.37)	$ (0.00)	$ 0.12	$ (2.13)	$ (5.29)
Weighted average shares used to compute basic net (loss) income per share attributable to Glaukos Corporation stockholders	35,317	34,381	32,928	17,474	2,294
Weighted average shares used to compute diluted net (loss) income per share attributable to Glaukos Corporation stockholders	35,317	34,381	36,459	17,474	2,294

(in thousands)	As of December 31, 2018	2017	2016	2015	2014
Balance Sheet Data:					
Cash and cash equivalents	$ 29,821	$ 24,508	6,494	$ 21,572	$ 2,304
Short-term investments	110,667	94,506	89,268	69,552	—
Net working capital (deficit)	146,202	122,672	103,085	83,778	(9,633)
Total assets	206,970	165,836	134,371	116,661	26,021
Total liabilities	33,110	27,634	17,097	21,470	29,546
Convertible preferred stock	—	—	—	—	157,379
Additional paid in capital	378,352	331,073	308,815	291,853	8,155
Total stockholders' equity (deficit)	173,860	138,202	117,274	95,191	(151,299)
Noncontrolling interest	—	—	—	—	(9,605)
Total equity (deficit)	173,860	138,202	117,274	95,191	(160,904)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with "Selected financial data" and our audited consolidated financial statements and related notes included in Items 6 and 8, respectively, of this Annual Report on Form 10-K. This discussion and analysis and other parts of this Annual Report on Form 10-K contain forward-looking statements that reflect our current plans, expectations, estimates and beliefs that involve risks, uncertainties and assumptions, such as statements regarding our plans, objectives, expectations, intentions and projections. Our actual results and the timing of selected events may differ materially from those discussed in these forward-looking statements. You should carefully read Item 1A - "Risk Factors" included in this Annual Report on Form 10-K to gain an understanding of the important factors that could cause actual results to differ materially from our forward-looking statements. Please also see the section entitled "Special Note Regarding Forward-Looking Statements and Industry Data."

Overview

We are an ophthalmic medical technology and pharmaceutical company focused on the development and commercialization of novel surgical devices and sustained pharmaceutical therapies designed to treat glaucoma, one of the world's leading causes of blindness. We developed Micro-Invasive Glaucoma Surgery (MIGS) to address the shortcomings of traditional glaucoma treatment options. MIGS procedures involve the insertion of a micro-scale device or drug delivery system from within the eye's anterior chamber through a small corneal incision. Our MIGS devices are designed to reduce intraocular pressure by restoring the natural outflow pathways for aqueous humor. Our MIGS drug delivery systems are designed to reduce intraocular pressure by continuously eluting a glaucoma drug from within the eye, potentially providing sustained pharmaceutical therapy for extended periods of time.

Our *iStent* , a trabecular micro-bypass stent that is designed to reduce intraocular pressure by restoring the natural physiologic pathways for aqueous humor, was the first commercially available MIGS treatment solution. Our next generation *iStent inject* , includes two stents pre-loaded in an auto-injection inserter that are also designed to lower intraocular pressure. The *iStent* and *iStent inject* are approved by the United States Food and Drug Administration (U.S. FDA) for insertion in combination with cataract surgery and are currently reimbursed by Medicare and all major national private payors. The *iStent* and *iStent inject* are also commercially available in select markets outside the U.S. In these non-U.S. markets, they are approved for use in conjunction with cataract surgery or as a standalone procedure, even though reimbursement may not always be available for all such procedures.

We are developing additional *iStent* pipeline products: the *iStent Infinite,* the *iStent Supra* , and the *iStent SA* . The *iStent Infinite* , which includes three stents pre-loaded in an auto-injection inserter and is intended to lower intraocular pressure in refractory glaucoma patients in a standalone procedure, is currently being evaluated in a U.S. investigational device exemption (IDE) study. The *iStent Supra* is designed to reduce intraocular pressure by accessing an alternative drainage space within the eye and is being evaluated in combination with cataract surgery in a U.S. pivotal

IDE trial, which completed enrollment in 2017. Similar in design to the *iStent inject* , the *iStent SA* is a two-stent product that uses a different auto-injection inserter and is designed for use in a standalone procedure.

We are also pursuing regulatory approval of our first sustained pharmaceutical therapy using our *iDose* drug delivery system. A U.S. investigational new drug (IND) Phase II study of our initial *iDose* platform product, *iDose Travoprost* , was completed in 2017 and U.S. Phase III clinical trials for this product commenced in 2018. We are also conducting research and development (R&D) activities to explore other potential drugs that may benefit from the use of the *iDose* drug delivery system. In addition, other proprietary R&D efforts are underway on early-stage technologies, including, without limitation, an intraocular pressure (IOP) sensor system that is designed to capture and store a glaucoma patient's short-interval IOP measurements over extended periods of time, and transmit data to the patient's physician in order to enhance treatment decisions.

Our net sales increased to $181.3 million for the year ended December 31, 2018 from $159.3 million and $114.4 million for the years ended December 31, 2017 and December 31, 2016, respectively. We incurred a net loss of $13.0 million for the year ended December 31, 2018. We incurred a net loss of $0.1 million for the year ended December 31, 2017 and achieved net income of $4.5 million for the year ended December 31, 2016.

As of December 31, 2018, we had an accumulated deficit of $205.1 million.

We have made and expect to continue to make significant investments in our global sales force, marketing programs, research and development activities and clinical studies. FDA-approved IDE studies and new product development programs in our industry are expensive, and we have incurred a significant increase in administrative costs since we began operating as a public company. In addition, we have entered into a long-term lease at a new facility in Aliso Viejo, California and have firm purchase commitments to implement global enterprise systems beginning in 2019. Accordingly, although we achieved profitability in 2016 and certain periods of 2017 and 2018, we incurred a net loss for 2018 and there can be no assurance that we will be profitable in the future.

Components of results of operations

Net sales

We currently operate in one reportable segment, ophthalmic medical devices, and substantially all of our net sales are derived from sales of our *iStent* products, net of customer returns and allowances. Revenue is recognized when control of the promised goods or services is transferred to the customer in an amount that reflects the consideration to which we expect to be entitled in exchange for those products or services.

We sell our products through a direct sales organization in the United States, and outside the United States we sell our products primarily through direct sales subsidiaries in sixteen countries and through independent distributors in certain countries in which we do not have a direct presence. The primary end-user customers for our products are hospitals and surgery centers.

We anticipate our net sales will increase as we expand our global sales and marketing infrastructure and continue to increase awareness of our products by expanding our sales base and increasing our marketing efforts. We also expect that our net sales within a fiscal year may be impacted seasonally and reflect seasonality patterns generally consistent with U.S. cataract procedure volumes, which are typically softer in the first quarter and stronger in the fourth quarter of a given year. However, until recently, our *iStent* was the only MIGS device approved for sale in the United States by the FDA. Thus, for several years we had commercialized the *iStent* in the United States without any direct MIGS competitors. Other MIGS devices have now become available in the United States and globally, including our *iStent inject,* or are in development by third parties that have entered or could enter the market and which may affect adoption of or demand for our products. These MIGS products, or other products that may be developed and receive regulatory approval, could achieve greater commercial acceptance, demonstrate better safety or effectiveness, clinical results, ease of use or lower costs than our *iStent, iStent inject* or our other products under development, which may reduce demand for our primary products, the *iStent* , and *iStent inject* as well as for our products in development.

Cost of sales

Cost of sales reflects the aggregate costs to manufacture our products and includes raw material costs, labor costs, manufacturing overhead expenses and the effect of changes in the balance of reserves for excess and obsolete inventory. We manufacture our *iStent* products at our headquarters in San Clemente, California using components manufactured by third parties. Due to the relatively low production volumes of our *iStent* products compared to our potential capacity for those products, a significant portion of our per unit costs is comprised of manufacturing overhead expenses. These expenses include quality assurance, material procurement, inventory control, facilities, equipment and operations supervision and management.

Beginning in late 2013, cost of sales has included amortization of the $17.5 million intangible asset we recognized in connection with our royalty buyout agreement with GMP Vision Solutions, Inc. in November 2013. For the year ended December 31, 2018, the amortization expense was $3.0 million and the intangible asset has now been fully amortized. The amortization expense was $3.5 million during each of the years ended December 31, 2017 and December 31, 2016.

Beginning in 2015, cost of sales includes a charge equal to a low single-digit percentage of worldwide net sales of certain current and future products, including our *iStent* products, with a required minimum annual payment of $0.5 million, which amount became payable to the Regents of the University of California (the University) in connection with our December 2014 agreement with the University (the UC Agreement) related to a group of our U.S. patents (the Patent Rights). This ongoing product payment obligation will terminate on the date the last of the Patent Rights expires, which is currently expected to be in 2022.

Under the Protecting Americans from Tax Hikes Act of 2015 (PATH Act), the 2.3% federal medical device excise tax on U.S. sales of medical devices manufactured by us was suspended from January 1, 2016 to December 31, 2017, and, pursuant to HR 195 passed on January 22, 2018, was further suspended through December 31, 2019.

Our future gross profit as a percentage of net sales, or gross margin, will be impacted by numerous factors including commencement of sales of products in our pipeline, or any other future products, which may have higher product costs. Our gross margin will also be affected by manufacturing inefficiencies that we may experience as we attempt to manufacture our products on a larger scale, manufacture new products and change our manufacturing capacity or output. Additionally, our gross margin will continue to be affected by the aforementioned expense related to the UC Agreement.

Selling, general and administrative

Our selling, general and administrative (SG&A) expenses primarily consist of personnel-related expenses, including salaries, sales commissions, bonuses, fringe benefits and stock-based compensation for our executive, financial, marketing, sales, and administrative functions. Other significant SG&A expenses include marketing programs, advertising, post-approval clinical studies, conferences and congresses, and travel expenses, as well as the costs associated with obtaining and maintaining our patent portfolio, professional fees for accounting, auditing, consulting and legal services, travel and allocated overhead expenses.

We expect SG&A expenses to continue to grow as we increase our sales and marketing infrastructure globally and our clinical education and general administration infrastructure in the United States. We also expect other nonemployee-related costs, including sales and marketing program activities for new products, outside services and accounting and general legal costs to increase as our overall operations grow. The timing of these increased expenditures and their magnitude are primarily dependent on the commercial success and sales growth of our products, as well as on the timing of any new product launches and other potential business and operational activities. In addition, we are incurring and expect to continue to incur increased SG&A expenses since, as of the end of fiscal year 2017, we are no longer able to rely on certain “emerging growth company” exemptions that we previously had been afforded under the Jumpstart Our Business Startups Act.

In-process research and development

Our in-process research and development (IPR&D) expense consists of the cost associated with purchasing the IOP Sensor System from DOSE Medical Corporation (DOSE) on April 12, 2017. The DOSE IOP Sensor System features a micro-invasive ocular implant that is designed to capture and store a glaucoma patient's short-interval IOP measurements over extended periods of time, and transmit data to the patient's physician in order to enhance treatment decisions. The wireless system, which is designed for ab-interno insertion, incorporates a rechargeable battery that may allow the sensor to function for multiple years. The DOSE IOP Sensor System was in the development-stage at the time of purchase.

Research and development

Our R&D activities primarily consist of new product development projects, pre-clinical studies, IDE studies, and other clinical trials. Our R&D expenses primarily consist of personnel-related expenses, including salaries, fringe benefits and stock-based compensation for our R&D employees; research materials; supplies and services; and the costs of conducting clinical studies, which include payments to investigational sites and investigators, clinical research organizations, consultants, and other outside technical services and the costs of materials, supplies and travel. We expense R&D costs as incurred. We expect our R&D expenses to increase as we initiate and advance our development programs, including our expanding pharmaceutical and IOP sensor development efforts, and clinical trials, the most costly of which are expected to be our *iDose Travoprost, iStent Supra, iStent SA* and *iStent Infinite* product candidates.

Completion dates and costs for our clinical development programs include seeking regulatory approvals and our research programs can vary significantly for each current and future product candidate and are difficult to predict. As a result, while we expect our R&D costs to continue to increase for the foreseeable future, we cannot estimate with any degree of certainty the costs we will incur in connection with the development of our product candidates. We anticipate we will make determinations as to which programs and product candidates to pursue and how much funding to direct to each program and product candidate on an ongoing basis in response to the scientific success of early research programs, results of ongoing and future clinical trials, as well as ongoing assessments as to each current or future product candidate's commercial potential and our likelihood of obtaining necessary regulatory approvals.

Non-operating income, net

Non-operating income, net primarily consists of interest income derived from our short-term investments, along with unrealized gains and losses arising from exchange rate fluctuations on transactions denominated in a currency other than the U.S. dollar, primarily related to intercompany loans.

Income taxes

Our tax provision is comprised of US state income and franchise taxes as well as foreign income taxes. We do not currently provide a tax benefit for losses which arise from our operations for financial reporting purposes. We placed a full valuation allowance against our net deferred tax assets as we believe it is not more likely than not that our net deferred tax assets will be realized. We have provided for the tax effects of uncertain tax positions in our tax provision.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. Among other changes, the Act reduces the US federal corporate tax rate from 34 percent to 21 percent. In accordance with Staff Accounting Bulletin 118, as of December 31, 2017, as described below, we made a reasonable estimate of the effects on the existing deferred tax balances. In all cases, we will continue to make and refine calculations as additional analysis is completed. In addition, estimates may also be affected as we gain a more thorough understanding of the Act.

We remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21% for federal tax purposes. The provisional amount recorded related to the remeasurement of the deferred tax balance was $25.2 million, which was fully offset by a decrease in the valuation allowance. As of December 31, 2018, we have completed our accounting for the tax effects of the Act, and determined that its remeasurement of the deferred tax balance is unchanged.

Further, we have recorded the tax impact of IRC Section 162(m) as amended by the Act, which resulted in a reduction to the deduction for compensation paid to covered executives.

Results of operations

Comparison of years ended December 31, 2018 and December 31, 2017

(in thousands)	2018	Year ended December 31, 2017	% Increase (decrease)
Statements of operations data:			
Net sales	$ 181,278	$ 159,254	14 %
Cost of sales	25,075	21,050	19 %
Gross profit	156,203	138,204	13 %
Operating expenses:			
Selling, general and administrative	119,529	96,260	24 %
In-process research and development	—	5,320	NM
Research and development	49,676	38,905	28 %
Total operating expenses	169,205	140,485	20 %
Loss from operations	(13,002)	(2,281)	470 %
Non-operating income, net	634	2,282	(72)%
Provision for income taxes	583	93	527 %
Net loss	$ (12,951)	$ (92)	NM

NM = Not Meaningful

Net sales

Net sales for the years ended December 31, 2018 and December 31, 2017 were $181.3 million and $159.3 million, respectively, reflecting an increase of $22.0 million or 14%. The increase in net sales resulted primarily from expansion of direct sales operations in our existing international markets, U.S. sales of our recently launched *iStent inject* and the recent withdrawal from the market of a competitive MIGS device. Net sales in the United States were $151.7 million and $140.9 million for the years ended December 31, 2018 and December 31, 2017, respectively, increasing by 8%. International sales for the years ended December 31, 2018 and December 31, 2017 were $29.6 million and $18.4 million, respectively, increasing by 61%. Net sales at our subsidiaries in Australia, Germany, Japan and the United Kingdom accounted for the majority of the increase internationally.

Cost of sales

Cost of sales for the years ended December 31, 2018 and December 31, 2017 were $25.1 million and $21.1 million, respectively, reflecting an increase of approximately $4.0 million or 19%. Our gross margin was approximately 86% for the year ended December 31, 2018 compared to approximately 87% for the year ended December 31, 2017.

Selling, general and administrative expenses

SG&A expenses for the years ended December 31, 2018 and December 31, 2017 were $119.5 million and $96.3 million, respectively, reflecting an increase of $23.3 million or 24%. The increase in SG&A expenses was primarily the result of approximately $14.5 million in additional compensation and related employee expense associated with our growing number of domestic and international employees with the remaining increase comprised of other SG&A expenses such as consulting and professional services fees, including legal fees associated with our previously-

disclosed patent litigation, training samples related to our recent U.S. launch of *iStent inject* , and non-employee related expenses incurred by our foreign subsidiaries.

In-process research and development

Our IPR&D expense consists of the cost associated with purchasing the IOP Sensor System from DOSE on April 12, 2017. The DOSE IOP Sensor System features a micro-invasive ocular implant that is designed to capture and store a glaucoma patient's short-interval IOP measurements over extended periods of time, and transmit data to the patient's physician in order to enhance treatment decisions. The wireless system, which is designed for ab-interno insertion, incorporates a rechargeable battery that may allow the sensor to function for multiple years. The IOP Sensor System was in the development-stage at the time of purchase.

Research and development expenses

R&D expenses for the years ended December 31, 2018 and December 31, 2017 were $49.7 million and $38.9 million, respectively, reflecting an increase of $10.8 million or 28%. The increase in R&D expenses was primarily the result of approximately $7.0 million in additional compensation and related employee expenses as well as an overall increase of approximately $3.8 million in other core R&D and clinical expenses, including expenses associated with our *iDose Travoprost* Phase III clinical trials.

Non-operating income, net

We had non-operating income, net of $0.6 million and $2.3 million for the years ended December 31, 2018 and December 31, 2017, respectively. The decrease in non-operating income, net primarily relates to the recognition of unrealized foreign currency losses due to higher intercompany loan balances denominated in, and impacted by, changes in foreign currency exchange rates, offset by increases in interest income related to our short-term investments.

Provision for income taxes

Our effective tax rate for the year ended 2018 was not meaningful. For the years ended December 31, 2018 and December 31, 2017, we recorded a provision for income taxes of $0.6 million and $0.1 million, respectively, which were primarily comprised of state and foreign income taxes in the year ended December 31, 2018 and federal alternative minimum tax and state taxes in the year ended December 31, 2017.

Comparison of years ended December 31, 2017 and December 31, 2016

(in thousands)	Year ended December 31, 2017	2016	% Increase (decrease)
Statements of operations data:			
Net sales	$ 159,254	$ 114,397	39 %
Cost of sales	21,050	16,177	30 %
Gross profit	138,204	98,220	41 %
Operating expenses:			
Selling, general and administrative	96,260	64,756	49 %
In-process research and development	5,320	—	NM
Research and development	38,905	29,223	33 %
Total operating expenses	140,485	93,979	49 %
(Loss) income from operations	(2,281)	4,241	NM
Non-operating income, net	2,282	324	604 %
Provision for income taxes	93	43	116 %
Net (loss) income	$ (92)	$ 4,522	NM

NM = Not Meaningful

Net sales

Net sales for the years ended December 31, 2017 and December 31, 2016 were $159.3 million and $114.4 million, respectively, reflecting an increase of $44.9 million or 39%. The increase in net sales resulted from unit volume increases worldwide, an increase in the average selling price of *iStents* sold to U.S. ambulatory surgery centers related to an increase in Medicare reimbursement payments, and expansion of direct sales operations into new international markets. Net sales in the United States were $140.9 million and $105.0 million for the years ended December 31, 2017 and December 31, 2016, respectively, increasing by 34%. International sales for the years ended December 31, 2017 and December 31, 2016 were $18.4 million and $9.4 million, respectively, increasing by 95%. Net sales at our subsidiaries in Australia, Germany, Japan and the United Kingdom accounted for the majority of the increase internationally.

Cost of sales

Cost of sales for the years ended December 31, 2017 and December 31, 2016 were $21.1 million and $16.2 million, respectively, reflecting an increase of $4.9 million or 30%. Our gross margin was approximately 87% for the year ended December 31, 2017 compared to 86% for the year ended December 31, 2016.

Selling, general and administrative expenses

SG&A expenses for the years ended December 31, 2017 and December 31, 2016 were $96.3 million and $64.8 million, respectively, reflecting an increase of $31.5 million or 49%. The increase in SG&A expenses was primarily the result of an increase of approximately $11.7 million in salary and related expenses and stock-based compensation associated with our increased number of domestic employees, with the remaining increase comprised of SG&A expenses incurred by our foreign subsidiaries and consulting and professional services fees.

In-process research and development

Our IPR&D expense consists of the cost associated with purchasing the IOP Sensor System from DOSE on April 12, 2017. The DOSE IOP Sensor System features a micro-invasive ocular implant that is designed to capture and store a glaucoma patient's short-interval IOP measurements over extended periods of time, and transmit data to the patient's physician in order to enhance treatment decisions. The wireless system, which is designed for ab-interno insertion, incorporates a rechargeable battery that may allow the sensor to function for multiple years. The IOP Sensor System was in the development-stage at the time of purchase.

Research and development expenses

R&D expenses for the years ended December 31, 2017 and December 31, 2016 were $38.9 million and $29.2 million, respectively, reflecting an increase of $9.7 million or 33%. The increase in R&D expenses primarily resulted due to approximately $6.2 million in salary and related expenses, stock-based compensation, travel and other costs associated with our increased number of personnel, primarily in our clinical and regulatory affairs functions, required to manage the increased number of global clinical studies with associated investigational sites and study investigators. The remaining increase was comprised of product costs for supplies and inventory requisitions for *iStent inject* and consulting and professional services fees. Partially offsetting these increases was a reduction in U.S. clinical trial expenses given we achieved full enrollment in a U.S.-based clinical study during the fiscal year ended 2017.

Non-operating income, net

We had non-operating income, net for the years ended December 31, 2017 and December 31, 2016 of $2.3 million and $0.3 million, respectively. The increase in interest and other income reflects higher interest rates on a comparatively higher balance of short-term investments and the recognition of greater unrealized foreign currency gains due to higher intercompany loan balances.

Provision for income taxes

Our effective tax rate for the year ended December 31, 2017 was not meaningful. For the years ended December 31, 2017 and December 31, 2016, we recorded a provision for income taxes of $93,000 and $43,000, respectively, which were primarily comprised of federal alternative minimum tax and state income taxes.

Liquidity and capital resources

For the year ended December 31, 2018, we incurred a net loss of $13.0 million; however, we generated cash from operations of $18.9 million. As of December 31, 2018, we had an accumulated deficit of approximately $205.1 million. We have funded our operations to date from the sale of equity securities, including our June 2015 initial public offering (IPO), the issuance of notes payable, cash exercises of stock options and warrants to purchase equity securities and cash generated from operations. We have made and expect to continue to make significant investments in our global sales force, marketing programs, research and development activities and clinical studies. FDA-approved IDE studies and new product development programs in our industry are expensive, and we have also incurred a significant increase in administrative costs since we began operating as a public company in 2015. In addition, we have entered into a long-term lease at a new facility in Aliso Viejo, California and have firm purchase commitments to implement global enterprise systems beginning in 2019 . Accordingly, although we were profitable in 2016 and certain periods of 2017 and 2018, and have generated cash from commercial operations in those years, we incurred net losses during the year ended December 31, 2018 and there can be no assurance that we will continue to be profitable or continue to generate cash from operations.

At December 31, 2018, we had $149.3 million in cash, cash equivalents, restricted cash and short-term investments. We plan to fund our operations and capital funding needs using existing cash and investments and cash generated from commercial operations, and we may seek to obtain additional financing in the future through debt or equity financings. There can be no assurance that we will be able to obtain additional financing on terms acceptable to us, or at all. We believe that our available cash, cash equivalents, investment balances and interest we earn on these balances and cash generated from commercial operations will be sufficient to fund our operations and satisfy our liquidity requirements for at least the next 12 months from the date our consolidated financial statements for the year ended December 31, 2018 are made publicly available.

The following table summarizes our cash and cash equivalents, short-term investments and selected working capital data as of December 31, 2018 and December 31, 2017 (in thousands):

	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 29,821	$ 24,508
Short-term investments	110,667	94,506
Accounts receivable, net	18,673	16,656
Accounts payable	6,286	6,244
Accrued liabilities	23,964	20,449
Working capital (1)	146,202	122,672

(1) Working capital consists of total current assets less total current liabilities

Cash flows

Our historical cash outflows have primarily been associated with cash used for operating activities such as the purchase of and growth in inventory; expansion of our sales, marketing and R&D activities and other working capital needs; the acquisition of intellectual property; and expenditures related to equipment and improvements used to increase our manufacturing capacity, to improve our manufacturing efficiency and for overall facility expansion.

The following table is a condensed summary of our cash flows for the periods indicated:

(in thousands)	Year ended December 31, 2018	2017	2016
Net cash provided by (used in):			
Operating activities	$ 18,864	$ 26,091	$ 12,309
Investing activities	(26,400)	(12,390)	(26,116)
Financing activities	21,576	4,667	(1,642)
Exchange rate changes	48	(434)	371
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 14,088	$ 17,934	$ (15,078)

At December 31, 2018, our cash and cash equivalents were held for working capital purposes. We do not enter into investments for trading or speculative purposes. Our policy is to invest any cash in excess of our immediate requirements in investments designed to preserve the principal balance and provide liquidity.

Operating activities

In the years ended December 31, 2018, December 31, 2017, and December 31, 2016, our operating activities provided net cash of $18.9 million, $26.1 million, and $12.3 million, respectively.

Net cash generated from operating activities primarily reflects an increase in cash resulting from higher net sales of our *iStent* and *iStent inject* products partially offset by increases in our total operating expenses.

For the year ended December 31, 2018, included in net cash provided by operating activities were non-cash items of $35.4 million, primarily consisting of stock-based compensation expense of $25.7 million and depreciation and amortization of $6.3 million. In addition to the net loss of $13.0 million, these non-cash items were partially offset by changes in operating assets and liabilities of $3.6 million, which resulted from increases in accounts receivable, inventory and prepaid expenses and other current assets totaling $6.3 million, offset by increases in accounts payable and accrued liabilities and other assets of $2.7 million.

For the year ended December 31, 2017, included in net cash provided by operating activities were non-cash items of $22.9 million, primarily consisting of stock-based compensation expense of $17.6 million and depreciation and amortization of $5.5 million. In addition to the net loss of $0.1 million, these non-cash items were partially offset by changes in operating assets and liabilities of $3.3 million, which resulted from increases in accounts receivable, inventory, deferred tax asset and other assets totaling $6.9 million, offset by increases in accounts payable, accrued liabilities and prepaid expenses and other current assets of $10.2 million.

For the year ended December 31, 2016, included in net cash provided by operating activities were non-cash items of $14.1 million, primarily consisting of stock-based compensation expense of $8.8 million and depreciation and amortization of $4.7 million, as well as net income of $4.5 million. Our net income and these non-cash items were partially offset by changes in operating assets and liabilities of $6.3 million, which resulted from increases in accounts receivable, inventory and prepaid expenses and other current assets totaling $11.5 million, offset by increases in accounts payable, accrued liabilities and prepaid expenses and other current assets of $5.2 million.

Investing activities

In the years ended December 31, 2018, December 31, 2017 and December 31, 2016, we used approximately $26.4 million, $12.4 million and $26.1 million, respectively, of net cash in investing activities.

In the year ended December 31, 2018, we used approximately $93.7 million for purchases of short-term investments, received proceeds from sales and maturities of short-term investments of $78.9 million and used approximately $1.2 million related to investments in company-owned life insurance.

In the year ended December 31, 2017, we used approximately $94.3 million for purchases of short-term investments, received proceeds from sales and maturities of short-term investments of $88.9 million and used approximately $0.7 million related to investments in company-owned life insurance.

In the year ended December 31, 2016, we used approximately $75.2 million for purchases of short-term investments, and received proceeds from sales and maturities of short-term investments of $55.4 million.

Cash used for purchases of property and equipment was approximately $10.3 million, $6.3 million and $6.3 million for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, respectively.

We expect to increase our investment in property and equipment in the future as we expand our manufacturing capacity for current and new products, improve our manufacturing efficiency and for overall facility expansion, as previously discussed above.

Financing activities

In the years ended December 31, 2018 and December 31, 2017 our financing activities provided $21.6 million and $4.7 million, respectively, and in the year ended December 31, 2016, our financing activities used net cash of approximately $1.6 million.

In the year ended December 31, 2018, we received net cash proceeds of approximately $22.2 million from the exercises of stock options and purchases of our common stock by employees pursuant to our Employee Stock Purchase Plan.

In the year ended December 31, 2017, we received net cash proceeds of approximately $4.7 million from the exercises of stock options and purchases of our common stock by employees pursuant to our Employee Stock Purchase Plan.

In the year ended December 31, 2016, we received net cash proceeds of approximately $8.0 million from the exercises of stock options and warrants and purchases of our common stock by employees pursuant to our Employee Stock Purchase Plan, and we used net cash of approximately $9.7 million for note payments.

Contractual obligations

The following table summarizes our significant contractual obligations as of December 31, 2018 and the effect those obligations are expected to have on our liquidity and cash flows in future periods.

					Payments due by period	
Contractual obligations (in thousands)	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**
Operating lease obligations	$ 74,367	$ 1,719	$ 9,305	$ 13,338	$ 50,005
Firm purchase commitments (i)	21,389	16,798	2,659	1,932	—
Total contractual obligations	$ 95,756	$ 18,517	$ 11,964	$ 15,270	$ 50,005

(i) Of the above disclosed amounts, we had $9.6 million in commitments for capital expenditures as of December 31, 2018.

Off-balance sheet arrangements

We do not have any off-balance sheet arrangements as defined in the rules and regulations of the Securities and Exchange Commission. We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for any other contractually narrow or limited purpose. However, from time to time we enter into certain types of contracts that contingently require us to indemnify parties against third-party claims including in connection with certain real estate leases, and supply purchase agreements, and with directors and officers. The terms of such obligations vary by contract and in most instances a maximum dollar amount is not explicitly stated therein. Generally, amounts under these contracts cannot by reasonably estimated until a specific claim is asserted, thus no liabilities have been recorded for these obligations on our balance sheets for any of the periods presented.

Inflation

We may experience pressure on our *iStent* and *iStent inject* selling prices resulting from potential future reductions in reimbursement payments to our customers, particularly from governmental payors such as Medicare or Medicaid but also from private payors. We could also be impacted by rising costs for certain inflation-sensitive operating expenses such as labor and employee benefits. However, we do not believe that inflation has had a material effect on our business, financial condition or results of operations presented herein. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through selling price increases. Our inability or failure to do so could adversely affect our business, financial condition and results of operations.

Critical accounting policies and significant estimates

Management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities, revenue and expenses at the date of the consolidated financial statements. Generally, we base our estimates on historical experience and on various other assumptions in accordance with GAAP that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions and such differences could be material to our financial position and results of operations.

While our significant accounting policies are more fully described in the Notes to our consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K, we believe the following accounting policies to be most critical for fully understanding and evaluating our financial condition and results of operations.

Revenue recognition

Effective January 1, 2018, we adopted Accounting Standards Codification (ASC) 606, *Revenue Recognition – Revenue from Contracts with Customers* and its related amendments (ASC 606). We adopted the standard by applying the modified retrospective method to contracts that were not complete as of the date of initial application. Our accounting for revenue under ASC 606 is materially consistent with the accounting for revenue under ASC 605 and therefore the cumulative effect of adoption was immaterial. The reported results for the year ended December 31, 2018 reflect the application of ASC 606 guidance, while the reported results for periods prior to January 1, 2018 were prepared under the guidance of ASC 605.

We account for revenue in accordance with ASC 606 and apply the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy a performance obligation. We only apply the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods it transfers to the customer. At contract inception,

once the contract is determined to be within the scope of ASC 606, we assess the goods promised within each contract and determine those that are performance obligations, and assess whether each promised good or service is distinct. We then recognize as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

As part of our adoption of ASC 606, we elected to use the following practical expedients: (i) to exclude disclosures of transaction prices allocated to remaining performance obligations when we expect to recognize such revenue within one year; (ii) to expense costs as incurred for costs to obtain a contract when the amortization period would have been one year or less, which mainly includes our internal sales force compensation program; (iii) to account for shipping and handling costs as fulfillment costs (i.e., as an expense) rather than promised service (i.e., a revenue element); and (iv) to exclude from revenue the taxes collected from customers relating to product sales which are remitted to governmental authorities.

We derive our revenue from sales of our products in the United States and internationally. Customers are primarily comprised of ambulatory surgery centers and hospitals, with distributors being used in certain international locations where we do not have a direct commercial presence.

We concluded that one performance obligation exists for the majority of our contracts with customers which is to deliver products in accordance with our normal delivery times. Revenue is recognized when this performance obligation is satisfied, which is the point in time when we consider control of a product to have transferred to the customer. Revenue recognized reflects the consideration to which we expect to be entitled in exchange for those products or services. We have determined the transaction price to be the invoice price, net of adjustments, which includes estimates of variable consideration for product returns.

We offer volume-based rebate agreements to certain customers and, in these instances, we provide a rebate (in the form of a credit memo) at the contract's conclusion, if earned by the customer. In such cases, the transaction price is allocated between our delivery of product and the issuance of a rebate at the contract's conclusion for the customer to utilize on prospective purchases. The performance obligation to issue a customer's rebate, if earned, is transferred over time and our method of measuring progress is the output method, whereby the progress is measured by the estimated rebate earned to date over the total rebate estimated to be earned over the contract period. The provision for volume-based rebates is estimated based on customers' contracted rebate programs and the customers' projected sales levels. We periodically monitor our customer rebate programs to ensure the rebate allowance is fairly stated. Our rebate allowance is included in accrued liabilities in the consolidated balance sheets and estimated rebates accrued were not material during the periods presented.

Customers are not granted specific rights of return; however, we may permit returns of product from customers if such product is returned in a timely manner and in good condition. We provide a warranty on our products for one year from the date of shipment, and any product found to be defective or out of specification will be replaced at no charge during the warranty period. Estimated allowances for sales returns and warranty replacements are recorded at the time of sale of the product and are estimated based upon the historical patterns of product returns matched against sales, and an evaluation of specific factors that may increase the risk of product returns. Product returns and warranty replacements to date have been consistent with amounts reserved or accrued and have not been significant. If actual results in the future vary from our estimates, we will adjust these estimates which would affect net product revenue and earnings in the period such variances become known.

Clinical trial expense accruals

As part of our R&D expenses, we accrue at each balance sheet date the estimated costs of clinical study activities performed by third-party clinical sites with whom we have agreements providing for fees based upon the quantities of subjects enrolled and clinical evaluation visits that occur over the life of the study. The estimates are determined based upon a review of the agreements and data collected by internal and external clinical personnel as to the status of enrollment and subject visits, and are based upon the facts and circumstances known to us at each financial reporting date. If the actual timing of performance of activities varies from the assumptions used in the estimates, we adjust the accruals accordingly. There have been no material adjustments to our prior period accrued estimates for

clinical trial activities through December 31, 2018. If we underestimate or overestimate the activity or fees associated with a study or service at a given point in time, adjustments to R&D expenses may be necessary in future periods. Subsequent changes in estimates may result in a material change in our accruals. Material nonrefundable advance payments for goods and services, including fees for process development or manufacturing and distribution of clinical supplies that will be used in future research and development activities, are deferred and recognized as expense in the period that the related goods are consumed or services are performed.

Inventory valuation

We value inventory at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method. This policy requires us to make estimates regarding the market value of our inventory, including an assessment of excess or obsolete inventory. We evaluate inventory for excess quantities and obsolescence based on an estimate of the future demand for our product within a specified time horizon, and record an allowance to reduce the carrying value of inventory as determined necessary. The estimates we use for demand are also used for near-term capacity planning and inventory purchasing and are consistent with our revenue forecasts. If our actual demand is less than our forecast demand, we may be required to take additional excess inventory charges, which would decrease gross margin and adversely impact net operating results in the future.

Stock-based compensation expense

Stock-based compensation expense for stock options is measured at the date of grant, based on the estimated fair value of the award using the Black-Scholes option pricing model.

Stock-based compensation expense for restricted stock units is also measured at the date of grant, based on the closing price of our common stock.

For awards subject to time-based vesting conditions, we recognize stock-based compensation expense over the employee's requisite service period on a straight-line basis, net of estimated forfeitures. We account for stock-based compensation arrangements with non-employees using a fair value approach. Stock options granted to non-employees are subject to periodic revaluation over their vesting terms.

The estimation of the fair value of each stock-based option grant or issuance on the date of grant involves numerous assumptions by management. Although we calculate the fair value under the Black-Scholes option pricing model, which is a standard option pricing model, this model still requires the use of numerous assumptions, including, among others, the expected life (turnover), volatility of the underlying equity security, a risk free interest rate and expected dividends. Because we have a limited operating history as a public company, there is a lack of company-specific historical and implied volatility data, and therefore we have estimated stock price volatility based upon an index of the historical volatilities of a group of comparable publicly-traded medical device peer companies. We will continue to apply this process until a sufficient amount of historical information regarding the volatility of our own stock price becomes available. We have estimated the expected term of our employee stock options using the "simplified" method, whereby the expected life equals the average of the vesting term and the original contractual term of the option. The model and assumptions also attempt to account for changing employee behavior as the stock price changes and capture the observed pattern of increasing rates of exercise as the stock price increases. The use of different values by management in connection with these assumptions in the Black-Scholes option pricing model could produce substantially different results.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, see Note 2 of the notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to market risks in the ordinary course of our business. Our cash and cash equivalents include cash in readily available checking and money market accounts, as well as a certificate of deposit. These securities are not dependent on interest rate fluctuations that could cause the principal amount of these assets to fluctuate and thus do not pose any interest rate risk to us. While we believe our cash and cash equivalents do not contain excessive risk, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value.

In addition, we maintain significant amounts of cash and cash equivalents at one or more financial institutions that are in excess of federally insured limits.

Foreign currency exchange risk

The financial statements of our foreign subsidiaries and their sales to customers are denominated in the foreign subsidiaries' respective functional currencies, and therefore we have exposure to foreign currency exchange rates. The remainder of our business is primarily denominated in U.S. dollars. The effect of a 10% adverse change in exchange rates on foreign denominated cash, receivables and payables would not have been material for the periods presented. As our operations in countries outside of the United States grow, our results of operations and cash flows will be subject to fluctuations due to changes in foreign currency exchange rates, which could harm our business in the future. To date, we have not entered into any material foreign currency hedging contracts although we may do so in the future.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DAT A

Index to consolidated financial statements

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Glaukos Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Glaukos Corporation (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have 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, 2018, 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 27, 2019 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 misstatement 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 2006.

Irvine, California
February 27, 2019

Glaukos Corporation
Consolidated balance sheets
(in thousands, except par values)

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 29,821	$ 24,508
Short-term investments	110,667	94,506
Accounts receivable, net	18,673	16,656
Inventory, net	13,282	11,222
Prepaid expenses and other current assets	4,124	2,568
Total current assets	176,567	149,460
Restricted cash	8,775	—
Property and equipment, net	19,153	11,794
Intangible assets, net	—	3,147
Deferred tax asset and receivable, net	213	235
Deposits and other assets	2,262	1,200
Total assets	$ 206,970	$ 165,836
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 6,286	$ 6,244
Accrued liabilities	23,964	20,449
Deferred rent	115	95
Total current liabilities	30,365	26,788
Other liabilities	2,745	846
Total liabilities	33,110	27,634
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000 shares authorized; no shares issued and outstanding as of December 31, 2018 and December 31, 2017	—	—
Common stock, $0.001 par value; 150,000 shares authorized; 36,135 and 34,647 shares issued and 36,107 and 34,619 shares outstanding at December 31, 2018 and December 31, 2017, respectively	36	35
Additional paid-in capital	378,352	331,073
Accumulated other comprehensive income (loss)	738	(591)
Accumulated deficit	(205,134)	(192,183)
Less treasury stock (28 shares as of December 31, 2018 and December 31, 2017)	(132)	(132)
Total stockholders' equity	173,860	138,202
Total liabilities and stockholders' equity	$ 206,970	$ 165,836

See accompanying notes to consolidated financial statements.

Glaukos Corporation
Consolidated statements of operations
(in thousands, except per share amounts)

	Year ended December 31,		
	2018	2017	2016
Net sales	$ 181,278	$ 159,254	$ 114,397
Cost of sales	25,075	21,050	16,177
Gross profit	156,203	138,204	98,220
Operating expenses:			
Selling, general and administrative	119,529	96,260	64,756
In-process research and development	—	5,320	—
Research and development	49,676	38,905	29,223
Total operating expenses	169,205	140,485	93,979
(Loss) income from operations	(13,002)	(2,281)	4,241
Non-operating income:			
Interest income	2,252	1,375	889
Other (expense) income, net	(1,618)	907	(565)
Total non-operating income	634	2,282	324
(Loss) income before taxes	(12,368)	1	4,565
Provision for income taxes	583	93	43
Net (loss) income	$ (12,951)	$ (92)	$ 4,522
Basic net (loss) income per share	$ (0.37)	$ (0.00)	$ 0.14
Diluted net (loss) income per share	$ (0.37)	$ (0.00)	$ 0.12
Weighted-average shares used to compute basic net (loss) income per share	35,317	34,381	32,928
Weighted-average shares used to compute diluted net (loss) income per share	35,317	34,381	36,459

See accompanying notes to consolidated financial statements.

Glaukos Corporation
Consolidated statements of comprehensive (loss) income
(in thousands)

	Year ended December 31,		
	2018	2017	2016
Net (loss) income	$ (12,951)	$ (92)	$ 4,522
Other comprehensive income (loss):			
Foreign currency translation gain (loss)	1,377	(1,115)	542
Unrealized (loss) gain on short-term investments, net of tax	(48)	(124)	55
Other comprehensive income (loss)	1,329	(1,239)	597
Total comprehensive (loss) income	$ (11,622)	$ (1,331)	$ 5,119

See accompanying notes to consolidated financial statements.

Glaukos Corporation
Consolidated statements of stockholders' equity
(in thousands)

	Common stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Treasury stock		Total equity
	Shares	Amount				Shares	Amount	
Balance at December 31, 2015	32,209	$ 32	$ 291,853	$ 51	$ (196,613)	(28)	$ (132)	$ 95,191
Common stock issued under stock plans	1,756	2	8,064	—	—	—	—	8,066
Exercise of common stock warrant	6	—	112	—	—	—	—	112
Stock-based compensation	—	—	8,786	—	—	—	—	8,786
Other comprehensive income	—	—	—	597	—	—	—	597
Net income	—	—	—	—	4,522	—	—	4,522
Balance at December 31, 2016	33,971	$ 34	$ 308,815	$ 648	$ (192,091)	(28)	$ (132)	$ 117,274
Common stock issued under stock plans	676	1	4,666	—	—	—	—	4,667
Stock-based compensation	—	—	17,592	—	—	—	—	17,592
Other comprehensive loss	—	—	—	(1,239)	—	—	—	(1,239)
Net loss	—	—	—	—	(92)	—	—	(92)
Balance at December 31, 2017	34,647	$ 35	$ 331,073	$ (591)	$ (192,183)	(28)	$ (132)	$ 138,202
Common stock issued under stock plans	1,488	1	21,575	—	—	—	—	21,576
Stock-based compensation	—	—	25,704	—	—	—	—	25,704
Other comprehensive income	—	—	—	1,329	—	—	—	1,329
Net loss	—	—	—	—	(12,951)	—	—	(12,951)
Balance at December 31, 2018	36,135	$ 36	$ 378,352	$ 738	$ (205,134)	(28)	$ (132)	$ 173,860

See accompanying notes to consolidated financial statements.

Glaukos Corporation
Consolidated statements of cash flow s
(in thousands)

	Year ended December 31,		
	2018	2017	2016
Operating Activities			
Net (loss) income	$ (12,951)	$ (92)	$ 4,522
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	6,264	5,482	4,722
Loss on disposal of fixed assets	156	6	40
Stock-based compensation	25,704	17,592	8,786
Change in fair value of stock warrant liability	—	—	(43)
Unrealized foreign currency losses (gains)	1,647	(951)	368
Amortization of (discount) premium on short-term investments	(295)	20	210
Deferred rent and other liabilities	1,919	722	(31)
Changes in operating assets and liabilities:			
Accounts receivable, net	(2,252)	(2,181)	(6,791)
Inventory, net	(2,303)	(4,162)	(2,935)
Prepaid expenses and other current assets	(1,756)	494	(1,762)
Accounts payable and accrued liabilities	2,527	9,741	5,096
Deferred tax asset and receivable, net	—	(235)	—
Other assets	204	(345)	127
Net cash provided by operating activities	18,864	26,091	12,309
Investing activities			
Purchases of property and equipment	(10,315)	(6,311)	(6,278)
Purchases of short-term investments	(93,696)	(94,307)	(75,192)
Proceeds from sales and maturities of short-term investments	78,851	88,891	55,354
Investment in company-owned life insurance	(1,240)	(663)	—
Net cash used in investing activities	(26,400)	(12,390)	(26,116)
Financing activities			
Proceeds from exercise of stock options	18,654	3,699	6,059
Share purchases under Employee Stock Purchase Plan	3,509	968	1,945
Payments of employee taxes related to vested restricted stock units	(587)	—	—
Payments of subordinated notes	—	—	(9,696)
Proceeds from exercise of stock warrants	—	—	50
Net cash provided by (used in) financing activities	21,576	4,667	(1,642)
Effect of exchange rate changes on cash and cash equivalents	48	(434)	371
Net increase (decrease) in cash, cash equivalents and restricted cash	14,088	17,934	(15,078)
Cash, cash equivalents and restricted cash at beginning of period	24,508	6,574	21,652
Cash, cash equivalents and restricted cash at end of period	$ 38,596	$ 24,508	$ 6,574
Supplemental disclosures of cash flow information			
Taxes paid, net of refunds	$ 401	$ 12	$ 513
Interest paid	$ —	$ —	$ 285
Supplemental schedule of noncash investing and financing activities			
Reduction of liability upon vesting of stock options previously exercised for unvested stock	$ —	$ 4	$ 62

See accompanying notes to consolidated financial statements.

Glaukos Corporation

Notes to consolidated financial statements

Note 1. Organization and Basis of Presentation

Organization and business

Glaukos Corporation (Glaukos or the Company), incorporated in Delaware on July 14, 1998, is an ophthalmic medical technology and pharmaceutical company focused on the development and commercialization of novel surgical devices and sustained pharmaceutical therapies designed to treat glaucoma, one of the world's leading causes of blindness. The Company developed Micro-Invasive Glaucoma Surgery (MIGS) to address the shortcomings of traditional glaucoma treatment options. MIGS procedures involve the insertion of a micro-scale device or drug delivery system from within the eye's anterior chamber through a small corneal incision. The Company's MIGS devices are designed to reduce intraocular pressure by restoring the natural outflow pathways for aqueous humor. The Company's MIGS drug delivery systems are designed to reduce intraocular pressure by continuously eluting a glaucoma drug from within the eye, potentially providing sustained pharmaceutical therapy for extended periods of time.

The accompanying consolidated financial statements include the accounts of Glaukos and its wholly-owned subsidiaries. All significant intercompany balances and transactions among the consolidated entities have been eliminated in consolidation.

Liquidity

For the year ended December 31, 2018, the Company incurred a net loss of $13.0 million, generated $18.9 million of cash from operations and as of December 31, 2018 had an accumulated deficit of $205.1 million. For the year ended December 31, 2017, the Company incurred a net loss of $0.1 million, however generated $26.1 million of cash from operations. The Company has financed operations to date primarily through private placements of equity securities, the issuance of common stock in the initial public offering (IPO) completed in June 2015, debt financings and cash generated by its commercial operations. While the Company was profitable in 2016, it may not be able to sustain profitability on a recurring basis in the future, as evidenced by losses incurred in 2017 and 2018. The Company plans to fund its operations and capital funding needs using existing cash and investments, cash generated from commercial operations, and through future debt and equity financings. There can be no assurance that the Company will be able to obtain additional financing on terms acceptable to it, or at all. Any equity financing may result in dilution to existing stockholders and any additional debt financing may include restrictive covenants. As of December 31, 2018, the Company had cash, cash equivalents, restricted cash and short-term investments totaling $149.3 million and net working capital of $146.2 million. The Company has performed an analysis and concluded substantial doubt does not exist with respect to the Company being able to continue as a going concern through one year from the date of issuance of the consolidated financial statements for the year ended December 31, 2018.

Acquisition of the IOP Sensor System and certain assets from DOSE Medical

On April 12, 2017, the Company entered into an IOP Sensor System Purchase Agreement (the Purchase Agreement), between the Company and DOSE Medical Corporation (DOSE), to purchase from DOSE its intraocular pressure (IOP) sensor system, including all patents, license rights and tangible assets, and to assume certain liabilities related thereto (collectively, the IOP Sensor System), for consideration consisting of an initial cash payment of $5.5 million, plus performance-based consideration of up to $9.5 million upon achievement of certain development, clinical and regulatory milestones. The Company completed the purchase of the IOP Sensor System concurrent with the execution of the Purchase Agreement.

The transaction was accounted for as an asset acquisition. Of the $5.5 million initial cash payment, $5.3 million was immediately charged to in-process research and development expense as management determined there was no alternative future use related to the assets purchased. Of the remaining $0.2 million, the majority was capitalized to fixed assets and is being depreciated over the corresponding asset's useful life, and a small portion was recorded as a prepaid

asset and amortized to general and administrative expense as the underlying amounts were utilized. The prepaid assets were fully amortized as of December 31, 2018.

DOSE was previously a wholly-owned subsidiary of the Company. In 2010, it was spun-out as a standalone legal entity and was accounted for as a consolidated variable interest entity. In 2015, the Company acquired the *iDose* product line and related assets from DOSE for a cash payment of $15.0 million and upon the acquisition, the Company derecognized DOSE as a consolidated variable interest entity in the consolidated financial statements. In addition to an asset purchase, the parties agreed to an amended and restated patent license agreement and an amended and restated transition services agreement that provides for limited support from the Company to DOSE for a period of up to three years, which period was extended through June 30, 2021 in connection with the Purchase Agreement.

Thomas W. Burns, the Company's President, Chief Executive and a member of its board of directors, and William J. Link, Ph.D., Chairman of the Company's board of directors, currently serve on the board of directors of DOSE and certain members of the Company's management and board of directors hold an equity interest in DOSE.

Note 2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates and assumptions. Management considers many factors in selecting appropriate financial accounting policies and controls and in developing the estimates and assumptions that are used in the preparation of these consolidated financial statements. Management must apply significant judgment in this process. In addition, other factors may affect estimates, including expected business and operational changes, sensitivity and volatility associated with the assumptions used in developing estimates, and whether historical trends are expected to be representative of future trends. The estimation process often may yield a range of reasonable estimates of the ultimate future outcomes, and management must select an amount that falls within that range of reasonable estimates. The most significant estimates in the accompanying consolidated financial statements relate to revenue recognition and stock-based compensation expense. Although these estimates are based on the Company's knowledge of current events and actions it may undertake in the future, this process may result in actual results differing materially from those estimated amounts used in the preparation of the consolidated financial statements.

Foreign currency translation

The accompanying consolidated financial statements are presented in United States (U.S.) dollars. The Company considers the local currency to be the functional currency for its international subsidiaries. Accordingly, their assets and liabilities are translated into U.S. dollars using the exchange rate in effect on the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing throughout the periods presented. As a result, currency translation adjustments arising from period to period are charged or credited to accumulated other comprehensive income (loss) in stockholders' equity. For the year ended December 31, 2018, the Company reported a gain from foreign currency translation adjustments of approximately $1.4 million. For the year ended December 31, 2017, the Company reported a loss from foreign currency translation adjustments of approximately $1.1 million and for the year ended December 31, 2016, the Company reported a gain from foreign currency translation adjustments of approximately $0.5 million.

Unrealized gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency, primarily gains and losses on intercompany loans, are included in the

consolidated statements of operations as a component of other (expense) income, net. For the year ended December 31, 2018, the Company reported a net foreign currency transaction loss of $1.6 million, for the year ended December 31, 2017, the Company reported a net foreign currency transaction gain of $1.0 million and for the year ended December 31, 2016, the Company reported a net foreign currency transaction loss of $0.4 million.

Cash, cash equivalents and short-term investments

The Company invests its excess cash in marketable securities, including money market funds, money market securities, bank certificates of deposits, corporate bonds, corporate commercial paper, U.S. government bonds and U.S. government agency bonds. For financial reporting purposes, liquid investment instruments purchased with an original maturity of three months or less are considered to be cash equivalents. Cash and cash equivalents are recorded at face value or cost, which approximates fair market value. The Company maintains cash balances in excess of amounts insured by the Federal Deposit Insurance Commission. Investments are stated at fair value as determined by quoted market prices. Investments are considered available for sale and, accordingly, unrealized gains and losses are included in accumulated other comprehensive income (loss) within stockholders' equity.

The Company's entire investment portfolio, except for restricted cash, is considered to be available for use in current operations and, accordingly, all such investments are stated at fair value using quoted market prices and classified as current assets, although the stated maturity of individual investments may be one year or more beyond the balance sheet date. The Company did not have any trading securities or restricted investments at December 31, 2018, December 31, 2017 or December 31, 2016.

Realized gains and losses and declines in value, if any, judged to be other-than-temporary on available for sale securities, are reported in other (expense) income, net. When securities are sold, any associated unrealized gain or loss previously reported as a separate component of stockholders' equity is reclassified out of stockholders' equity and recorded in the statements of operations in the period sold using the specific identification method. Accrued interest and dividends are included in other (expense) income, net. The Company periodically reviews its available for sale securities for other than temporary declines in fair value below the cost basis, and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Restricted cash

The Company had its bank issue a letter of credit in the amount of $8.8 million related to its Aliso Viejo, California office building lease, which will commence on May 1, 2019. The letter of credit is secured with an amount of cash held in a restricted account equal to its face value, or $8.8 million as of December 31, 2018. Beginning as of the first day of the thirty-seventh month of the lease term, and on each twelve month anniversary thereafter, the letter of credit will be reduced by 20% until the letter of credit amount has been reduced to $2.0 million. See *Note 10. Commitments and Contingencies* for additional information related to the Aliso Viejo, California office building lease and associated letter of credit commitment.

Concentration of credit risk and significant customers

Financial instruments, which potentially subject the Company to significant concentration of credit risk, consist primarily of cash, cash equivalents, short-term investments and accounts receivable. The Company maintains deposits in federally insured financial institutions in excess of federally insured limits and management believes that the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held. Additionally, the Company has established guidelines regarding investment instruments and their maturities which are designed to maintain preservation of principal and liquidity. The Company believes that the concentration of credit risk in its accounts receivable is mitigated by its credit evaluation process, relatively short collection terms and the level of credit worthiness of its customers. During the years ended 2018, 2017 and 2016, none of the Company's customers accounted for more than 10% of revenues.

Accounts receivable

The Company sells its products directly to hospitals, ambulatory surgery centers and distributors in the U.S. and internationally. The Company periodically assesses the payment performance of these customers and establishes reserves

for anticipated losses when necessary, which losses historically have not been significant and have not exceeded management's estimates. Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts based on historical collection experience and expectations of future collection based on current market conditions. The allowance for doubtful accounts is management's best estimate of the amount of probable credit losses. Account balances are charged against the allowance when it is probable the receivable will not be recovered. The Company's allowance for doubtful accounts was approximately $0.7 million, $0.6 million and $0.5 million as of December 31, 2018, December 31, 2017 and December 31, 2016, respectively. Additionally, no customers accounted for more than 10% of net accounts receivable as of any such date.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method. Management evaluates inventory for excess quantities and obsolescence and records an allowance to reduce the carrying value of inventory as determined necessary.

Long lived assets

Property and equipment is recorded at cost. Depreciation of property and equipment is generally provided using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Leasehold improvements are amortized over their estimated useful life or the related lease term, whichever is shorter. Maintenance and repairs are expensed as incurred.

All long lived assets are reviewed for impairment in value when changes in circumstances dictate, based upon undiscounted future operating cash flows, and appropriate losses are recognized and reflected in current earnings to the extent the carrying amount of an asset exceeds its estimated fair value, determined by the use of appraisals, discounted cash flow analyses or comparable fair values of similar assets. The Company recorded no impairment charges during 2018, 2017 or 2016.

Intangible assets

Intangible assets are recorded at cost and are amortized over the estimated useful life. Intangible assets in the accompanying balance sheets are comprised of the cost of the Company's buyout of a royalty payment obligation and the value of non-compete agreements entered with former international distributors. (See Note 5).

Fair value of financial instruments

The carrying amounts of cash equivalents, accounts receivable, accounts payable, and accrued liabilities are considered to be representative of their respective fair values because of the short-term nature of those instruments.

The valuation of assets and liabilities is subject to fair value measurements using a three-tiered approach and fair value measurements are classified and disclosed by the Company in one of the following three categories:

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

Level 2: Quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Revenue recognition

Effective January 1, 2018, the Company adopted Accounting Standards Codification (ASC) 606, *Revenue Recognition – Revenue from Contracts with Customers* and its related amendments (ASC 606). The Company adopted

the standard by applying the modified retrospective method to contracts that were not complete as of the date of initial application. The Company's accounting for revenue under ASC 606 is materially consistent with the accounting for revenue under ASC 605 and therefore the cumulative effect of adoption was immaterial. The reported results for the year ended December 31, 2018 reflect the application of ASC 606 guidance, while the reported results for periods prior to January 1, 2018 were prepared under the guidance of ASC 605.

The Company accounts for revenue in accordance with ASC 606 and applies the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, the Company assesses the goods promised within each contract and determines those that are performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

As part of the Company's adoption of ASC 606, the Company elected to use the following practical expedients: (i) to exclude disclosures of transaction prices allocated to remaining performance obligations when the Company expects to recognize such revenue within one year; (ii) to expense costs as incurred for costs to obtain a contract when the amortization period would have been one year or less, which mainly includes the Company's internal sales force compensation program; (iii) to account for shipping and handling costs as fulfillment costs (i.e., as an expense) rather than promised service (i.e., a revenue element); and (iv) to exclude from revenue the taxes collected from customers relating to product sales which are remitted to governmental authorities.

The Company derives its revenue from sales of its products in the United States and internationally. Customers are primarily comprised of ambulatory surgery centers and hospitals, with distributors being used in certain international locations where the Company does not have a direct commercial presence.

The Company concluded that one performance obligation exists for the majority of its contracts with customers which is to deliver products in accordance with the Company's normal delivery times. Revenue is recognized when this performance obligation is satisfied, which is the point in time when the Company considers control of a product to have transferred to the customer. Revenue recognized reflects the consideration to which the Company expects to be entitled in exchange for those products or services. The Company has determined the transaction price to be the invoice price, net of adjustments, which includes estimates of variable consideration for product returns.

The Company offers volume-based rebate agreements to certain customers and, in these instances, the Company provides a rebate (in the form of a credit memo) at the contract's conclusion, if earned by the customer. In such cases, the transaction price is allocated between the Company's delivery of product and the issuance of a rebate at the contract's conclusion for the customer to utilize on prospective purchases. The performance obligation to issue a customer's rebate, if earned, is transferred over time and the Company's method of measuring progress is the output method, whereby the progress is measured by the estimated rebate earned to date over the total rebate estimated to be earned over the contract period. The provision for volume-based rebates is estimated based on customers' contracted rebate programs and the customers' projected sales levels. The Company periodically monitors its customer rebate programs to ensure the rebate allowance is fairly stated. The Company's rebate allowance is included in accrued liabilities in the consolidated balance sheets and estimated rebates accrued were not material during the periods presented.

Customers are not granted specific rights of return; however, the Company may permit returns of product from customers if such product is returned in a timely manner and in good condition. The Company provides a warranty on its products for one year from the date of shipment, and any product found to be defective or out of specification will be replaced at no charge during the warranty period. Estimated allowances for sales returns and warranty replacements are recorded at the time of sale of the product and are estimated based upon the historical patterns of product returns matched against sales, and an evaluation of specific factors that may increase the risk of product returns. Product returns

and warranty replacements to date have been consistent with amounts reserved or accrued and have not been significant. If actual results in the future vary from the Company's estimates, the Company will adjust these estimates which would affect net product revenue and earnings in the period such variances become known.

Shipping and handling costs

All shipping and handling costs are expensed as incurred and are charged to general and administrative expense. Charges to customers for shipping and handling are credited to general and administrative expense.

Advertising costs

All advertising costs are expensed as incurred. Advertising costs incurred during the years ended December 31, 2018, December 31, 2017 and December 31, 2016 were approximately $1.8 million, $2.1 million and $1.6 million, respectively.

Income taxes

Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at the applicable tax rates, along with net operating loss and tax credit carryovers. The Company records a valuation allowance against its deferred tax assets to reduce the net carrying value to an amount that it believes is more likely than not to be realized. Management has considered estimated taxable income and ongoing prudent and feasible tax planning strategies in assessing the amount of the valuation allowance. Based upon the weight of available evidence, which includes the Company's historical operating performance and limited potential to utilize tax credit carryforwards, the Company has determined that total deferred tax assets should be fully offset by a valuation allowance. When the Company establishes or reduces the valuation allowance against its deferred tax assets, its provision for income taxes will increase or decrease, respectively, in the period such determination is made.

The Company is required to file federal and state income tax returns in the United States and various other state jurisdictions. The Company also files income tax returns in the foreign countries in which its subsidiaries operate. The preparation of these income tax returns requires the Company to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could affect the amount of tax paid by us.

Additionally, the Company follows an accounting standard addressing the accounting for uncertainty in income taxes that prescribes rules for recognition, measurement, and classification in the consolidated financial statements of tax positions taken or expected to be taken in a tax return.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017 resulting in significant modifications to existing law. The Company follows the guidance of Staff Accounting Bulletin (SAB) 118, which provides additional clarification regarding the application of ASC 740 in situations where the Company does not have the necessary information available, prepared or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Act for the reporting period in which the Act was enacted. SAB 118 provides for a measurement period beginning in the reporting period that includes the Act's enactment and ending when the Company has obtained, prepared and analyzed the information needed in order to complete the accounting requirements, but in no circumstances should the measurement period extend beyond one year from the enactment date.

The Company has completed its analysis of the Act's income tax effects. In total, the Company recorded $25.2 million related to the remeasurement of deferred tax assets which was fully offset by a corresponding decrease in the valuation allowance.

Further, the Company has recorded the tax impact of IRC Section 162(m) as amended by the Act, which resulted in a reduction to its deduction of compensation paid to covered executives.

Research and development expenses

Major components of research and development expense include personnel costs, preclinical studies, clinical trials and related clinical product manufacturing, materials and supplies, and fees paid to consultants. Research and development costs are expensed as goods are received or services are rendered. Costs to acquire technologies to be used in research and development that have not reached technological feasibility and have no alternative future use are also expensed as incurred.

At each financial reporting date, the Company accrues the estimated unpaid costs of clinical study activities performed during a period by third party clinical sites with whom the Company has agreements that provide for fees based upon the quantities of subjects enrolled and clinical evaluation visits that occur over the life of the study. The cost estimates are determined based upon a review of the agreements and data collected by internal and external clinical personnel as to the status of enrollment and subject visits, and are based upon the facts and circumstances known to the Company at each financial reporting date. If the actual performance of activities varies from the assumptions used in the cost estimates, the accruals are adjusted accordingly. There have been no material adjustments to the Company's prior period accrued estimates for clinical trial activities through December 31, 2018.

Stock-based compensation

The Company recognizes compensation expense for all stock-based awards granted to employees and nonemployees, including members of its board of directors.

The fair value of stock option awards is estimated at the grant date using the Black-Scholes option pricing model, and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period using the straight-line method. The determination of the fair value-based measurement of stock options on the date of grant using an option pricing model is affected by the determination of the fair value of the underlying stock as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's stock price volatility over the expected term of the grants, and actual and projected employee stock option exercise behaviors. In the future, as additional empirical evidence regarding these estimates becomes available, the Company may change or refine its approach of deriving them, and these changes could impact the fair value-based measurement of stock options granted in the future. Changes in the fair value-based measurement of stock awards could materially impact the Company's operating results.

The fair values of stock option awards made to nonemployees are re-measured at each reporting period using the Black-Scholes option pricing model. Compensation expense for these stock option awards is determined by applying the re-measured fair values to the shares that have vested during a period.

The fair value of restricted stock unit (RSU) awards made to employees and nonemployees is equal to the closing market price of the Company's common stock on the grant date.

Comprehensive income (loss)

All components of comprehensive income (loss), including net (loss) income, are reported in the consolidated financial statements in the period in which they are recognized. Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources, including unrealized gains and losses on marketable securities and foreign currency translation adjustments.

Net (loss) income per share

Basic net (loss) income per share is calculated by dividing the net (loss) income by the weighted average number of common shares that were outstanding for the period, without consideration for common stock equivalents.

For periods when the Company realizes a net loss, no common stock equivalents are included in the calculation of weighted average number of dilutive common stock equivalents as the effect of applying the treasury stock method is considered anti-dilutive.

For periods when the Company realizes net income, diluted net income per share is calculated by dividing the net income by the weighted average number of common shares plus the sum of the weighted average number of dilutive common stock equivalents outstanding for the period determined using the treasury stock method. Common stock equivalents are comprised of stock options, RSUs outstanding under the Company's stock option plans and shares issuable under the Company's Employee Stock Purchase Plan (ESPP).

The Company's computation of net (loss) income per share is as follows (in thousands, except per share amounts):

	As of December 31,		
	2018	2017	2016
Numerator:			
Net (loss) income - basic	$ (12,951)	$ (92)	$ 4,522
Denominator:			
Weighted average number of common shares outstanding - basic	35,317	34,381	32,928
Common stock equivalents from outstanding common stock options	-	-	3,514
Common stock equivalents for ESPP	-	-	16
Common stock equivalents from outstanding common stock warrants	-	-	1
Weighted average number of common shares outstanding - diluted	35,317	34,381	36,459
Basic net (loss) income per share	$ (0.37)	$ (0.00)	$ 0.14
Diluted net (loss) income per share	$ (0.37)	$ (0.00)	$ 0.12

Potentially dilutive securities not included in the calculation of diluted net (loss) income per share because to do so would be anti-dilutive were as follows (in common stock equivalent shares, in thousands):

	As of December 31,		
	2018	2017	2016
Stock options outstanding	5,614	5,516	1,099
Unvested restricted stock units	244	173	—
Employee stock purchase plan	3	28	—
	5,861	5,717	1,099

Recently adopted accounting pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which provides guidance on how certain cash receipts and cash payments are to be presented and classified in the consolidated statement of cash flows. ASU 2016-15 was effective for the Company beginning on January 1, 2018 and was required to be adopted retrospectively.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU 2016-18), which enhances and clarifies the guidance on the classification and presentation of restricted cash in the statement of cash flows. ASU 2016-18 was effective for the Company beginning on January 1, 2018 and was required to be adopted retrospectively.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (ASU 2017-01). The amendments are intended to help companies evaluate whether transactions

should be accounted for as acquisitions (or disposals) of assets or businesses. When substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. This introduces an initial required screening that, if met, eliminates the need for further assessment. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. To be a business without outputs, there will need to be an organized workforce. The ASU also narrows the definition of the term "outputs" to be consistent with how it is described in ASC 606. The amendments were effective for annual periods beginning after December 15, 2017, including interim periods within those periods with early adoption permitted. The Company adopted the guidance effective January 1, 2018 and the guidance did not have a material impact on its consolidated financial statements; however, any prospective impact to the Company's consolidated financial statements will depend on the terms specified in any future transactions subject to the guidance in ASU 2017-01.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation - Stock Compensation - Scope of Modification Accounting* (ASU 2017-09). The standard provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This standard does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The standard was effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods and early adoption was permitted. The Company adopted the guidance on a prospective basis effective January 1, 2018 and the adoption of ASU 2017-09 did not have a material impact on its consolidated financial statements; however, any future impact to share-based compensation expense will depend on the terms specified in any new changes to share-based payment awards subsequent to the adoption.

Recently issued accounting pronouncements not yet adopted

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), which amends the existing accounting standards for leases. In September 2017, the FASB issued ASU No. 2017-13 which provides additional clarification and implementation guidance on the previously issued ASU No. 2016-02. Under the new guidance, a lessee will be required to recognize a lease liability and right-of-use asset for all leases with terms in excess of twelve months. The new guidance also modifies the classification criteria and accounting for sales-type and direct financing leases, and requires additional disclosures to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. Consistent with current guidance, a lessee's recognition, measurement, and presentation of expenses and cash flows arising from a lease will continue to depend primarily on its classification. The accounting standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company has adopted the requirements of the new lease standard effective January 1, 2019 and has elected the optional transition method to apply the standard as of the effective date and therefore, the Company will not apply the standard to the comparative periods presented in the consolidated financial statements. The Company will elect the transition package of three practical expedients permitted within the standard, which eliminates the requirements to reassess prior conclusions about lease identification, lease classification, and initial direct costs. The Company will not elect the hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of right-of-use assets. Further, the Company will elect a short-term lease exception policy, permitting the Company to not apply the recognition requirements of this standard to short-term leases (i.e. leases with terms of 12 months or less) and an accounting policy to account for lease and non-lease components as a single component for certain classes of assets. The Company is finalizing its analysis of certain key assumptions that will be utilized at the transition date including the incremental borrowing rate. The primary effect of the new standard will be to record right-of-use assets and obligations for current operating leases which will have a material impact on the balance sheet and significant incremental disclosures in the financial statement footnotes. The transition adjustment is not expected to have a material impact on the statement of operations.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* that gives entities the option to reclassify to retained earnings tax effects related to items that have been stranded in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act (the Act). A company that elects to reclassify these amounts must reclassify stranded tax effects related to the Act's change in U.S. federal tax rate for all items accounted for in other comprehensive income. Companies can also elect to reclassify other stranded effects that relate to the Act but

do not directly relate to the change in the federal rate. Companies can choose whether to apply the amendments retrospectively to each period in which the effect of the Act is recognized or to apply the amendments in the period of adoption. The guidance is effective for all companies for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Entities can choose whether to apply the amendments retrospectively to each period in which the effect of the Act is recognized or to apply the amendments in the period of adoption, and the Company is assessing the potential impacts of the standard.

In June 2018, the FASB issued ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting* (ASU 2018-07). ASU 2018-07 simplifies the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. Consistent with the accounting requirement for employee share-based payment awards, nonemployee share-based payment awards are measured at grant-date fair value of the equity instruments that an entity is obligated to issue when the good has been delivered, or the service has been rendered, and any other conditions necessary to earn the right to benefit from the instruments have been satisfied. The accounting standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and the Company is assessing the potential impacts of the standard.

In August 2018, the FASB issued ASU No. 2018-15 *, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (ASU 2018-15) which clarifies the accounting for implementation costs in cloud computing arrangements. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted. The Company is assessing the potential impacts of the standard.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction Between Topic 808 and Topic 606* (ASU 2018-18). ASU 2018-18 clarifies that certain transactions between participants in a collaborative arrangement should be accounted for under ASC 606 when the counterparty is a customer and precludes an entity from presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. For the Company, these amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those years. Early adoption is permitted, including adoption in any interim period, for entities that have adopted ASC 606 . The Company is assessing the potential impacts of the standard.

Note 3. Balance Sheet Details

Short-term investments

Short-term investments consisted of the following (in thousands):

		At December 31, 2018			
	Maturity (in years)	Amortized cost or cost	Unrealized gains	Unrealized losses	Estimated fair value
U.S. government bonds	less than 1	$ 1,300	$ —	$ (3)	$ 1,297
U.S. government agency bonds	less than 1	1,994	—	(12)	1,982
Bank certificates of deposit	less than 2	15,201	2	(3)	15,200
Commercial paper	less than 1	9,597	1	(5)	9,593
Corporate notes	less than 3	60,923	24	(194)	60,753
Asset-backed securities	less than 3	21,918	18	(94)	21,842
Total		$ 110,933	$ 45	$ (311)	$ 110,667

		At December 31, 2017			
	Maturity (in years)	Amortized cost or cost	Unrealized gains	Unrealized losses	Estimated fair value
U.S government bonds	less than 2	$ 1,799	$ —	$ (17)	$ 1,782
U.S. government agency bonds	less than 2	2,698	—	(17)	2,681
Bank certificates of deposit	less than 1	10,300	1	(3)	10,298
Commercial paper	less than 1	11,598	—	(5)	11,593
Corporate notes	less than 3	51,532	6	(121)	51,417
Asset-backed securities	less than 3	16,796	—	(61)	16,735
Total		$ 94,723	$ 7	$ (224)	$ 94,506

Accounts receivable, net

Accounts receivable consisted of the following (in thousands):

	December 31,	
	2018	2017
Accounts receivable	$ 19,333	$ 17,248
Allowance for doubtful accounts	(660)	(592)
	$ 18,673	$ 16,656

Inventory, net

Inventory consisted of the following (in thousands):

	December 31,	
	2018	2017
Finished goods	$ 4,256	$ 4,225
Work in process	3,197	2,368
Raw material	5,829	4,629
	$ 13,282	$ 11,222

Property and equipment, net

Property and equipment consisted of the following (in thousands):

	December 31,	
	2018	2017
Buildings	$ 874	$ 874
Equipment	10,306	8,311
Furniture and fixtures	1,570	1,382
Leasehold improvements	4,792	4,568
Computer equipment and software	2,232	1,980
Land	7,068	—
Construction in progress	1,231	1,134
	28,073	18,249
Less accumulated depreciation and amortization	(8,920)	(6,455)
	$ 19,153	$ 11,794

Depreciation and amortization expense related to property and equipment was $3.1 million, $2.1 million and $1.1 million for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, respectively.

Accrued liabilities

Accrued liabilities consisted of the following (in thousands):

	December 31,	
	2018	2017
Accrued bonuses	$ 8,604	$ 9,106
Accrued legal expenses	2,466	591
Accrued vacation benefits	2,446	2,121
Accrued Employee Stock Purchase Plan liability	1,154	1,517
Other accrued liabilities	9,294	7,114
	$ 23,964	$ 20,449

Note 4. Fair Value Measurements

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 liability.

The following tables present information about the Company's financial assets measured at fair value on a recurring basis as of December 31, 2018 and December 31, 2017, and indicate the fair value hierarchy of the valuation

techniques utilized by the Company to determine such fair value (in thousands). The Company did not have any financial liabilities measured at fair value on a recurring basis as of December 31, 2018 and December 31, 2017.

	At December 31, 2018			
	December 31, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Money market funds [(i)]	$ 1,156	$ 1,156	$ —	$ —
U.S. government agency bonds [(ii)]	1,982	—	1,982	—
U.S. Government bonds [(ii)]	1,297	—	1,297	—
Bank certificates of deposit [(ii)]	15,201	—	15,201	—
Commercial paper [(ii)]	9,593	—	9,593	—
Corporate notes [(ii)(iii)]	61,752	—	61,752	—
Asset-backed securities [(ii)]	21,842	—	21,842	—
Total assets	$ 112,823	$ 1,156	$ 111,667	$ —

(i) Included in cash and cash equivalents with a maturity of three months or less from date of purchase on the consolidated balance sheets.

(ii) Included in short-term investments on the consolidated balance sheets.

(iii) One corporate note investment totaling $1,000 (in thousands) is included in cash and cash equivalents on the consolidated balance sheets, as the investment has a maturity of three months or less from the date of purchase on the consolidated balance sheets.

	At December 31, 2017			
	December 31, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Money market funds [(i)]	$ 2,370	$ 2,370	$ —	$ —
U.S. government agency bonds [(ii)]	2,681	—	2,681	—
U.S. Government bonds [(ii)]	1,782	—	1,782	—
Bank certificates of deposit [(ii)]	10,298	—	10,298	—
Commercial paper [(ii)(iii)]	14,593	—	14,593	—
Corporate notes [(ii)]	51,417	—	51,417	—
Asset-backed securities [(ii)]	16,735	—	16,735	—
Total assets	$ 99,876	$ 2,370	$ 97,506	$ —

(i) Included in cash and cash equivalents with a maturity of three months or less from date of purchase on the consolidated balance sheets.

(ii) Included in short-term investments on the consolidated balance sheets.

(iii) One commercial paper investment totaling $3,000 (in thousands) is included in cash and cash equivalents on the consolidated balance sheets, as the investment has a maturity of three months or less from the date of purchase on the consolidated balance sheets.

Money market funds and currency are highly liquid investments and are actively traded. The pricing information on these investment instruments is readily available and can be independently validated as of the measurement date. This approach results in the classification of these securities as Level 1 of the fair value hierarchy.

U.S. government agency bonds, U.S. government bonds, bank certificates of deposit, commercial paper, corporate notes and asset-backed securities are measured at fair value using Level 2 inputs. The Company reviews trading activity and pricing for these investments as of each measurement date. When sufficient quoted pricing for identical securities is not available, the Company uses market pricing and other observable market inputs for similar securities obtained from third party data providers. These inputs represent quoted prices for similar assets in active markets or these inputs have been derived from observable market data. This approach results in the classification of these securities as Level 2 of the fair value hierarchy.

There were no transfers between levels within the fair value hierarchy during the periods presented.

Note 5. Intangible Assets

GMP Vision Solutions intangible asset

In January 2007, the Company entered into an agreement (the Original GMP Agreement) with GMP Vision Solutions, Inc. (GMP) to acquire certain in-process research and development in exchange for periodic royalty payments equal to a single-digit percentage of revenues received for royalty-bearing products and periodic royalty payments at a higher royalty rate applied to all amounts received in connection with the grant of licenses or sub-licenses of the related intellectual property.

In November 2013, the Company entered into an amended agreement with GMP in which remaining royalties payable to GMP (the Buyout Agreement) were canceled in exchange for the issuance of $17.5 million in promissory notes payable to GMP and a party related to GMP.

The Company concluded that the $17.5 million transaction represented the purchase of an intangible asset. The Company estimated a useful life of five years over which the intangible asset is being amortized to cost of sales in the accompanying statements of operations, which amortization period was determined after consideration of the projected outgoing royalty payment stream had the Buyout Agreement not occurred, and the remaining life of the patents obtained in the Original GMP Agreement. After determining that the pattern of future cash flows associated with this intangible asset could not be reliably estimated with a high level of precision, the Company concluded that the intangible asset will be amortized on a straight-line basis over the estimated useful life. For the year ended December 31, 2018, the amortization expense was $3.0 million and the intangible asset has been fully amortized. The amortization expense was $3.5 million during each of the years ended December 31, 2017 and December 31, 2016.

Other intangible assets

The Company entered into agreements with international distributors pursuant to which their distribution rights with the Company were terminated effective as of December 31, 2015. As part of the agreements the distributors agreed to provide certain services to, and not compete with, the Company for one-to-two years in exchange for payments calculated based on single-digit percentages of the Company's future revenues in those years in the respective countries that had comprised the distributors' territories. Management recorded the estimated fair value of the non-compete provisions as intangible assets. For the years ended December 31, 2018 and December 31, 2017, the Company recorded amortization expense related to the non-compete provisions of approximately $0.2 million and $0.3 million, respectively. As of December 31, 2018, the non-compete intangible assets were fully amortized.

The following reflects the composition of intangible assets, net (in thousands):

	December 31, 2018	December 31, 2017
GMP royalty buyout	$ 17,500	$ 17,500
Non-compete agreements	341	524
	17,841	18,024
Accumulated amortization	(17,841)	(14,877)
Total	$ —	$ 3,147
Weighted average amortization period (in months)	60	60

Note 6. Revenue from Contracts with Customers

The Company's net sales are generated primarily from sales of *iStent* products to customers. Customers are primarily comprised of ambulatory surgery centers and hospitals, with distributors being used in certain international locations where the Company currently does not have a direct commercial presence.

Disaggregation of revenue

The Company's disaggregation of revenue is consistent with its operating segments disclosed in Note 11 *, Business Segment Information* , and all of the Company's net sales are considered revenue from contracts with customers.

Contract balances

Amounts are recorded as accounts receivable when the Company's right to consideration becomes unconditional. As payment terms on invoiced amounts are typically 30 days, the Company does not consider any significant financing components in customer contracts given the expected time between transfer of the promised products and the payment of the associated consideration is less than one year. As of December 31, 2018 and December 31, 2017, all amounts included in accounts receivable, net on the consolidated balance sheets are related to contracts with customers.

The Company does not have any contract assets given that the Company does not have any unbilled receivables and sales commissions are expensed within selling, general and administrative expenses within the consolidated statement of operations when incurred as any incremental cost of obtaining contracts with customers would have an amortization period of less than one year.

Contract liabilities reflect consideration received from customers' purchases allocated to the Company's performance obligation to issue a rebate to customers who may be eligible for a rebate at the conclusion of their contract term. This performance obligation is transferred over time and the Company's method of measuring progress is the output method, whereby the progress is measured by the estimated rebate earned to date over the total rebate estimated to be earned over the contract period. The Company's rebate allowance is included in accrued liabilities in the consolidated balance sheets and estimated rebates accrued were not material during the periods presented.

During the year ended December 31, 2018, the Company did not recognize any revenue related to changes in transaction prices regarding its contracts with customers and did not recognize any material changes in revenue related to amounts included in contract liabilities at the beginning of the period.

Note 7. Stock-Based Compensation

The Company has four stock based compensation plans (collectively, the Stock Plans)—the 2001 Stock Option Plan (the 2001 Stock Plan), the 2011 Stock Plan (the 2011 Stock Plan), the 2015 Omnibus Incentive Compensation Plan (the 2015 Stock Plan) and the ESPP. The 2015 Stock Plan permits grants of RSU awards.

The purpose of these plans is to provide incentives to employees, directors and nonemployee consultants. The Company no longer grants any awards under the 2001 Stock Plan and the 2011 Stock Plan. The maximum term of any stock options granted under the Stock Plans is 10 years. For employees and nonemployees, stock options generally vest 25% on the first anniversary of the original vesting date, with the balance vesting monthly or annually over the remaining three years. Stock options are granted at exercise prices at least equal to the fair value of the underlying stock at the date of the grant. For employees and nonemployees, generally, RSU awards vest 25% on each of the first, second, third and fourth anniversaries of the grant date and in certain cases, vest one year after grant date.

The ESPP permits eligible employees to purchase shares of the Company's common stock, using contributions via payroll deduction of up to 15% of their earnings, at a price per share equal to 85% of the lower of the stock's fair market value on the offering date or purchase date. The ESPP is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code.

As of January 1, 2019, the Company has reserved an aggregate of 11.3 million shares of common stock for issuance under the 2015 Stock Plan, and 1.8 million shares of common stock for issuance under the ESPP.

Valuation and expense recognition of stock-based awards

The Company accounts for the measurement and recognition of compensation expense for all share-based awards made to the Company's employees and nonemployees based on the estimated fair value of the awards.

The fair value of RSU awards made to employees and nonemployees is equal to the closing market price of the Company's common stock price on the grant date.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options and look back options included as part of the ESPP. The determination of fair value using the Black-Scholes option-pricing model is affected by the estimated fair market value per share of the Company's common stock as well as assumptions regarding a number of highly complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and expected option life and generally requires significant management judgment to determine.

Risk-free interest rate. The risk-free interest rate is equal to the U.S. Treasury Note interest rate for the comparable term for the expected option life as of the valuation date. If the expected option life is between the U.S. Treasury Note rates of two published terms, then the risk-free interest rate is based on the straight-line interpolation between the U.S. Treasury Note rates of the two published terms as of the valuation date.

Expected dividend yield. The expected dividend yield is based on the Company's history and expectation of dividend payouts. The Company has never declared or paid any cash dividends and does not presently plan to pay cash dividends in the foreseeable future.

Expected volatility. The Company only recently began to have publicly traded equity and has a limited operating history and a lack of Company-specific historical and implied volatility data, and therefore has estimated its stock price volatility based upon an index of the historical volatilities of a group of comparable publicly-traded medical device peer companies. The historical volatility data was computed using the historical daily closing prices for the selected peer companies' shares during the equivalent period of the calculated expected term of the Company's stock options. The Company will continue to apply this process until a sufficient amount of historical information regarding the volatility of its own stock price becomes available.

Expected term. The Company has concluded that its stock option exercise history does not provide a reasonable basis upon which to estimate expected term, and therefore it uses the simplified method for estimating the expected term of stock option grants. Under this approach, the weighted-average expected term is presumed to be the average of the vesting term and the contractual term of the option.

Fair value of common stock. Historically, and until the June 30, 2015 completion of the Company's IPO, the fair value of the shares of common stock underlying the stock options has been the responsibility of and determined by the Company's Board of Directors. Because there had been no public market for the Company's common stock, the Board of Directors determined the fair value of common stock at the time of grant of the option by considering a number of objective and subjective factors including independent third-party valuations of the Company's common stock, sales prices of convertible preferred stock to unrelated third parties, operating and financial performance, the lack of liquidity of capital stock and general and industry specific economic outlook, among other factors. Subsequent to the date of the Company's IPO in June 2015, the Company has used the daily market prices in the determination of the fair value of its common stock.

Stock Options

The following table summarizes stock option activity under the 2001 Stock Plan, 2011 Stock Plan and 2015 Stock Plan (in thousands):

	Number of shares underlying options (in thousands)	Weighted-average exercise price per share	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2015	5,701	$ 7.10	6.7	$ 102,390
Granted	1,979	21.24		
Exercised	(1,660)	3.65		42,458
Canceled/forfeited/expired	(109)	20.00		
Outstanding at December 31, 2016	5,911	$ 12.59	7.3	129,591
Granted	1,877	43.85		
Exercised	(639)	5.76		22,105
Canceled/forfeited/expired	(123)	23.79		
Outstanding at December 31, 2017	7,026	$ 21.36	7.3	$ 69,555
Granted	896	30.83		
Exercised	(1,304)	14.27		46,639
Canceled/forfeited/expired	(311)	31.14		
Outstanding at December 31, 2018	6,307	$ 23.69	6.7	$ 204,896
Vested and expected to vest at December 31, 2018	6,213	$ 23.53	6.7	$ 202,779
Exercisable at December 31, 2018	3,929	$ 17.54	5.8	$ 151,798

Intrinsic value is calculated as the difference between the exercise price of the underlying options and the fair value of the common stock for the options that had exercise prices that were lower than the fair value per share of the common stock on the date of exercise.

The weighted average estimated grant date fair value per share of stock options granted during the years ended December 31, 2018, December 31, 2017 and December 31, 2016 was $14.98, $20.62 and $10.81, respectively.

The total fair value of stock options that vested during the years ended December 31, 2018, December 31, 2017 and December 31, 2016 was $24.2 million, $12.9 million and $5.7 million, respectively.

Restricted Stock Units

The following table summarizes the activity of unvested restricted stock units under the Stock Plans during the years ended December 31, 2018 and December 31, 2017:

	Number of shares (in thousands)	Weighted-average grant date fair value
Unvested at December 31, 2016	—	$ —
Granted	173	39.10
Vested	—	—
Canceled/forfeited	—	—
Unvested at December 31, 2017	173	$ 39.10
Granted	419	33.64
Vested	(41)	39.36
Canceled/forfeited	(19)	33.67
Unvested at December 31, 2018	532	$ 35.17

The total fair value of restricted stock units that vested during the years ended December 31, 2018 was $1.6 million. No restricted stock units vested during the year ended December 31, 2017.

All share-based compensation arrangements

The following table summarizes the allocation of stock-based compensation related to stock options and RSUs in the accompanying consolidated statements of operations (in thousands):

	Year ended December 31,		
	2018	2017	2016
Cost of sales	$ 703	$ 597	$ 233
Selling, general & administrative	19,816	13,006	6,475
Research and development	5,185	3,989	2,078
Total	$ 25,704	$ 17,592	$ 8,786

In the years ended December 31, 2018, December 31, 2017, and December 31, 2016, the related tax benefits were $10.5 million, $5.4 million and $9.9 million, respectively, relating to stock-based compensation.

At December 31, 2018, the total unamortized stock-based compensation expense is approximately $48.3 million. Of the approximately $48.3 million in unamortized stock-based compensation expense, $35.4 million is attributable to stock options and is to be recognized over the stock options' remaining vesting terms of approximately 4.0 years (2.3 years on a weighted average basis). The remaining $12.9 million is attributable to restricted stock units and is to be recognized over the restricted stock units' vesting terms of approximately 4.0 years (2.9 years on a weighted-average basis).

The total stock-based compensation cost capitalized in inventory was not material for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, respectively.

Stock-based awards to employees

The weighted-average assumptions used to estimate the fair value of stock options granted to employees were as follows:

	Year ended December 31,		
	2018	2017	2016
Risk-free interest rate	2.67 %	2.13 %	1.59 %
Expected dividend yield	0.0 %	0.0 %	0.0 %
Expected volatility	44.9 %	46.5 %	52.9 %
Expected term (in years)	6.10	6.04	6.04

Forfeiture rate. The Company reduces employee share-based compensation expense for estimated forfeitures. Forfeitures are estimated at the time of grant based on historical experience, and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The weighted-average per share exercise price of options granted to employees during the years ended December 31, 2018, December 31, 2017 and December 31, 2016 was $30.83, $43.85 and $21.24, respectively.

Stock-based awards to nonemployees

The fair values of stock-based awards made to nonemployees are remeasured at the end of the reporting period using the Black-Scholes option pricing model. The expected life for each option is determined based on the time remaining until the expiration of the option as of the date of remeasurement. Compensation expense for these share-based awards is determined by applying the recalculated fair values to the shares that have vested during a period.

For the years ended December 31, 2018, December 31, 2017 and December 31, 2016, the Company recorded nonemployee stock-based compensation expense of $0.8 million, $0.5 million and $0.8 million, respectively.

Common stock reserved for future issuance

Common stock reserved for issuance is as follows (in thousands):

	As of December 31, 2018
Stock options issued and outstanding—2001 Plan	510
Stock options issued and outstanding—2011 Plan	1,540
Stock options issued and outstanding—2015 Plan	4,789
Employee stock purchase plan	1,062
Authorized for future stock awards or option grants	4,226
	12,127

Note 8. Income taxes

United States and foreign (loss) income before income taxes was as follows (in thousands):

	Year ended December 31,		
	2018	2017	2016
United States	$ (14,776)	$ 12,543	$ 12,214
Foreign	2,408	(12,542)	(7,649)
Total	$ (12,368)	$ 1	$ 4,565

The provision for income taxes was as follows (in thousands):

	December 31,		
	2018	2017	2016
Current:			
Federal	$ —	$ 235	$ (28)
State	274	93	71
Foreign	309	—	—
	583	328	43
Deferred:			
Federal	—	(235)	—
State	—	—	—
Foreign	—	—	—
	—	(235)	—
Provision for income taxes	$ 583	$ 93	$ 43

The reconciliations of the U.S. federal statutory tax expense to the combined effective tax provision are as follows:

	Year ended December 31,		
(amounts in thousands)	2018	2017	2016
Statutory rate of tax expense	$ (2,597)	$ -	$ 1,552
State income taxes, net of federal benefit	(1,518)	(17)	530
Permanent and other items	(4,658)	(5,199)	789
Nondeductible offering costs	-	-	7
Research credits	(2,556)	(2,215)	(1,945)
Uncertain tax positions	6,143	1,108	940
Change in tax rate	(250)	1,013	1,337
Tax Cuts and Jobs Act	-	25,216	-
Valuation allowance	6,019	(19,813)	(3,167)
Provision for income taxes	$ 583	$ 93	$ 43

Significant components of the Company's net deferred tax assets at December 31, 2018 and December 31, 2017 are as follows (in thousands):

	December 31,	
	2018	2017
Deferred tax assets:		
Net operating loss carryforwards	$ 40,041	$ 37,571
Tax credits	7,754	6,713
Depreciation and amortization	9,356	10,765
Stock-based compensation	9,838	7,184
Reserves and accruals	5,030	3,739
Total deferred tax assets	72,019	65,972
Deferred tax liabilities:		
Other, net	$ (65)	$ (42)
Valuation allowance	(71,954)	(65,695)
Net deferred tax assets	$ —	$ 235

Based on the weight of available evidence, management has established a valuation allowance for all of the deferred tax assets as it is more likely than not that the deferred tax assets will not be realized. The net change in the valuation allowance was $6.3 million in 2018.

At December 31, 2018, the Company had approximately $154.5 million, $120.6 million and $15.8 million of net operating loss carryforwards for federal, state and foreign purposes, respectively, available to offset future taxable income. The federal net operating loss carryforwards incurred prior to 2018 will begin to expire in 2025. A federal net operating loss carryforward of $27.2 million will not expire, but can only be used to offset 80 percent of future taxable income. The state net operating loss carryforwards will begin to expire in 2019. The foreign net operating losses will begin to expire in 2023.

At December 31, 2018, the Company had federal and state research and development credit carryforwards of $9.1 million and $8.1 million, respectively, which begin to expire in 2021 for federal purposes and carry over indefinitely for state purposes.

Utilization of the net operating loss and tax credit carryforwards will be subject to annual limitations under Sections 382 and 383 of the Internal Revenue Code of 1986 and similar state provisions due to several ownership changes that have occurred previously or that could occur in the future. These ownership changes will limit the amount of net operating loss and tax credit carryforwards and other deferred tax assets that can be utilized to offset future taxable income and tax. In general, all ownership changes as defined by IRC Section 382 result from transactions increasing ownership of certain stockholders in the stock of the Company by more than 50 percentage points over a three-year period. An analysis was performed by the Company which indicated that several ownership changes have occurred in previous years which created annual limitations on the Company's ability to utilize net operating loss and tax credit carryforwards. The Company has not, however, conducted a IRC Section 382 study for any periods subsequent to December 31, 2009 and as such, the Company cannot provide any assurance that a change in ownership within the meaning of IRC has not occurred since that date. Due to the existence of the valuation allowance, limitations created by future ownership changes, if any, will not impact the Company's effective tax rate.

Certain foreign subsidiary earnings are subject to U.S. taxation under the Act, which also repeals U.S. taxation on the subsequent repatriation of those earnings. The Company intends to invest substantially all of its foreign earnings, as well as its capital in the foreign subsidiaries, indefinitely outside of the U.S. in those jurisdictions in which the Company would incur significant, additional costs upon repatriation of such amounts.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, excluding interest and penalties, is as follows (in thousands):

	December 31,		
	2018	2017	2016
Balance at beginning of the year	$ 7,227	$ 5,947	$ 4,848
Net addition (reduction) for tax positions—prior years	4,558	—	(49)
Net additions for tax positions—current year	1,701	1,280	1,148
Balance at end of the year	$ 13,486	$ 7,227	$ 5,947

As of December 31, 2018, approximately $0.3 million of unrecognized tax benefits would reduce our annual effective tax rate if recognized.

The Company's policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense. There was no accrued interest and penalties associated with uncertain tax positions as of December 31, 2018, December 31, 2017 and December 31, 2016. It is not anticipated that there will be a significant change in the unrecognized tax benefits over the next 12 months.

Due to the Company's net operating loss carryforwards, its federal, state and foreign income tax returns are open to examination by the Internal Revenue Service and state jurisdictions for all years since inception.

The Tax Cuts and Jobs Act

The Act was enacted on December 22, 2017 resulting in significant modifications to existing law. The Company follows the guidance of Staff Accounting Bulletin (SAB) 118, which provides additional clarification regarding the application of ASC 740 in situations where the Company does not have the necessary information available, prepared or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Act for the reporting period in which the Act was enacted. SAB 118 provides for a measurement period beginning in the reporting period that includes the Act's enactment and ending when the Company has obtained, prepared and analyzed the information needed in order to complete the accounting requirements, but in no circumstances should the measurement period extend beyond one year from the enactment date.

The Company has completed its analysis of the Act's income tax effects. In total, the Company recorded $25.2 million related to the remeasurement of deferred tax assets which was fully offset by a corresponding decrease in the valuation allowance.

Further, the Company has recorded the tax impact of IRC Section 162(m) as amended by the Act, which resulted in a reduction to its deduction of compensation paid to covered executives.

Note 9. Employee Benefits

Defined contribution plan

The Company sponsors a defined contribution plan pursuant to section 401(k) of the U.S. Internal Revenue Code that allows participating employees to contribute up to 100% of their salary, to an annual maximum of $18,500 in 2018 and $18,000 in 2017 ($24,500 in 2018 and $24,000 in 2017 for employees over the age of 50). Through December 31, 2018, the Company has only made "qualified nonelective contributions" to maintain compliance with IRS regulations. No plan contributions were made by the Company for the year ended December 31, 2016. Beginning in 2017, the Company contributes a $0.50 match for every $1.00 contributed by a participating employee up to 6% of plan-eligible earnings, with such Company contributions becoming fully vested when participating employees reach the 3-year anniversary from their date of hire, giving credit for past service. For the years ended December 31, 2018 and December 31, 2017, Company contributions totaled approximately $1.4 million and $1.0 million, respectively.

Deferred compensation plan

Effective April 1, 2017, the Company established a deferred compensation plan (the Deferred Compensation Plan) for eligible senior level employees. The plan is designed to permit eligible employees to make elective deferrals of compensation to which he or she will become entitled in the future. The Company also established a rabbi trust that serves as an investment to shadow the Deferred Compensation Plan liability. The investments of the rabbi trust consist of company-owned life insurance policies (COLIs). The fair value of the Deferred Compensation Plan liability, included in other liabilities on the consolidated balance sheets, was approximately $2.0 million and $0.6 million as of December 31, 2018 and December 31, 2017, respectively and the cash surrender value of the COLIs, included in deposits and other assets on the consolidated balance sheets, which reflects the underlying assets at fair value, was approximately $1.9 million and $0.7 million as of December 31, 2018 and December 31, 2017, respectively.

Note 10. Commitments and Contingencies

Litigation

On April 14, 2018, the Company filed a patent infringement lawsuit against Ivantis, Inc. in the U.S. District Court for the Central District of California, Southern Division, alleging that Ivantis' Hydrus Microstent device infringes the Company's U.S. Patent Nos. 6,626,858 and 9,827,143. In August 2018, Ivantis filed counterclaims alleging that the Company's *iStent inject* infringes U.S. Patent Nos. 8,540,659, 9,603,741, and 9,833,357, patents which Ivantis had recently acquired (Acquired Patents). Each party seeks unspecified monetary damages and injunctive relief. The parties are currently engaged in fact discovery. The Company has filed an early motion seeking a judgment of non-infringement of the Acquired Patents. The Court will hear the motion on March 11, 2019. Trial is set for February 4, 2020. Additionally, in May 2018, Ivantis also filed *Inter Partes* Review petitions with the Patent Trial and Appeal Board (PTAB) on the patents the Company has asserted in the litigation. The PTAB denied institution of the petitions in December 2018, but Ivantis filed new petitions in January 2019. The PTAB's decision on institution of this second round of petitions is expected in July 2019. The Company believes that the counterclaim and the PTAB petitions are without merit, and intends to continue vigorously defending itself. The Company is currently unable to predict the ultimate outcome of this matter or estimate a reasonably possible loss or range of loss, and no amounts have been accrued in the consolidated financial statements.

Indemnification

In the ordinary course of business, the Company enters into agreements that may include indemnification provisions. Pursuant to such agreements, the Company may indemnify, hold harmless and defend the indemnified parties for losses suffered or incurred by the indemnified party. Some of the provisions will limit losses to those arising from third-party actions. In some cases, the indemnification will continue after the termination of the agreement. The maximum potential amount of future payments the Company could be required to make under these provisions is not determinable. To date, the Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification provisions. The Company has also entered into indemnification agreements with its directors and officers that may require it to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers to the fullest extent permitted by corporate law. The Company also has directors' and officers' insurance.

Operating leases

The Company leases its main headquarters and manufacturing facility and facilities for some of its foreign subsidiaries. Certain of the Company's leases contain renewal options, rent escalation clauses, and/or landlord incentives. Rent expense for noncancelable operating leases with scheduled rent increases and/or landlord incentives is recognized on a straight-line basis over the lease term beginning with the lease commencement date, or the date the Company takes control of the leased space, whichever is sooner. The excess of straight-line rent expense over scheduled payment amounts and landlord incentives is recorded as a deferred rent liability.

The Company leases two adjacent facilities located in San Clemente, California. During December 2018, the Company extended the term of these facilities by three years, both of which now expire on December 31, 2024. Each agreement contains an option to extend the lease for one additional three-year period at market rates. The total leased square footage of these facilities equals approximately 98,000. In conjunction with these extensions, the lease landlord agreed to provide the Company with a tenant improvement allowance in the amount of the cost of any leasehold improvements, not to exceed approximately $0.3 million upon the Company providing the necessary documentation evidencing the costs of the allowable leasehold improvements.

On November 14, 2018, the Company entered into an office building lease pursuant to which the Company will lease one property containing three existing office buildings, comprising approximately 160,000 rentable square feet of space, located in Aliso Viejo, California (Aliso Facility). The term of the Aliso Facility will commence on May 1, 2019 and continue for thirteen years. The agreement contains an option to extend the lease for two additional five year periods at market rates. The Company intends to relocate its corporate administrative headquarters, along with certain laboratory, research and development and warehouse space, to the Aliso Facility. The Company currently intends to maintain its manufacturing facilities at its San Clemente location for the foreseeable future.

The Company's remaining U.S.-based and foreign subsidiaries' leased office space totals less than 14,000 square feet.

The Company recorded deferred rent of $0.5 million and $0.3 million as of December 31, 2018 and December 31, 2017, respectively, in conjunction with its facilities lease agreements. Rent expense was $1.6 million, $1.5 million and $1.1 million for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, respectively.

Future minimum payments under the aforementioned noncancelable operating leases for each of the five succeeding years are as follows (in thousands):

2019	$	1,719
2020		2,929
2021		6,376
2022		6,496
2023		6,842
Thereafter		50,005
	$	74,367

Secured letter of credit

The Company had its bank issue a letter of credit in the amount of $8.8 million that is related to its Aliso Facility. The letter of credit is secured with an amount of cash held in a restricted account equal to its face value, or $8.8 million as of December 31, 2018. Beginning as of the first day of the thirty-seventh month of the lease term, and on each twelve month anniversary thereafter, the letter of credit will be reduced by 20% until the letter of credit amount has been reduced to $2.0 million.

Purchase commitment

As of December 31, 2018, the Company had noncancelable, firm purchase commitments of $3.4 million due beyond one year.

Regents of the University of California

On December 30, 2014, the Company executed an agreement (the UC Agreement) with the Regents of the University of California (the University) to correct inventorship in connection with a group of the Company's U.S. patents (the Patent Rights) and to obtain from the University a covenant that it did not and would not claim any right or title to the Patent Rights and will not challenge or assist any others in challenging the Patent Rights. In connection with the UC Agreement, Glaukos agreed to pay to the University a low single-digit percentage of worldwide net sales of certain current and future products, including the Company's *iStent* products, with a required minimum annual payment

of $0.5 million. This ongoing product payment terminates on the date that the last of the Patent Rights expires, which is currently expected to be in 2022. For the years ended December 31, 2018, December 31, 2017 and December 31, 2016, the Company recorded approximately $4.5 million, $3.9 million and $2.8 million in cost of sales, respectively, in connection with the product payment obligation.

Note 11. Business segment information

Operating segments are identified as components of an enterprise about which segment discrete financial information is available for evaluation by the chief operating decision maker in making decisions regarding resource allocation and assessing performance. The Company operates its business on the basis of one reportable segment—ophthalmic medical devices.

	Year ended December 31,		
Geographic net sales information (in thousands)	2018	2017	2016
United States	$ 151,677	$ 140,902	$ 104,995
International	29,601	18,352	9,402
Total net sales	$ 181,278	$ 159,254	$ 114,397

	Property and equipment, net As of December 31,			Depreciation and amortization Year ended December 31,			Capital expenditures Year ended December 31,		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
United States	$ 19,040	$ 11,677	$ 7,463	$ 6,234	$ 5,406	$ 4,654	$ 10,288	$ 6,051	$ 6,493
International	113	117	130	30	76	68	27	221	56
Total	$ 19,153	$ 11,794	$ 7,593	$ 6,264	$ 5,482	$ 4,722	$ 10,315	$ 6,272	$ 6,549

Note 12. Selected Quarterly Financial Information (Unaudited)

	Three months ended			
(in thousands, except per share amounts)	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Net sales	$ 40,133	$ 43,161	$ 43,908	$ 54,076
Cost of sales	5,786	6,160	6,011	7,118
Gross profit	34,347	37,001	37,897	46,958
Operating expenses:				
Selling, general and administrative	27,155	28,638	31,632	32,104
Research and development	10,906	12,611	13,202	12,957
Total operating expenses	38,061	41,249	44,834	45,061
(Loss) income from operations	(3,714)	(4,248)	(6,937)	1,897
Non-operating income (expense)	1,008	(1,139)	353	412
Provision for income taxes	5	11	37	530
Net (loss) income	$ (2,711)	$ (5,398)	$ (6,621)	$ 1,779
Net (loss) income per share [(1)]:				
Basic	$ (0.08)	$ (0.15)	$ (0.19)	$ 0.05
Diluted	$ (0.08)	$ (0.15)	$ (0.19)	$ 0.04

(in thousands, except per share amounts)	Three months ended March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Net sales	$ 35,907	$ 41,285	$ 40,412	$ 41,650
Cost of sales	5,180	5,522	5,718	4,630
Gross profit	30,727	35,763	34,694	37,020
Operating expenses:				
Selling, general and administrative	21,481	24,675	24,141	25,963
In-process research and development	—	5,320	—	—
Research and development	8,942	9,633	9,805	10,525
Total operating expenses	30,423	39,628	33,946	36,488
Income (loss) from operations	304	(3,865)	748	532
Non-operating income	629	586	630	437
Provision for income taxes	55	22	53	(37)
Net income (loss)	$ 878	$ (3,301)	$ 1,325	$ 1,006
Net income (loss) per share (1):				
Basic	$ 0.03	$ (0.10)	$ 0.04	$ 0.03
Diluted	$ 0.02	$ (0.10)	$ 0.04	$ 0.03

(1) Net income or loss per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly per-share amounts will not necessarily equal the annual per share amount.

Note 13. Subsequent events

None.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROL S AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, refers to controls and procedures 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, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our 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 the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective, at the reasonable assurance level, as of December 31, 2018.

Management's Annual Report on Internal Control Over Financial Reporting and Attestation Report of the Registered Public Accounting Firm

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that the 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 our directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management, with the participation of our chief executive officer and our chief financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of the end of the period covered by this Annual Report on Form 10-K based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2018.

Ernst & Young LLP, our independent registered public accounting firm, which audited the consolidated financial statements included in this Annual Report on Form 10-K, has issued an audit report on our internal control over financial reporting. See Report of Independent Registered Public Accounting Firm below.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during our fourth fiscal quarter of 2018 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 Glaukos Corporation

Opinion on Internal Control Over Financial Reporting

We have audited Glaukos Corporation's internal control over financial reporting as of December 31, 2018, 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, Glaukos Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, 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 consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated February 27, 2019 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 Annual 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

Irvine, California
February 27, 2019

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We have adopted a written code of business conduct and ethics that applies to our directors, executive officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A current copy of the code is posted on the investor section of our web site, www.glaukos.com. To the extent required by rules adopted by the SEC and NYSE, we intend to promptly disclose future amendments to certain provisions of the code, or waivers of such provisions granted to executive officers and directors, in the Corporate Governance section of our Investor Relations web site at investors.glaukos.com.

The remaining information required by this Item 10 will be included in our Proxy Statement for the 2019 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2018, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 will be included in our Proxy Statement for the 2019 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2018, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 will be included in our Proxy Statement for the 2019 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2018, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 will be included in our Proxy Statement for the 2019 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2018, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 will be included in our Proxy Statement for the 2019 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2018, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

(1) Financial Statements

The financial statements included in Part II, Item 8 of this document are filed as part of this Annual Report on Form 10-K.

(2) Financial Statement Schedules

Schedules have been omitted because they are not applicable or the amounts are immaterial or the required information is presented in the financial statements or notes thereto.

(b) Exhibits

The exhibits listed in the Exhibit Index below are filed, furnished or incorporated by reference as part of this Annual Report on Form 10-K.

INDEX TO EXHIBITS

Exhibit Number	Description
2.1 †	IOP System Purchase Agreement dated as of April 12, 2017 by and between Glaukos Corporation and DOSE Medical Corporation (incorporated by reference to Exhibit 2.1 to the Form 8-K (File No. 001-37463) filed on April 12, 2017)
3.1	Restated Certificate of Incorporation of the Registrant (incorporated by referenced to Exhibit 3.1 to the Form 8-K (File No. 001-37463) filed on June 30, 2015).
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Form 8-K (File No. 001-37463) filed on June 30, 2015).
10.1	Fourth Amended and Restated Investors' Rights Agreement, dated as of January 25, 2011, by and among the Registrant and the stockholders named therein (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-1 (No. 333-204091) filed on May 12, 2015).
10.2	Amendment No. 1 to the Fourth Amended and Restated Investors' Rights Agreement, dated as of January 22, 2013, by and among the Registrant and the stockholders named therein (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 (No. 333-204091) filed on May 12, 2015).
10.3	Amendment No. 2 to the Fourth Amended and Restated Investors' Rights Agreement, dated as of July 10, 2014, by and among the Registrant and the stockholders named therein (incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-1 (No. 333-204091) filed on May 12, 2015).
10.4+	Form of Director and Executive Officer Indemnification Agreement (incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-1 (No. 333-204091) filed on May 12, 2015).
10.5+	2001 Stock Option Plan (incorporated by reference to Exhibit 10.9 to the Registration Statement on Form S-1 (No. 333-204091) filed on May 12, 2015).
10.6+	Notice of Incentive Stock Option Grant and Stock Option Agreement under the 2001 Stock Option Plan (incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-1 (No. 333-204091) filed on May 12, 2015).
10.7+	Notice of Non-Statutory Stock Option Grant and Stock Option Agreement under the 2001 Stock Option Plan (incorporated by reference to Exhibit 10.11 to the Registration Statement on Form S-1 (No. 333-204091) filed on May 12, 2015).
10.8+	2011 Stock Plan (incorporated by reference to Exhibit 10.12 to the Registration Statement on Form S-1 (No. 333-204091) filed on May 12, 2015).
10.9+	Form of Notice of Incentive Stock Option Grant and Stock Option Agreement under the 2011 Stock Plan (incorporated by reference to Exhibit 10.13 to the Registration Statement on Form S-1 (No. 333-204091) filed on May 12, 2015).
10.10+	Form of Notice of Non-Statutory Stock Option Grant and Stock Option Agreement under the 2011 Stock Plan (incorporated by reference to Exhibit 10.14 to the Registration Statement on Form S-1 (No. 333-204091) filed on May 12, 2015).
10.11+	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Unit Agreement under the 2015 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (No. 333-204091) filed on August 7, 2017).
10.12+	Form of Notice of Grant of Option and Option Award Agreement under the 2015 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (No. 001-37463) filed on May 9, 2018).

Exhibit Number	Description
10.13+	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Unit Agreement under the 2015 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (No. 001-37463) filed on August 6, 2018).
10.14+	Form of Director Notice of Grant of Restricted Stock Units and Restricted Stock Unit Agreement under the 2015 Omnibus Incentive Compensation Plan. (incorporated by reference to Exhibit 10.22 to the Annual Report on Form 10-K (No. 001-37463) filed on February 28, 2018).
10.15+	2015 Omnibus Incentive Compensation Plan (incorporated by reference to Exhibit 10.15 to Amendment No. 2 to the Registration Statement on Form S-1 (No. 333-204091) filed on June 15, 2015).
10.16+	2015 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.16 to Amendment No. 2 to the Registration Statement on Form S-1 (No. 333-204091) filed on June 15, 2015).
10.17+	Thomas W. Burns Offer Letter dated July 10, 2014 (incorporated by reference to Exhibit 10.17 to the Registration Statement on Form S-1 (No. 333-204091) filed on May 12, 2015).
10.18+	Thomas W. Burns Amended and Restated Executive Severance and Change in Control Agreement dated November 3, 2017 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No 001-37464) filed on November 7, 2017).
10.19+	Chris M. Calcaterra Offer Letter dated July 10, 2014 (incorporated by reference to Exhibit 10.19 to the Registration Statement on Form S-1 (No. 333-204091) filed on May 12, 2015).
10.20+	Chris M. Calcaterra Amended and Restated Executive Severance and Change in Control Agreement dated November 3, 2017 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K (File No. 001-37463) filed on November 7, 2017).
10.21+	Joseph E. Gilliam Offer Letter dated February 3, 2017 (incorporated by reference to Exhibit 99.2 to the to the Company's Current Report on Form 8-K (File No. 001-37463) filed on February 6, 2017).
10.22+	Joseph E. Gilliam Amended and Restated Executive Severance and Change in Control Agreement dated November 3, 2017 (incorporated by reference to Exhibit 10.3 to the Form 8-K (File No. 001-37463) filed on November 7, 2017)
10.23+	The Executive Nonqualified Excess Plan and the Executive Nonqualified Excess Plan Adoption Agreement (incorporated by reference to Exhibit 10.20 to the Annual Report on Form 10-K (No. 001-37463) filed on March 15, 2017)
10.24+	Directors' Compensation Policy (incorporated by reference to Exhibit 10.21 to the Annual Report on Form 10-K (File No. 001-37463) filed on February 28, 2018).
10.25	Asset Purchase Agreement, dated as of July 10, 2014, by and between the Registrant and DOSE Medical Corporation (incorporated by reference to Exhibit 10.25 to the Registration Statement on Form S-1 (No. 333-204091) filed on May 12, 2015).
10.26	Standard Industrial/Commercial Single-Tenant Lease—Net, dated as of June 8, 2015, by and between the Registrant and 229 Fabricante, LLC (incorporated by reference to Exhibit 10.35 to Amendment No. 2 to the Registration Statement on Form S-1 (No. 333-204091) filed on June 15, 2015).
10.27*†	Office Building Lease dated as of November 14, 2018, by and between the Registrant and CIP 2014/SG, Aliso Owner LLC.
10.28	Amended and Restated Patent License Agreement, by and between the Registrant and DOSE Medical Corporation, dated as of June 30, 2015 (incorporated by reference to Exhibit 10.1 to the Form 8-K (File No. 001-37463) filed on June 30, 2015).
10.29†	First Amendment to Amended and Restated Patent License Agreement dated as of April 12, 2017 by and between Glaukos Corporation and DOSE Medical Corporation (incorporated by reference to Exhibit 10.1 to the Form 8-K (File No. 001-37463) filed on April 12, 2017)

Exhibit Number	Description
10.30	Amended and Restated Transition Services Agreement, by and between the Registrant and DOSE Medical Corporation, dated as of June 30, 2015 (incorporated by reference to Exhibit 10.2 to the Form 8-K (File No. 001-37463) filed on June 30, 2015).
21*	Subsidiaries of Glaukos Corporation as of December 31, 2018
23.1*	Consent of Independent Registered Public Accounting Firm
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Schema Linkbase Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Definition Linkbase Document
101.LAB*	XBRL Taxonomy Labels Linkbase Document
101.PRE*	XBRL Taxonomy Presentation Linkbase Document

+ Indicates a management contract or compensatory plan or arrangement.

† Schedules and exhibits are omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally a copy of any omitted schedule or exhibit to the U.S. Securities and Exchange Commission upon request.

* Filed Herewith.

** Furnished Herewith.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Clemente, State of California, on February 27, 2019.

GLAUKOS CORPORATION

By: /s/ Thomas W. Burns
Thomas W. Burns
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Thomas W. Burns Thomas W. Burns	Chief Executive Officer, President and Director (Principal Executive Officer)	February 27, 2019
/s/ Joseph E. Gilliam Joseph E. Gilliam	Chief Financial Officer & SVP, Corporate Development (Principal Accounting and Financial Officer)	February 27, 2019
/s/ William J. Link William J. Link, Ph.D.	Chairman of the Board	February 27, 2019
/s/ Mark J. Foley Mark J. Foley	Director	February 27, 2019
/s/ David F. Hoffmeister David F. Hoffmeister	Director	February 27, 2019
/s/ Gilbert H. Kliman Gilbert H. Kliman, M.D.	Director	February 27, 2019
/s/ Marc A. Stapley Marc A. Stapley	Director	February 27, 2019
/s/ Aimee S. Weisner Aimee S. Weisner	Director	February 27, 2019

OFFICE BUILDING LEASE

THIS OFFICE BUILDING LEASE ("Lease") is made as of November 14, 2018, by and between CIP 2014/SG ALISO OWNER LLC, a Delaware limited liability company (“Landlord"), and GLAUKOS CORPORATION, a Delaware corporation ("Tenant").

1. TERMS AND DEFINITIONS

For the purposes of the Lease, the following terms shall have the following definitions and meanings:

(a) Landlord: CIP 2014/SG Aliso Owner LLC, a Delaware limited liability company

(b) Landlord's Property Manager:

(For Notices)

Greenlaw Management, Inc.
c/o Greenlaw Partners, LLC
18301 Von Karman Avenue, Suite 250
Irvine, California 92612
Attention: Property Manager

(For Rent)

CIP 2014/SG Aliso Owner LLC
c/o Greenlaw Management, Inc.
18301 Von Karman Avenue, Suite 250
Irvine, California 92612

(c) Tenant: Glaukos Corporation, a Delaware corporation.

(d) Tenant’s Address:

(1) Building Address:

26600, 26650 and 26700 Aliso Viejo Parkway
Aliso Viejo, California (the “26600 Building,” the “26650 Building” and the “26700 Building”, respectively, and collectively, the "Building").

The “Premises” shall consist of in the aggregate 159,746 Rentable Square Feet, comprised of (a) the 26600 Building consisting of approximately 51,907 Rentable Square Feet, (b) the 26650 Building consisting of approximately 51,899 Rentable Square Feet, (c) the 26700 Building consisting of approximately 55,940 Rentable Square Feet and (d) the exterior lawn/courtyard area located between the 26600 Building, the 26650 Building and the 26700 Building (the “Yard”).

(2) (For Notices)

Glaukos Corporation
229 Avenida Fabricante
San Clemente, CA 92672
Attention: General Counsel

(e) Premises Area: Approximately 159,746 Rentable Square Feet, which does not include the square footage of the Yard. The square footage of the Yard shall not be included in the Premises Area for purposes of calculating the Annual Basic Rent, Tenant's Percentage, Tenant's Building Share or any other terms hereof which are based on the Premises Area or rentable area of the Premises, but shall be considered to be part of the Premises for all other purposes under the Lease.

(f) Term: One Hundred Fifty-Six (156) Months ("Term"), with two (2) options to renew, each for a period of five (5) years in accordance with the provisions of Section 39.

(g) Tenant's Vehicle Parking Spaces: Tenant is hereby allocated all vehicle parking spaces in the adjacent surface parking lot ("Parking Facilities"). Tenant shall not be charged a per space charge.

(h) Tenant Improvement Allowance: Up to Twelve Million Six Hundred Sixty-Eight Thousand Four Hundred Fifteen Dollars $12,668,415) [based on $77.50 per Rentable Square Foot in the Premises plus $288,100 as compensation for Tenant's performance of certain work in the courtyard area behind the Buildings (the "Courtyard Work"), originally consisting of installing two (2) rollup doors, outdoor seating, additional hardscape and landscape and a permanent shade structure [in lieu of Landlord performing the Courtyard Work], to pay for costs incurred or relating to the construction of Tenant's improvements to the Premises and the Project (the "Tenant Improvements") in accordance with the Work Letter Agreement attached hereto as Exhibit "B" (the "Work Letter"). Any disbursements from the Tenant Improvement Allowance shall be made only following submission to Landlord of the documentation and compliance with such other requirements set forth in the Work Letter. Any portion of the Tenant Improvement Allowance which is not used to pay for the Tenant Improvements on or before the date that is two (2) years after the Commencement Date (the "TI Allowance Reconciliation Date") shall revert to Landlord and shall no longer be available to Tenant. Any costs for the Tenant Improvements in excess of the Tenant Improvement Allowance shall be paid for by Tenant. Separate from the Tenant Improvement Allowance, Landlord will reimburse Tenant up to $23,961.90 (based on $0.15 per rentable square foot) for the costs incurred by Tenant for preliminary planning services for the Tenant Improvements.

(i) Condition of the Premises: Landlord, at Landlord's cost and expense, shall cause the Premises to be in a "white box" condition with all Building Systems in good working order as of the date of this Lease in accordance with Section 13 below. "White box" condition shall mean the current condition of the Premises. The parties acknowledge that Tenant has elected to do the Courtyard Work , which was originally to have been performed by Landlord.

(j) Commencement Date: The earlier of (a) the date Tenant first occupies any portion of the Premises for purposes of operating its business in the Premises, and (b) May 1, 2019.

(k) Annual Basic Rent:

Months of Lease Term	Annual Basic Rent	Monthly Installments of _Basic _Rent	Monthly Basic Rental Rate per Rentable Square Foot of the _Premises**
1-12	- -	$375,403.10*	$2.35
13-16	- -	$386,665.19*	$2.42
17-24	$4,639,982.31^	$386,665.19	$2.42
25-36	$4,779,181.74	$398,265.14	$2.49
37-48	$4,922,557.13	$410,213.09	$2.57

49-60	$5,070,233.79	$422,519.48	$2.64
61-72	$5,222,340.77	$435,195.06	$2.72
73-84	$5,379,010.94	$448,250.91	$2.81
85-96	$5,540,381.24	$461,698.43	$2.89
97-108	$5,706,592.56	$475,549.38	$2.98
109-120	$5,877,790.32	$ 489,815.86	$3.07
121-132	$6,054,123.96	$504,510.33	$3.16
133-144	$6,235,747.68	$519,645.64	$3.25
145-156	$6,422,820	$535,235	$3.35

*Abated. The Monthly Installments of Basic Rent are abated for the first sixteen (16) months of the Lease Term. Should Tenant at any time during the Term be in Default under the Lease, Tenant shall reimburse Landlord the amount of the unamortized (amortized on a straight-line basis over the initial Term with no interest factor) abated Monthly Installments of Basic Rent.

**Rounded.

^Annualized.

(l) Reserved.

(m) Tenant's Percentage: 100%. This percentage is the portion that the rentable area of the Premises bears to the total rentable area of the Project.

Tenant's Building Share: 100%. This percentage is the portion that the rentable area of the Premises bears to the total rentable area of the Building.

(n) Security Deposit: A Letter of Credit in the amount of Eight Million Seven Hundred Seventy-Five Thousand and 00/100 Dollars $8,775,000) (the "Letter of Credit Amount") and substantially in the form of Exhibit "L" attached hereto and by this reference incorporated herein. As of the first day of the thirty-seventh (37 th) month of the Term, and on each twelve (12) month anniversary thereafter (each an "LOC Burn Off Date"), until the Letter of Credit Amount has been reduced to $2,000,000, the Letter of Credit shall be reduced by twenty percent (20%) of the then Letter of Credit Amount on each LOC Burn Off Date, or with respect to the final LOC Burn Off Date if a twenty percent (20%) reduction would cause the Letter of Credit Amount to be less than $2,000,000, the amount which will bring the Letter of Credit Amount to $2,000,000. Notwithstanding the foregoing, beginning with the second LOC Burn Off Date, if Tenant's "Net Market Value", as defined below, as of each LOC Burn Off Date, is not equal to or greater than the Net Market Value as of the prior LOC Burn Off Date or the date of mutual execution of this Lease (whichever is less), the Letter of Credit Amount will not be reduced as of that applicable LOC Burn Off Date. For purposes of this Section 1(n), "Net Market Value" is defined as Tenant's total equity value less Tenant's total liabilities as shown in Tenant's most recent Form 10-Q issued prior to the applicable measurement date.

(o) Broker(s): Savills Studley represents the Tenant and JLL represents the Landlord.

(p) Use: General corporate office, administrative, light manufacturing of medical devices and pharmaceuticals, storage and lab purposes and related uses, including, without, limitation, a kitchen, cafeteria or other food service facilities, recreation facilities and other similar facilities intended to serve primarily Tenant's employees and invitees, and no other use. Tenant shall be solely responsible, at Tenant's sole cost and expense, for obtaining any permits, licenses or approvals necessary to operate Tenant's business in the Premises; provided, however, permits related to the construction of the Tenant Improvements may be paid out of the Tenant Improvement Allowance. Notwithstanding the foregoing, Landlord shall obtain, at Landlord's sole cost and expense and without reimbursement from Tenant either directly or as an Operating Expense, any permits or licenses required for the Landlord to perform Landlord's Work. As used herein "Landlord's Work" means Code Compliance Obligations under Section 6(a), Landlord's Warranty Obligations under Section 13, Landlord's Structural Obligations under Section 15(c) and Landlord's repair and maintenance obligations that are otherwise required hereunder due to Landlord's gross negligence or willful misconduct (collectively, "Landlord's Work").

(q) Building Area: The 26600 Building contains approximately 51,907 Rentable Square Feet. The 26650 Building contains approximately 51,899 Rentable Square Feet. The 26700 Building contains approximately 55,940 Rentable Square Feet.

Project Area: Approximately 159,746 Rentable Square Feet.

(r) Project: 26600, 26650 and 26700 Aliso Viejo Parkway, Aliso Viejo, California, and including the Building Common Areas and the Project Common Areas; and the Buildings are sometimes referred to as the "26600 Building", the "26650 Building" and the "26700 Building".

(s) Contingency. The effectiveness of this Lease is contingent on Tenant, or an affiliate of Tenant (the "Lot 2 Buyer"), (i) entering into a Purchase Agreement (the "Purchase Agreement") to acquire the contiguous 2.5 acre parcel of land (APN 629-451-13) ("Lot 2") from CIP14 SG Aliso Lot 2 Owner LLC ("Lot 2 Seller"), an affiliate of Landlord, for a purchase price of Seven Million Three Hundred Fifty Thousand Dollars ($7,350,000) with a closing date which is the earlier of (a) sixty (60) days after the date this Lease is fully executed, and (b) December 14, 2018; and (ii) delivery by the Lot 2 Buyer of the Notice to Proceed on or before the expiration of the Feasibility Period, as such terms are defined in the Purchase Agreement (collectively, the "Lease Contingency").

2. **PREMISES AND COMMON AREAS**

(a) Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises depicted on Exhibit A. The Premises are located in the Building, which, together with the Parking Facilities ("Parking Facilities"), is located on the parcel or parcels of real property ("Project Site") outlined on the Project Site Plan attached hereto, marked as Exhibit "A," and incorporated herein by this reference ("Project Site Plan") (all of which, together with the Building Common Areas and the Project Common Areas, as hereinafter defined, are collectively referred to as the "Project"). Except for Landlord's Work, the Premises are leased in their "AS-IS" condition. The Premises are agreed, for the purposes of this Lease, to have approximately the number of Rentable Square Feet designated in Section 1(e).

(b) The parties hereto agree that this Lease is upon and subject to the terms, covenants and conditions herein set forth. Each of Landlord and Tenant covenants as a material part of the consideration for this Lease to keep and perform each and all of said terms, covenants and conditions by it to be kept and performed.

(c) The initial Monthly Basic Rent and Tenant's Percentage specified in Section 1 of this Lease are based upon the approximate Rentable Square Feet of the Premises set forth in Section 1(e) and the approximate Rentable Square Feet of the Building and Project set forth in Section 1(q). The buildings were recently measured using the Standard Method for Measuring Floor Area in Office Building, ANSI Z65.1-1996 and its accompanying guidelines, as published by the Building Owners and Managers Association International and the parties agree on the result of such measurements and the Rentable Square Feet set forth in Section 1(e) and 1(q) are the agreed to Rental

Square Footages and shall be conclusive upon Landlord and Tenant. The parties agree that any penthouse areas, exterior storage areas, generator and equipment storage areas shall not be included in the calculation of the rentable area of the Building or otherwise considered Rentable Square Feet for purposes of this Lease.

(d) Tenant and its employees, invitees and agents shall have the right to use in common with Landlord, and Landlord's employees, invitees and agents, subject to the Rules and Regulations referred to in Section 36(a) below and all covenants, conditions and restrictions affecting the Project, those portions of the Project not leased or designated for lease to tenants that are provided for use in common by Landlord, Tenant and any other tenants of the Project (or by the sublessees, agents, employees, customers, invitees, guests or licensees of any such party), whether or not those areas are open to the general public, including the following areas appurtenant to the Premises: (i) the Building's common entrances, lobbies, restroom, elevators, stairways and accessways and ramps, and the common pipes, wires and appurtenant equipment serving the Premises (collectively, the "Building Common Areas"); (ii) loading and unloading areas, trash areas, parking areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas and similar areas and facilities situated within the Project (collectively, the "Project Common Areas"); and (iii) the Parking Facilities. The Building Common Areas, the Project Common Areas and the Parking Facilities may sometimes be collectively referred to as "Common Areas."

(e) Landlord reserves for itself, and for the owner(s) and operator(s) of the Project or any portion thereof, the right from time to time and provided no Adverse Condition results therefrom: (i) to install, use, maintain, repair and replace pipes, ducts, conduits, wires and appurtenant meters and equipment for service to other parts of the Building above the ceiling surfaces, below the floor surfaces, within the walls and in the central core areas of the Premises, and to relocate any pipes, ducts, conduits, wires and appurtenant meters and equipment which are located in the Premises or elsewhere, and to expand the Parking Facilities, (ii) to make changes in its reasonable discretion to the Building Common Areas, the Project Common Areas and/or the Parking Facilities, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways; (iii) to close temporarily any of the Building Common Areas, the Project Common Areas and/or the Parking Facilities for maintenance purposes and to avoid claims of prescriptive rights so long as reasonable access to the Premises remains available; (iv) to designate other land outside the boundaries of the Building or the Project to be a part of the Project Common Areas; (v) to add or subtract additional buildings and improvements to or from the Project Common Areas; (vi) to use the Building Common Areas, the Project Common Areas and/or the Parking Facilities while engaged in making additional improvements, repairs or alterations to the Building, the Parking Facilities or the Project, or any portion thereof so long as reasonable access to the Premises remains available and disruptions to Tenant's business operations are mitigated as per commercially reasonable standards; and (vii) to do and perform such other acts and make such other changes in, to or with respect to the Project or any portion thereof as Landlord and/or the owner(s) and/or operator(s) thereof may, in the exercise of sound business judgment, deem to be appropriate. As used in this Lease, " **Adverse Condition** " means the existence of any of the following conditions, other than on a temporary basis (as reasonably needed) in connection with maintenance, repair, alteration or construction activities at the Project as expressly permitted under this Lease, or as required to comply with applicable Law or governmental order, or resulting from damage or destruction, condemnation or Force Majeure: (i) a material adverse interference with Tenant's access to the Building and/or Premises, or use of the Premises for the Permitted Use; (ii) a material adverse interference with access to, or the number or type of parking spaces allocated to Tenant in, the parking facilities, or a material adverse change in the location of the parking facilities; (iii) an event that materially decreases Tenant's rights otherwise set forth under this Lease; or (iv) an event which materially increases Tenant's monetary obligations under this Lease on an overall net basis for any given Lease Year.

(f) Pursuant to Section 1938 of the California Civil Code, Landlord hereby advises Tenant that neither the Premises, the Building nor the Project have undergone an inspection by a Certified Access Specialist. The allocation of responsibility between Landlord and Tenant for making any repairs or modifications to the Premises, Building and/or Project in order to comply with accessibility standards shall be governed by the other provisions of this Lease. The following disclosure is hereby made pursuant to California Civil Code Section 1938(e): "A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time

and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises."

3. **TERM**

The Term of this Lease shall be for the period designated in Section 1(f), commencing on the Commencement Date and, unless a specific date is specified in Section 1(f), ending on the last day of the month in which the expiration of such period occurs, unless sooner terminated as hereinafter provided. Each consecutive twelve (12) month period of the Term of this Lease, commencing on the Commencement Date, shall be referred to herein as a "Lease Year"; any period remaining in the Term after the end of the last full Lease Year is also included in the term "Lease Year" herein. The Commencement Date, the date upon which the Term of this Lease shall end unless sooner terminated pursuant to the provisions hereof, the Rentable Square Feet in the Premises and Tenant's Percentage as set forth in Section 1, shall be specified in a Memorandum of Lease Terms, which shall be in the form of Exhibit "C," attached hereto and incorporated herein by this reference ("Memorandum of Lease Terms"), and shall be executed by Tenant as soon as practicable after Landlord delivers or tenders possession of the Premises to Tenant. The terms set forth in the Memorandum of Lease Terms shall be binding upon Tenant, unless Tenant objects to the Memorandum of Lease Terms in a writing served upon Landlord within five (5) business days of Tenant's receipt of the Memorandum of Lease Terms.

4. **POSSESSION**

Landlord shall deliver possession of the Premises to Tenant on April 1, 2019, contingent on the following occurring on or prior to April 1, 2019: (a) full execution of this Lease; (b) Tenant's delivery to Landlord of Tenant's insurance certificate; and (c) Tenant's delivery to Landlord of the Letter of Credit. Prior to delivery of possession of the Premises, Landlord shall have completed the work to cause the Premises to be in "White Box" condition. Landlord and Tenant acknowledge that Tenant has elected to perform the Courtyard Work and that the Tenant Improvement Allowance has increased to compensate Tenant for performing the Courtyard Work. The commencement of the Term of the Lease shall commence upon the Commencement Date.

5. **ANNUAL BASIC RENT**

(a) Tenant shall pay Landlord as consideration for the use and enjoyment of the Premises the Annual Basic Rent designated in Section 1(k) (subject to adjustment as hereinafter provided and except for the months when Annual Basic Rent is abated) in twelve (12) equal monthly installments, except as may be specified to the contrary in Subsection 1(k), each in advance on the first day of each calendar month during the Term commencing on the Commencement Date. If the Term of this Lease commences on a day other than the first day of a calendar month or ends on a day other than the last day of a calendar month, then the Rent for such period shall be prorated on the basis of a thirty (30) day month. In addition to the Annual Basic Rent, Tenant agrees to pay as Additional Rent the amount of Rent adjustments and other charges required by this Lease. Other charges to be paid by Tenant hereunder, including, without limitation, payments for Operating Expenses, Real Property Taxes, insurance, and repairs, shall be considered "Additional Rent" for purposes of this Lease. The term "Rent" as used in this Lease shall mean Annual Basic Rent and Additional Rent and all other amounts payable by Tenant pursuant to this Lease. When no other time is stated herein for payment, payment of any amount due from Tenant to Landlord hereunder shall be made within thirty (30) days after Tenant's receipt of Landlord's invoice or statement therefor and all other payments are to be made prior to delinquency. All Rent shall be paid to Landlord, without prior demand and without any deduction or offset (except as otherwise provided in Section 24(g) of this Lease and Section 6.2 of the Work Letter) in lawful money of the United States of America, at the address designated in Section 1(b) hereof or to such other person or at such other place as Landlord may from time to time designate in writing.

(b) If Tenant fails to pay any installment of Rent or any other payment for which Tenant is obligated under this Lease when due, Tenant shall pay to Landlord any interest assessed on account of such late payment and if such late payment was to be paid to Landlord, such late amount shall accrue interest as Additional Rent on such

delinquent amount at the lesser of the then prevailing prime rate of Bank of America, or if not available, a similar financial institution ("Prime Rate") plus three (3) percentage points or the maximum rate permitted by law (the "Interest Rate") from the date such amount became due until such amount is paid (if such payment was due to a third party other than Landlord, Tenant shall be liable to pay for any late charge or interest assessed). THE PARTIES AGREE THAT A LATE PAYMENT MAY CAUSE LANDLORD TO INCUR COSTS AND OTHER DAMAGE, THE EXACT AMOUNT OF WHICH WOULD BE IMPRACTICABLE OR EXTREMELY DIFFICULT TO ASCERTAIN AND THAT SUCH INTEREST REPRESENTS A FAIR AND REASONABLE ESTIMATE OF THE DETRIMENT THAT LANDLORD WILL SUFFER BY REASON OF LATE PAYMENT BY TENANT. Acceptance of any such interest shall not constitute a waiver of the Tenant's Default with respect to the overdue amount, or prevent Landlord from exercising any of the other rights and remedies available to Landlord hereunder or at law.

(c) If any payment of rent made by check, draft or money order is returned to Landlord due to insufficient funds, or otherwise, Landlord shall have the right, at any time thereafter, to require Tenant to make all subsequent payments of Rent by cashier's or certified check. Any payment returned to Landlord shall be subject to a handling charge of $50.00.

6. **RENT ADJUSTMENT**

(a) For the purposes of this Lease, the following terms shall be defined as follows:

Tenant's Percentage: "Tenant's Percentage" shall mean that numeric figure, set forth as a percentage in Section 1(m) above, obtained by dividing the Rentable Square Feet of the Premises by the total Rentable Square Feet of the Project (as defined in Section 1(q) above.

Operating Expenses: Except as otherwise expressly provided herein, "Operating Expenses" shall consist of all reasonable and customary direct costs of operation, ownership, insurance, management, maintenance and repair of the Project, including without limitation the Premises, the Building, the Building Common Areas, the Parking Facilities, the Project Common Areas and all other portions of the Project, including any expansions thereof by Landlord or by the owner(s) and/or the operator(s) thereof. Except as otherwise expressly provided herein, Operating Expenses shall include without limitation the following: (a) any and all non-tax assessments payable in connection with the Building or the Project pursuant to any covenants, conditions or restrictions, reciprocal easement agreements, tenancy-in-common agreements or similar restrictions and agreements affecting the Building or the Project (b) assessments and any taxes or assessments hereafter imposed in lieu thereof; (c) Rent taxes and gross receipts taxes (whether assessed against Landlord or assessed against Tenant and paid by Landlord, or both); (d) electricity, gas, water and sewer charges; (e) accounting, legal and other consulting fees incurred by Landlord in connection with the Project or any portion thereof; (f) real estate tax consulting fees; (g) the cost and expense of insurance, including deductibles, for which Landlord and/or the owner(s) and/or the operator(s) of the Project is (are) responsible or deems necessary in connection with the operation of the Building or the Project; (h) equipment or utilities, including, but not limited to, any and all costs and fees associated with the intrabuilding network cabling and wiring; (i) janitorial services, security, labor, utilities surcharges or any other costs levied, assessed or imposed by, or at the direction of, or resulting from statutes, including, but not limited to, the Americans With Disabilities Act (42 U.S.C. Section 12101 et seq.) ("ADA"), or regulations or interpretations thereof promulgated by, any federal, state, regional, municipal or local government authority in connection with the use or occupancy of the Project or any portion thereof that first became enforceable against the Project after the Commencement Date; (j) license, permit and inspection fees related to the Project; (k) costs and expenses incurred or suffered by Landlord in connection with transportation or energy management programs required by Law; (l) except for the cost of the Landlord's Work, the cost of any capital improvements to the Building (including Building Common Areas), the Parking Facilities, or the Project Common Areas by the operator(s) thereof, or of replacing any equipment, systems or materials needed to operate the Project or any portion thereof at the same quality levels as prior to the improvement or replacement, or as mandated by revisions or governmental interpretations of any applicable building codes or other governmental laws, including but not limited to, the ADA, Hazardous Materials Laws, statutes, regulations, but only to the extent of the following: (A) the annual amortization (amortized over the useful life) of costs, including financing costs, if any, incurred by Landlord after the Commencement Date for any capital improvements installed or paid for by Landlord including any required by any

new (or change in) laws, rules or regulations of any governmental or quasi-governmental authority (collectively, "Laws") which are enacted after the Commencement Date; or (B) the annual amortization (amortized over the useful life) of costs, including financing costs, if any, or any equipment, device or capital improvement purchased or incurred as a labor-saving measure or to affect other economics in the operation or maintenance of the Building; (m) costs incurred in the management of the Project (including supplies, materials, equipment, wages and salaries of employees used in the management, operation and maintenance thereof, payroll taxes and similar governmental charges with respect thereto), (n) management fees (not to exceed 1.1% of the Annual Basic Rent); (o) reasonable accountant's fees; (p) all costs and expenses for air-conditioning, waste disposal, heating, ventilating, elevator repair and maintenance, painting, supplies, materials, cleaning supplies and materials, equipment, and tools incurred in connection with the Project or any portion thereof; (q) repair and maintenance of the roof membrane of the Building, the Building Common Areas, the Project Common Areas and the Parking Facilities, including the plumbing, heating, ventilating, air conditioning, carpentry, and electrical systems and other utilities installed or furnished therein; (r) maintenance costs of the Building, the Parking Facilities and the Project or any portion thereof, including utilities and payroll expenses for all persons who perform duties connected with the operation, maintenance and repair of the Project; (s) rent of personal property used in maintenance and all other upkeep; (t) costs and expenses of gardening and landscaping the Project or any portion thereof; (u) maintenance of signs located in or about the Project; (v) personal property taxes levied on or attributable to personal property used in connection with the Project; (w) fees, costs, expenses or dues payable pursuant to the terms of any covenants, conditions or restrictions or owners' association pertaining to the Project; (x) reasonable audit or verification fees incurred in connection with the Project; and (y) the costs and expenses of repairs, resurfacing, maintenance, window washing, painting, lighting, cleaning, refuse removal, security, engineer, and similar items incurred with respect to the Project. Landlord shall amortize the cost of capital improvements on a straight-line basis over the useful life of the capital improvement as reasonably determined by Landlord. Specifically, for any roof membrane replacement, the useful life of the new roof membrane shall be deemed to be fifteen (15) years

Notwithstanding anything to the contrary contained herein, Landlord, at Landlord's sole expense and without reimbursement from Tenant, either directly or as an Operating Expense, shall ensure that the Project, excluding the Premises, is in Code Compliance throughout the Term, including any Option Terms, as long as not resulting from Tenant's unique and specific use ("Landlord's Code Compliance Obligations"). As used herein, "Code Compliance" means compliance with applicable ADA, Title 24 and fire, life and safety codes and any other applicable building codes, laws, rules and regulations. Additionally, with respect to the landscaped slope located behind the Project which is owned by the City and governed by the City and the Master Association, Landlord will be responsible for the landscaping on the slope but only to the extent required by the City or the Master Association. It is Landlord's understanding that as of the date of this Lease, the City is not requiring any changes to the landscaping on the City – owned slope. In addition, upon Tenant's reasonable written request, Landlord shall represent Tenant's interest with respect to the Master Association regarding the City-owned slope.

Real Property Taxes: "Real Property Taxes" shall mean and include any form of assessment, reassessment, license fee, license tax, business license fee, commercial rent tax, levy, charge, penalty, tax or similar imposition, imposed by any authority having the direct power to tax, including any city, county, state or federal government, or any school, agricultural, lighting, drainage or other improvement or special assessment district thereof, as against any legal or equitable interest of Landlord in the Building, Premises, or the Project, including but not limited to the following: (i) any assessment, tax, fee, levy or charge in substitution, partially or totally, of any assessment, tax fee, levy or charge previously included within the definition of real estate tax, including but not limited to, any assessments, taxes, fees, levies and charges that may be imposed by governmental agencies for such services as fire protection, street, sidewalk or road maintenance, refuse removal and for other governmental services formerly provided without charge to property owners or occupants, it being the intention of Tenant and Landlord that all such new and increased assessments, taxes, fees, levies and charges be included within the definition of "Real Property Taxes" for the purposes of this Lease; (ii) any assessment, tax, fee, levy or charge allocable to or measured by the area of any premises in the Project or the Rent payable hereunder and under any other leases for premises in the Project, including without limitation any gross income tax or excise tax levied by the State, city or federal government, or any political subdivision thereof, with respect to the receipt of such Rent, or upon or with respect to the possession, leasing, operating, management, maintenance, alteration, repair, use or occupancy by tenants of their premises in the Project, or any portion thereof; and (iv) any assessment, tax, fee, levy or charge upon this transaction or any document creating or transferring an interest or an estate in the Project or any portion thereof, or based upon a reassessment of the Project or any portion thereof by virtue of a "change in ownership" or otherwise.

"Real Property Taxes" shall not include Landlord's federal or state income, franchise, inheritance or estate taxes.

(f) Notwithstanding the foregoing, Operating Expenses shall exclude the following

(i) Any ground lease rental;

(ii) Costs of capital improvements, alterations, repairs replacements, equipment and other capital expenditures (including, without limitation, rentals for items which if purchased, rather than rented, would constitute a capital item), except to the extent expressly set forth in the Lease;

(iii) Expenses incurred with respect to the installation of tenant or other occupants improvements made for tenants or other occupants in the Building or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space exclusively for tenants or other occupants of the Building, other than Tenant;

(iv) Depreciation, amortization and interest payments, all as determined in accordance with generally accepted accounting principles, consistently applied;

(v) Marketing costs including leasing commissions, attorneys' fees and other consultant fees in connection with the negotiation and preparation of leases and related agreements;

(vi) Expenses in connection with services or other benefits which are not offered to Tenant or for which Tenant is charged directly by Landlord or an independent contractor or a utility, but which are provided to another tenant or occupant of the Building the cost of which is included as Operating Expenses;

(vii) Expenses incurred by Landlord due to the violation by Landlord or any tenant, other than Tenant, of the terms and conditions of any lease of space in the Building, and penalties incurred as a result of Landlord's negligence, inability or unwillingness to make payments and/or to file any tax or informational returns when due;

(viii) Overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in the Building to the extent the overhead and profit increment exceeds the costs of such goods and/or services rendered by unaffiliated third parties on a competitive basis for similar projects;

(ix) Landlord's general corporate overhead and general and administrative expenses, and costs associated with the operation of the business of the Landlord entity, including partnership accounting and legal matters, and any compensation paid to clerks, attendants or other persons in commercial concessions operated by or through Landlord.

(x) Advertising and promotional expenditures, and costs of signs in or on the Building identifying the owner of the Building or other tenants' signs;

(xi) Costs incurred by Landlord for the repair of damage to the Building, to the extent that Landlord is reimbursed by insurance proceeds;

(xii) All assessments and premiums which can be paid by Landlord in installments, shall be paid by Landlord in the maximum number of installments permitted by law and not included as Operating Expenses except in the year in which the assessment or premium installment is actually paid;

(xiii) Costs arising from the presence of hazardous or toxic wastes or substances in or about the Project (unless caused by Tenant or its agent, employees, contractors, guests or permitees), and costs arising from defects in the base, shell or core of improvements at the Project or tenant improvements installed by Landlord or repair thereof;

(xiv) Costs incurred in connection with the original construction of the Project or in connection with any major change in the Project, such as adding or deleting square footage;

(xv) Any bad debt loss, rent loss, or reserves for bad debts or rent loss or reserves of any kind;

(xvi) All items and services for which Tenant or any other tenant in the Project is obligated to reimburse Landlord;

(xvii) Tax penalties and other penalties or fines;

(xviii) Costs arising directly from the gross negligence or willful misconduct of Landlord or its agents, employees or contractors;

(xix) Any finders fees, brokerage commissions or the like;

(xx) Legal fees and costs, settlements, judgments or awards paid or incurred because of disputes between Landlord and any tenant, other than Tenant, or providers; and

(xxi) Management fees in excess of the amount stated above.

(xxii) Any other expenses paid directly by Tenant to the extent that Tenant assumes responsibility for the maintenance and repair of the same pursuant to Section 15(a) or (b) below.

(b) Commencing on the Commencement Date and continuing throughout the Lease Term, in addition to the Monthly Installments of Basic Rent and to the extent not required to be paid directly by Tenant, Tenant shall pay Tenant's Percentage of the actual Operating Expenses and Real Property Taxes in accordance with this Section 6(b). Landlord will deliver to Tenant Landlord's reasonable estimate of the Operating Expenses and Real Property Taxes which it reasonably anticipates will be paid or incurred for the ensuing calendar or fiscal year, as Landlord may determine, and Tenant shall pay to Landlord an amount equal to the estimated amount of such expenses for such year in equal monthly installments during such year with the installments of Base Monthly Rent. Until a new estimate statement is furnished (which Landlord shall have the right to deliver to Tenant at any time), Tenant shall pay monthly, with the monthly Base Monthly Rent installments, an amount equal to one-twelfth (1/12) of the total Estimated Excess set forth in the previous Estimate Statement delivered by Landlord to Tenant. Landlord reserves the right to revise such estimate from time to time. If Landlord receives a refund of any Real Property Taxes for any calendar year during the Term for which Tenant paid Additional Rent on account of such Real Property Taxes, Landlord shall pay to Tenant, or credit against subsequent payments of Rent due hereunder, an amount equal to Tenant's Percentage of the refund, net of any reasonable expenses incurred by Landlord in achieving such refund; provided, however, if this Lease shall have expired or is otherwise terminated, Landlord shall refund in cash any such refund or credit due to Tenant within thirty (30) days after Landlord's receipt of such refund or its receipt of such credit against future Real Property Taxes. Landlord's obligation to so refund Tenant for any such refund or credit of Real Property Taxes shall survive the expiration or termination of this Lease.

(c) Landlord shall furnish to Tenant following the end of the applicable calendar year a statement setting forth (i) the amount of such expenses paid or incurred during the just ended calendar year which shall state on a reasonably detailed line-item basis the Operating Expenses and Real Property Taxes incurred or accrued and Landlord's gross-up calculations (if any), and explanation of any capital item included in Operating Expenses (including the applicable amortization period used by Landlord), and (ii) the amount that Tenant has paid to Landlord for credit against such expenses for such period. Landlord shall use commercially reasonable efforts to give to Tenant such statement within 150 days following the end of the applicable calendar year. If Tenant shall have paid more than its obligation for such expenses for the stated period, Landlord shall, at its election, either (i) credit the amount of such overpayment toward the next ensuing payment or payments of Additional Rent that would otherwise be due or (ii) concurrently with Landlord's delivery of the statement, refund in cash to Tenant the amount of such overpayment. If such year-end statement shall show that Tenant did not pay its obligation for such expenses in full, then Tenant shall pay to Landlord the amount of such underpayment within thirty (30) days from Landlord's billing of same to Tenant. The provisions of this Paragraph shall survive the expiration or sooner termination of this Lease.

(d) Even though the Term shall have expired and Tenant shall have vacated the Premises, when the final determination of actual annual Operating Expenses and/or of annual Real Property Taxes, for the year in which this Lease terminates are determined, Tenant shall immediately pay any amounts owed applicable to the time during

the Term or any additional time during which Tenant occupied the Premises. Notwithstanding the foregoing, Tenant shall not be responsible for Tenant's Percentage of any Operating Expenses or Real Property Taxes attributable to any calendar year which are first billed to Tenant more than two (2) calendar years after the earlier of the expiration of the applicable calendar year or the expiration of the Term, provided that in any event Tenant shall be responsible for Tenant's Percentage of such expenses levied by any governmental authority or by any public utility company at any time which are attributable to any calendar year during the Term (provided that Landlord delivers Tenant a supplemental statement for such amounts within ninety (90) days following Landlord's receipt of the bill therefor) .

(e) The amount Tenant is required to pay on an annualized basis for Tenant's Percentage of the Operating Expenses which are considered "controllable expenses" shall not increase by more than five percent (5%) from one calendar year to the following calendar year provided however, if from any one calendar year to the following calendar year the increase for the controllable expenses is less than five percent (5%), then the difference may be applied to any future increases from one calendar year to the next such that the cap applicable to that future year to year increase in Tenant's Percentage of controllable Operating Expenses may be higher than five percent (5%) for a year and the amount of Tenant's Percentage of the controllable Operating Expenses that is in excess of five percent (5%) for a year may be included in the unused portion of a future years' cap. For purposes hereof, "controllable expenses" shall be defined as all Operating Expenses except utility charges, HVAC, trash removal, taxes, Real Property Taxes, assessments, insurance and other expenses over which Landlord has no control of the costs.

(f) If Tenant disputes or otherwise desires additional information regarding the amount of Tenant's Percentage of the Operating Expenses or the amount of Operating Expenses or Real Property Taxes as set forth in the Landlord's year-end statement (the "Statement"), Tenant shall have the right, but not more often than once per calendar year and Tenant shall only be permitted to audit each Statement one time, after reasonable notice and at reasonable times, to inspect and photocopy Landlord's accounting records at Landlord's office in the County in which the Premises are located. If, after such inspection and photocopying, Tenant still disputes or desires additional information regarding the amount of Tenant's Percentage of Operating Expenses or the amount of Operating Expenses or Real Property Taxes as set forth in the Statement, Tenant shall be entitled to retain a third party certified public accountant reasonably acceptable to Landlord and whose fee is not based on the percentage of any discrepancy found to audit Landlords' records to determine the proper amount of Tenant's Percentage of Operating Expenses or the proper amount of Operating Expenses or Real Property Taxes, as applicable. If such audit reveals that Landlord has overcharged Tenant, then within five (5) days after the results of such audit are made available to Landlord, Landlord shall reimburse Tenant the amount of such overcharge plus interest thereon at the Interest Rate. If the audit reveals that Tenant was undercharged, then within five (5) days after the results of the audit are made available to Tenant, Tenant shall reimburse Landlord the amount of such undercharge. Tenant agrees to pay the cost of such audit, provided that Landlord shall pay such cost if the audit reveals that Landlord's determination of Tenant's Percentage of Operating Expenses or the Operating Expenses or Real Property Taxes as set forth in the Statement was in error by more than five percent (5%). Landlord shall be required to maintain records of all Operating Expenses for the entirety of the three-year period following delivery of each Statement. The payment by Tenant of any amounts pursuant to this Lease shall not preclude Tenant from questioning the correctness of any Statement provided by Landlord, and the failure of Tenant to object thereto within one (1) year after its receipt thereof shall be conclusively deemed Tenant's approval thereof; provided that if an audit for a particular year reveals that Landlord's determination of Tenant's Percentage of Operating Expenses or the Operating Expenses or Real Property Taxes as set forth in the Statement was in error by more than five percent (5%), then Tenant may also audit the two (2) years immediately prior to the year that was the subject of the audit. The provisions of this Paragraph shall survive the expiration or sooner termination of this Lease.

7. SECURITY DEPOSIT

Tenant shall deposit with Landlord the Letter of Credit in the Letter of Credit Amount, as set forth in and as adjusted pursuant to Section 1(n), upon the effectiveness of this Lease following the satisfaction or waiver of the Lease Contingency set forth in Section 1(s). The Letter of Credit shall comply with requirements of Exhibit "I," attached hereto and incorporated herein by this reference. At any time during the Term, Tenant shall have the right to deposit with Landlord a cash payment equal to the required amount of the Letter of Credit, which cash payment shall be held by Landlord as security for Tenant's obligations under this Lease in lieu of the Letter of Credit. Landlord may only use such cash deposit for the same purposes that Landlord would be entitled to draw on the Letter of Credit hereunder.

Upon such deposit, Landlord shall have no right to draw on the Letter of Credit and the parties shall notify the issuing bank to terminate the Letter of Credit.

8. **USE**

(a) Tenant shall use the Premises for the use set forth in Section 1(p) above, and shall not use or permit the Premises to be used for any other purpose without the prior written consent of Landlord, which consent may not be unreasonably withheld, conditioned or delayed. Nothing contained herein shall be deemed to give Tenant the exclusive right to such use in the Project or any portion thereof (including the Premises).

(b) (i) Tenant shall not use or occupy the Premises in violation of any Laws, or of any government-issued permit for the Building, and shall, upon Notice from Landlord, discontinue any use of the Premises which is declared by any governmental authority having jurisdiction to be a violation of any Laws, or of any government-issued permit. Tenant shall comply with any direction of any governmental authority having jurisdiction which shall, by reason of the unique and specific nature of Tenant's use or occupancy of the Premises, impose any obligation, including, but not limited to, any obligation imposed pursuant to the ADA, upon Tenant or Landlord with respect to the Premises or with respect to the use or occupancy thereof. Notwithstanding the foregoing or anything to the contrary contained herein, Landlord is responsible, at its sole expense and without reimbursement from Tenant, either directly or as an Operating Expense, for Landlord's Code Compliance Obligations. Tenant shall comply with all rules, orders, regulations and requirements of the Pacific Fire Rating Bureau or any other organization performing a similar function. Tenant shall not do or permit to be done in or about the Premises anything which causes the insurance on the Premises, the Building or the Project or any portion thereof to be canceled. Tenant shall promptly, upon demand pay for any additional premium charged for any insurance policy by reason of Tenant's failure to comply with the provisions of this Section. Tenant shall promptly comply with all requirements of the insurance authority or any present or future insurer relating to the Premises. Tenant is solely responsible for determining if Tenant's proposed use is a permitted use for the Project. Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building, the Parking Facilities or the Project, or injure or annoy them, or use or allow the Premises to be used for any improper, immoral, unlawful or objectionable purpose, nor shall Tenant cause, maintain or permit any nuisance in or about the Premises. Tenant shall comply with all restrictive covenants and obligations created by private contracts which affect the use and operation of the Premises, the Building, the Parking Facilities, the Project Common Areas or the Project. Landlord shall not, unless required as part of the Aliso Viejo Community Association or the Pacific Park Town Center Association (referred to herein collectively as the "Master Association"), record or modify any covenants, conditions or restrictions ("CC&Rs") or easements against the Property or approve or initiate any action with respect to any owners' association relating to the Project which materially impact Tenant's use of or access to the Premises or materially increase Tenant's costs to occupy the Premises. Upon Tenant's reasonable written request, Landlord shall represent Tenant's interest with respect to the Master Association. Tenant shall not commit or suffer to be committed any waste in or upon the Premises and shall keep the Premises in first class repair and appearance. Landlord reserves the right to prescribe the weight and position of all files, safes and heavy equipment which Tenant desires to place in the Premises so as to properly distribute the weight thereof. If any governmental license or permit shall be required for the proper and lawful conduct of Tenant's business in the Premises, Tenant, at its expense, shall procure, maintain and comply with the terms and conditions of each such license or permit. Tenant shall be responsible for all structural engineering required to determine structural load for Tenant's furniture, fixtures, equipment, or other personal property, Alterations or Tenant Improvements.

Without limiting the generality of the foregoing: (A) Tenant agrees to cooperate and use its commercially reasonable efforts to participate in governmentally mandated programs applicable to businesses located in the area or to the Project; (B) Tenant agrees to cooperate and comply with any and all mandatory guidelines or controls imposed by federal or state governmental organizations; (C) All costs, fees, assessments and other charges payable to any governmental authority in connection with any program of the types described in this Section, and all costs and fees payable to any governmental authority pursuant to or to effect such program, shall be included in Operating Expenses and paid by Tenant; and (D) Tenant shall be liable for all penalties, noncompliance costs or other losses, costs or expenses caused by Tenant's failure to comply with any of the provisions of clauses (A) through (C) above. Any such amount shall be payable by Tenant within thirty (30) days after written demand therefor which amount shall be

considered Additional Rent. Failure of Tenant to pay any amount due hereunder when due shall be deemed a Default pursuant to this Lease.

(ii) (A) Without limiting the generality of any other provisions contained in this Lease, Tenant covenants and agrees that Tenant, its agents, employees, representatives, contractors and invitees of Tenant (collectively, "Invitees") shall not bring into, generate, release, discharge, use, store, maintain, dispose of or otherwise (collectively, "Use") upon, in, beneath or about the Premises or the Building, or any groundwater thereunder or soil or surface water thereabout, any Hazardous Materials. The foregoing prohibition shall not extend to substances typically found or Used in general office applications or as required for Tenant's Permitted Use, so long as all of the following conditions are satisfied: (a) such substances are Used only in such quantities as are reasonably necessary for Tenant's Permitted Use in the Premises; provided, that no asbestos or asbestos - containing materials or lead based paint shall be incorporated into the Premises or any of Tenant's Work thereon; (b) such substances are Used strictly in accordance with the manufacturer's instructions therefor and in accordance with all the applicable Laws, but without constituting a release or discharge thereof; and (c) such substances are removed from the Building and the Premises at Tenant's sole cost and expense upon expiration or earlier termination of this Lease. To the best of its knowledge, which knowledge is based solely on the Phase 1 report dated November 21, 2016, prepared by Partners Engineers, no Hazardous Materials in violation of any Hazardous Materials Law are present in the Building or Project. Landlord shall indemnify, defend and hold harmless Tenant from all costs and expenses, including attorneys' fees and costs that Tenant may incur as a result of the presence of, release of or threatened release of Hazardous Materials on or about the Building or Project caused by Landlord, its employees, contractors or consultants. Landlord has fully disclosed to Tenant any and all reports, analyses studies or documents, including environmental and air quality studies that would disclose any Hazardous Materials on or about the Building or Project which were commissioned by Landlord or are in Landlord's possession.

(B) As used in this Lease, "Hazardous Materials" shall include all of the following materials or products or by-products containing such materials: all asbestos, petroleum substances, underground storage tanks, PCBs or urea formaldehyde, and all Hazardous Materials, wastes, or substances, toxic substances, pollutants, contaminates or similar terms defined in or used under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Section 9601 et seq.), Resource Conservation and Recovery Act, as amended (42 U.S.C. Section 6901 et seq.), California Health and Safety Code (Sections 25100, 25249.5, 25316 and 39000, et seq. in each case), and any similar or related federal state or local laws, rules, regulations, ordinances or guidelines now or hereafter in effect (collectively, "Hazardous Materials Laws").

(C) Tenant shall provide Landlord with the following notices: (a) annually, or within thirty (30) days after Landlord requests the same from Tenant, a written list identifying any Hazardous Materials then Used by Tenant in or about the Building, the use and approximate quantity of each such item, and Tenant's written certification (in form and substance satisfactory to Landlord) to the effect that neither Tenant nor any of its Invitees has Used any other Hazardous Materials in or about the Building; (b) within five (5) business days after receipt thereof, copies of all licenses or permits received by Tenant with respect to any Use by Tenant, or notices or other communications of any actual or alleged Use by any third party, of any Hazardous Material on or about the Premises or the Building; and (c) submit to Landlord for prior approval any Use of a Hazardous Material in or about the Building other than as specified in Section (ii) (A) above; provided, that no such notice to or approval by Landlord shall relieve Tenant of any other obligation contained in this Section, including but not limited to the removal, remediation and indemnification obligations set forth below.

(D) Landlord in its sole discretion may enter and inspect the Premises and the business operations of Tenant, at any time upon reasonable Notice and in a manner so as not to interfere unreasonably with the conduct of Tenant's business and otherwise in accordance with Section 17, in order to investigate the possibility of any improper Use of Hazardous Materials. During any such inspection, Landlord shall have the right to take such samples and conduct such tests as Landlord may deem necessary or advisable in its sole discretion.

(E) Upon any violation of the foregoing covenants or prohibitions, and upon the expiration or earlier termination of this Lease or upon Tenant vacating all or a portion of the Premises, Tenant shall be obligated, at its sole cost to remove, clean-up and remediate all Hazardous Materials introduced into or about the Building by Tenant or any of its Invitees, which removal, clean-up and/or remediation shall be performed in

compliance with all Applicable Laws. Tenant shall also be responsible for any and all testing, monitoring, investigation, preparation of any response or closure plan, analysis or report, clean-up work, remedial or corrective action, or other matter that may be required by any governmental authority in connection with the Use of any Hazardous Materials on or about the Building. All such work shall in each case be conducted to the satisfaction of Landlord and all governmental authorities having jurisdiction. If Tenant fails to do so, Landlord shall have the right, but not the obligation to do so, at Tenant's sole cost and expense.

(F) At least thirty (30) days prior to Tenant's surrender of possession of any part of the Premises, if required by Applicable Laws, Tenant shall provide Landlord with a facility decommissioning and Hazardous Materials closure plan for the Premises ("Exit Survey") prepared by an independent third party state-certified professional with appropriate expertise, which Exit Survey must be reasonably acceptable to Landlord. The Exit Survey shall comply with the American National Standards Institute's Laboratory Decommissioning guidelines (ANSI/AIHA Z9.11-2008) or any successor standards published by ANSI or any successor organization (or, if ANSI and its successors no longer exist, a similar entity publishing similar standards). In addition, at least ten (10) days prior to Tenant's surrender of possession of any part of the Premises, Tenant shall (a) provide Landlord with written evidence of all appropriate governmental releases obtained by Tenant if and to the extent required under Applicable Laws, including laws pertaining to the surrender of the Premise, (b) place Laboratory Equipment Decontamination Forms on all decommissioned equipment to assure safe occupancy by future users, and (c) conduct a site inspection with Landlord. In addition, Tenant agrees to remain responsible after the surrender of the Premises for the remediation of any recognized environmental conditions set forth in the Exit Survey and comply with any recommendations set forth in the Exit Survey. Tenant's obligations under this Section shall survive the expiration or earlier termination of the Lease.

(G) Tenant shall indemnify, defend and hold harmless Landlord, its partners, affiliates, owners, principals, successors, and members and each of their managers, employees, assigns, officers, principals, property managers, Invitees, lenders and attorneys ("Landlord Indemnified Parties") from and against any and all claims, liabilities, losses, damages (including but not limited to death, injury, destruction of property, diminution in value, lost use or consequential damages), actions, losses, costs and expenses of indemnity from third parties, compliance with injunctive relief (and reasonable attorneys' fees and costs of defense) (collectively, "Claims") imposed or asserted against or incurred by any of such Landlord Indemnified Parties, or which may be asserted as the result of: (a) any noncompliance by Tenant or its Invitees, with any Laws or any permit condition, court order or other administrative requirement; or (b) any other Use by Tenant or its Invitees of any Hazardous Materials in or about the Premises or the Building.

(iii) The provisions of this Section 8 shall survive the expiration or earlier termination of this Lease.

If Landlord obtained a Phase One Environmental report for the Property, Landlord shall provide Tenant with a copy of the report. Landlord shall not be required to obtain such a report for Tenant. Tenant shall have the right to conduct a Phase One environmental screening which shall be scheduled with Landlord. If requested by Landlord, Tenant shall provide Landlord with a copy of the report.

9. **NOTICES**

(a) Any notice, consent, approval or objection required or permitted by this Lease shall be in writing and may be delivered (1) in person (by hand or by messenger or courier service), (2) by electronic mail, (3) by a recognized overnight delivery service that provides delivery notification, addressed to Tenant at the notice address listed in Section 1(d)(2) above and to Landlord at the address designated in Section 1(b), and shall be deemed sufficiently given if served in a manner specified in this Section 9 ("Notice"). Either party may specify a different address for Notice purposes by Notice to the other.

(b) Notices delivered by overnight delivery service that provides next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the overnight delivery service. If any Notice is transmitted by electronic mail or similar means, the same shall be deemed served or delivered on the day sent, provided a copy of

such notice is also sent by another method set out herein as of that same date (unless such additional method is waived by the receiving party, which waiver may be sent by electronic mail). If Notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

(c) When a statute permits, or requires, service of a notice in a particular manner, service of that notice (or a similar Notice permitted, or required, by this Lease) in the manner permitted, or required, by this Section 9 shall replace and satisfy the statutory service-of-notice procedures, including, but not limited to, those required by *California Code of Civil Procedure* Section 1162, or any similar, or successor statute.

10. **BROKERS**

Tenant and Landlord warrant to each other that Section 1(o) sets forth the names of the only real estate brokers, finders or agents (the "Brokers") whose commission relating to the negotiation of this Lease shall be payable by Landlord or Landlord's broker pursuant to a separate agreement. Each party shall be solely responsible for the payment of any fee due to any other broker, finder, agent or other party claiming under it other than the Brokers, and shall indemnify and hold the other party free and harmless against any liability in respect thereto, including attorneys' fees and costs incurred by the other party in connection therewith. The terms of this Section 10 shall survive the expiration or earlier termination of this Lease.

11. **HOLDING OVER**

The Annual Basic Rent during any period of holding over by Tenant after the expiration of earlier termination of the Term hereof shall be an amount equal to one hundred and fifty percent (150%) of the Annual Basic Rent in effect upon the expiration or termination of the Term hereof. Acceptance by Landlord of rent after such expiration or earlier termination shall not extend the Term and shall create only a month to month tenancy upon the terms set forth in this Section, which tenancy shall be terminable at the end of any calendar month by either party by Notice to the other given not less than thirty (30) days prior to the end of such month. The foregoing provisions of this Section 11 are in addition to and do not affect Landlord's right of reentry or any rights of Landlord hereunder or as otherwise provided by law. If Tenant fails to surrender the Premises upon the expiration of this Lease despite demand to do so by Landlord, Tenant shall indemnify, defend and hold Landlord harmless from all loss or liability, including without limitation any claim made by any succeeding tenant founded on or resulting from such failure to surrender, and all attorneys' fees and costs incurred by Landlord in connection therewith.

12. **TAXES ON TENANT'S PROPERTY**

(a) Tenant shall be liable for and shall pay, before delinquency, all taxes levied against any personal property or trade fixtures of Tenant in or about the Premises, provided that Tenant has received a bill for the same. If any such taxes on Tenant's personal property or trade fixtures are levied against Landlord or Landlord's property, or if the assessed value of the Premises is increased by the inclusion therein of a value placed upon Tenant's personal property or trade fixtures, and if Landlord, after reasonable Notice to Tenant, pays the taxes based upon such increased assessment, which Landlord shall have the right to do regardless of the validity thereof, Tenant shall, upon demand, repay to Landlord the taxes so levied against Landlord, or the portion of such taxes resulting from such increase in the assessment.

(b) If the Tenant Improvements in the Premises, whether installed and/or paid for by Landlord or Tenant and whether or not affixed to the real property so as to become a part thereof, are separately assessed by the tax assessor for real property tax purposes at a valuation higher than the valuation at which tenant improvements conforming to Landlord's "Building Standard Improvements" are assessed, then the real property taxes and assessments levied against the Building by reason of such excess assessed valuation shall be deemed to be taxes levied against personal property of Tenant and shall be governed by the provisions of Section 12(a) above. If the records of the County Assessor are available and sufficiently detailed to serve as a basis for determining whether the Tenant Improvements are assessed at a higher valuation than the Building Standard Improvements, such records shall be

binding on both Landlord and Tenant. If the records of the County Assessor are not available or sufficiently detailed, the actual cost of construction shall be used.

13. **CONDITION OF PREMISES**

Tenant accepts the Premises and the Project in "AS-IS" condition and repair, subject toLandlord's Work. Except as set forth in this Lease or the Work Letter, Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the Premises, the Building, the Parking Facilities or any other portion of the Project or with respect to the condition thereof or the suitability of the same for the conduct of Tenant's business. The taking of possession by Tenant of the Building in "white box" condition shall conclusively establish that the Premises, the Building and the Parking Facilities were in good and sanitary order, condition and repair at such time, subject only to latent defects and Landlord's obligations set forth elsewhere in this Lease (e.g., Landlord's Work, and Landlord's obligations regarding restoration set forth in Section 22 and 23). Without limiting the foregoing, Tenant's execution of the Memorandum of Lease Terms shall constitute a specific acknowledgment and acceptance of the various inconveniences that may be associated with the use of the Building, the Parking Facilities and other portions of the Project, such as certain construction obstacles (e.g., scaffolding), unavailability of certain elevators for Tenant's use, uneven air-conditioning services and other typical conditions. Tenant hereby irrevocably waives and releases its right to terminate this Lease under Section 1932(1) of the California Civil Code. Notwithstanding the foregoing, to the best of Landlord's knowledge, as of the date of this Lease, Landlord has not received any notices that the Building or Premises are in violation of any code or ordinance. As of the Commencement Date, (i) the Premises, the Building and the Project shall be in Code Compliance (but excluding any improvements included in the Tenant Improvements); (ii) all structural components, exterior walls (including painting) and building systems servicing the Project, consisting of the roof, HVAC systems, windows, including seals, elevators and elevator equipment, electrical systems and equipment, lighting systems and equipment, plumbing systems and equipment, sprinkler system and equipment and irrigation system (collectively, the "Building Systems") shall be in good working order; and (iii) the HVAC system shall have a useful life of at least eight (8) years.. If Tenant notifies Landlord that Landlord is not in compliance with clauses (i) or (iii) of the immediately preceding sentence or that a Building System or painting of the exterior walls, at Landlord's reasonable discretion, requires repair or replacement within six (6) months after the Commencement Date, Landlord shall perform such work and/or repair or replace such Building System, as required at Landlord's sole cost and expense and without reimbursement from Tenant either directly or as an Operating Expense; provided, however, with respect to the roof membrane and HVAC systems only, Landlord shall be responsible for the required repair or replacement thereof for a period of two (2) years following the Commencement Date ("collectively, Landlord's Warranty Obligations").

14. **ALTERATIONS**

(a) Tenant shall make no alterations, additions or improvements in or to the Premises ("Alterations") without Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed, and then only by contractors or mechanics approved by Landlord in writing, which approval shall not be unreasonably withheld, conditioned or delayed. Tenant shall submit to Landlord plans and specifications for any proposed Alterations and may not make such Alterations until Landlord has approved such plans and specifications and the contractor in writing. Tenant shall construct such Alterations in accordance with the plans and specifications approved by Landlord and in compliance with all applicable Laws, and shall not amend or modify such plans and specifications. If the proposed change requires the consent or approval of the holder of a mortgage encumbering the Premises, Tenant acknowledges that such consent or approval must be secured prior to the construction of such Alteration. Tenant agrees not to construct or erect partitions or other obstructions that may interfere with free access to mechanical installations or service facilities of the Building or interfere with the moving of equipment to or from the enclosures containing said installations or facilities. All Alterations shall be done at such times and in such manner as Landlord may from time to time reasonably designate. Tenant shall pay the entire cost of all Alterations and any work necessitated by the Alterations. Tenant shall obtain and/or require from its contractor builder's "all risk insurance" in an amount at least equal to the replacement value of the Alterations naming Landlord and other parties required by Landlord as additional insureds, which shall specifically include completed operations. Tenant covenants and agrees that all work done by Tenant, including the Tenant Improvements, shall be performed in full compliance with all

Laws, including the ADA. If a governmental authority requires any alterations to the Project, Buildings or Premises as a result of Tenant's Permitted Use or as a result of the Tenant Improvements or an Alteration to the Premises, or due to Tenant's unique and specific use, and which are not included in Landlord's Work, Tenant shall pay the cost of all such required alterations. Any other code violation or alterations required by a governmental authority not covered by the previous two (2) sentences shall be the responsibility of Landlord at Landlord's sole cost and expense and without reimbursement from Tenant either directly or as an Operating Expense. Before commencing any work, Tenant shall give Landlord at least ten (10) days' Notice of the proposed commencement of such work. For Alterations costing more than $50,000 and if Tenant fails to demonstrate to Landlord that it has sufficient available funds set aside for payment of the Alterations, Landlord may require that Tenant secure for such work at Tenant's own cost and expense a completion and payment bond in form, substance and amount reasonably satisfactory to Landlord. All Alterations made after the Commencement Date, shall, at Landlord's election, which election shall be communicated in writing to Tenant at the time of Landlord's consent, either be removed by Tenant or shall become the property of Landlord and shall remain upon, and be surrendered with, the Premises at the end of the Term hereof; provided, however, that if Landlord, by Notice to Tenant, requires Tenant to remove such improvements, Tenant shall repair all damage resulting from such removal or, at Landlord's option, shall pay to Landlord the reasonable and documented cost of such removal prior to the expiration of the Term. In no event shall Tenant be required to remove the Tenant Improvements. Notwithstanding anything to the contrary contained herein, Tenant shall not be required to obtain Landlord's prior written consent for non-structural, non-exterior, cosmetic alterations to the Premises, provided such alterations do not affect the Building Systems and cost in the aggregate for each alteration project no more than $150,000. Additionally, the construction of the Tenant Improvements shall be governed by the terms of the Work Letter and not the terms of this Section 14.

(b) All articles of personal property and all business and trade fixtures, machinery and equipment, furniture and movable partitions owned by Tenant or installed by or for Tenant in the Premises shall be and remain the property of Tenant and shall be removed by Tenant prior to the expiration of the Term and Tenant shall repair all damage to the Premises resulting from such removal. If Tenant shall fail to remove any of the foregoing from the Premises on or before termination of this Lease for any cause whatsoever, Tenant shall be deemed to be holding over without Landlord's consent, and Landlord may, at its option, remove the same in any manner that Landlord shall choose, and store the same without liability to Tenant for loss thereof, and Tenant shall pay Landlord upon demand any and all reasonable and documented expenses incurred in such removal, including court costs and attorneys' fees and storage charges thereon, for any length of time that the same shall be in Landlord's possession or control. Landlord may without Notice, sell such property, at a private sale and without legal process, for such price as Landlord may obtain and apply the proceeds of such sale to any amounts due under this Lease from Tenant to Landlord and/or to all reasonable and documented expenses, including attorneys' fees and costs, incident to the removal and/or sale thereof.

15. **REPAIRS**

(a) Tenant shall, when and if needed, at Tenant's sole cost and expense and subject to Landlord's Work and Landlord's repair and restoration obligations under Sections 22 and 23, make all repairs to the Premises and every part thereof and all supplemental equipment installed in the Premises for Tenant's use to maintain the Premises and such equipment in first class condition and repair and free from any Hazardous Materials resulting from Tenant's use of the Premises or during Tenant's occupancy of the Premises, or while Tenant is the "Tenant" under this Lease unless such Hazardous Materials are brought onto the Premises by Landlord; provided that Tenant shall not be responsible for any repairs to the extent necessitated by the gross negligence or willful misconduct of Landlord or Landlord's agents, employees or contractors. Tenant shall, upon the expiration or earlier termination of the Term hereof, surrender the Premises to Landlord in the condition required by Section 31(a) below. Landlord shall maintain the Common Areas. From time to time, upon prior notice to Landlord, Tenant shall have the right to assume all or any of the maintenance and repair of the Common Areas or other portions of the Project for which Landlord is responsible hereunder, at Tenant's sole cost and expense. In such event, the Operating Expenses shall exclude any cost or expense related to such repair and maintenance performed by Tenant.

(b) In addition, Tenant shall repair and maintain the Parking Facilities, other than those repairs considered capital items, as defined in Section 15(c) (to the extent Landlord is the owner thereof), and the plumbing, heating, ventilation, air conditioning, elevator and electrical systems installed therein, except for Landlord's Work and

Landlord's repair and restoration obligations under Sections 22 and 23. Additionally, Tenant shall not be responsible for any repairs to the extent necessitated by the gross negligence or willful misconduct of Landlord or Landlord's agents, employees or contractors. Except as provided in Sections 19, 22, 23 or 24(h) hereof, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements in or to any portion of the Building or the Premises or in or to fixtures, appurtenances and equipment therein. Except as specifically set forth in Section 24(g) hereof, Tenant waives the right to make repairs at Landlord's expense under any law, statute or ordinance now or hereafter in effect.

(c) Landlord, at Landlord's sole cost and expense and without reimbursement from Tenant either directly or as an Operating Expense, shall repair and maintain the structural portions of the Buildings including the foundation, the structural portion of the roof, exterior walls (including painting), below grade plumbing, and any repairs to the extent necessitated by the gross negligence or willful misconduct of Landlord or Landlord's agents, employees or contractors (collectively, "Landlord's Structural Obligations"); provided, however, if a repair to any of the above is necessitated as a result of Tenant's negligent use thereof, Tenant shall pay for all required repairs to the extent Landlord is not reimbursed by insurance. Landlord shall also make all repairs and replacement which are considered a capital item (as described below). Provided the same are not included in Landlord's Work, Tenant shall reimburse Landlord for such capital items in connection with payment of Tenant's Percentage of Operating Expenses, but subject to the limitations on capital expenditures in the definition of Operating Expenses in Section 6(a) for the amortized portion of each capital item applicable to the remaining portion of the Term, as such Term may be extended. For purposes of this Section 15(c), capital items consist of the maintenance, repair and replacement of the roof membrane, any Landlord HVAC system, the Parking Facility and any Building System which has an estimated useful life in excess of three (3) years.

16. **LIENS**

If arising out of work performed, materials furnished or obligations incurred by or on behalf of Tenant or other actions taken by or on behalf of Tenant, Tenant shall remove any mechanics', materialmen's or other liens filed against the Building, the Project or of any portion thereof or against Tenant's leasehold interest in the Premises, including without limitation any state, federal or local "superfund" or Hazardous Materials cleanup lien imposed as a result of the presence of Hazardous Materials in, on or about the Premises, the Building or any other portion of the Project arising out of work performed, materials furnished or obligations incurred by or on behalf of Tenant or other actions taken by or on behalf of Tenant. Landlord shall have the right at all reasonable times to post and keep posted on the Premises any notices that it deems necessary for protection from such liens. Tenant shall discharge any lien filed against the Premises or against the Building for work claimed to have been done for, or materials claimed to have been furnished to, Tenant, by bond or otherwise, within twenty (20) days after notice by Landlord, at the cost and expense of Tenant. If any such liens are filed and Tenant fails to discharge them pursuant to the foregoing sentence, Landlord may, without waiving its rights and remedies based on such breach of Tenant and without releasing Tenant from any of its obligations hereunder, pay such amounts as are necessary to cause such lien(s) to be released. Tenant shall pay to Landlord, immediately upon Notice by Landlord, any cost or expense, including without limitation attorneys' fees and costs, incurred by Landlord by reason of Tenant's failure to discharge any such lien, together with interest thereon at the maximum rate per annum permitted by law from the date of such payment by Landlord.

17. **ENTRY BY LANDLORD**

Subject to Tenant's reasonable security and confidentiality requirements, Landlord reserves and shall at any and all reasonable times with reasonable notice of not less than one (1) business day except in cases of emergency, have the right to enter the Premises to inspect the same, to show the Premises to prospective purchasers, lenders, investors or, during the last six (6) months of the Term, tenants, to post notices of non-responsibility, to alter, improve or repair the Premises or any other portion of the Building and/or the Parking Facilities as required or permitted by this Lease and as provided in Section 2(e) above, all without being deemed guilty of any eviction of Tenant and without abatement of Rent, except as otherwise provided herein. Landlord may, in order to carry out such purposes, erect scaffolding and other necessary structures where reasonably required, provided that, except for emergencies, any entry and/or work performed by Landlord in the Premises or the Project shall be performed in a reasonably practicable

manner so as not to unreasonably interfere with Tenant's use of the Premises or the remainder of the Project and shall be performed after Building Hours if reasonably practicable. Except as otherwise set forth in Section 24(h), Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, for any loss of occupancy or quiet enjoyment of the Premises and for any other loss in, upon and about the Premises on account of Landlord's entry or work permitted by this Section or by Section 2(e) above. For the above purposes, Landlord shall at all times have and retain a key with which to unlock all doors in the Premises, excluding Tenant's vaults and safes and special security or restricted areas designated in advance by Tenant and Landlord shall have no right to enter such areas without Tenant's prior written consent except in cases of emergency. Landlord shall have the right to use any and all means which Landlord may deem proper to open said doors in an emergency in order to obtain entry to the Premises. Any entry to the Premises obtained by Landlord, shall not be construed or deemed to be a forcible or unlawful entry into the Premises, or an eviction of Tenant from the Premises or any portion thereof.

18. **UTILITIES AND SERVICES**

Tenant shall obtain and pay all charges for all utilities and services furnished to the Premises and used within the Premises and within the Project. Unless attributable to Landlord's gross negligence or willful misconduct or to the extent that Landlord is expressly required to furnish the same hereunder, Landlord's failure to furnish or cause to be furnished any of the foregoing items shall not result in any liability to Landlord. In addition, except as otherwise provided in Section 24(h), Tenant shall not be entitled to any abatement or reduction of Rent, no eviction of Tenant shall result from and Tenant shall not be relieved from the performance of any covenant or agreement in this Lease by reason of such failure, interruption or stoppage. Tenant shall pay all charges of the utility providing such service to the Premises directly to the purveyor thereof.

19. **INDEMNIFICATION AND EXCULPATION OF LANDLORD**

(a) Tenant shall indemnify, defend and hold Landlord and the Landlord Indemnified Parties harmless from and against all Claims to the extent arising from any cause whatsoever in the Premises, Tenant's use of the Premises or other portion of the Project; the conduct of business of from any activity, work or thing done on the Premises or Project, wrongful acts, omissions or negligence of Tenant, its agents, contractors, employees or invitees, or its sublessees or licensees or its occupants of the Premises in the Premises, or any other portion of the Project. Tenant shall further indemnify, defend and hold the Landlord Indemnified Parties harmless from and against all Claims arising from any breach or default in the performance of any obligation to be performed by Tenant under the terms of this Lease, or arising from any act, neglect, fault or omission of Tenant or of its agents, contractors, employees or invitees, and from and against all costs, reasonable attorneys' fees, expenses and liabilities incurred by Landlord in or about such claim or any action or proceeding brought thereon. Payment shall not be a condition precedent to enforcement of the foregoing indemnity. In case any action or proceeding shall be brought against any Landlord Indemnified Party by reason of any such Claim, upon Notice from Landlord, Tenant shall defend the same at Tenant's expense by counsel reasonably approved in writing by Landlord. Tenant, as a material part of the consideration to Landlord, hereby assumes all risk of damage to property or injury to persons in, upon or about the Premises, the Building or the Project from any cause whatsoever and hereby waives all Claims in respect thereof against each Landlord Indemnified Party, except that which is caused by, or the result of: (i) the failure of Landlord to perform Landlord's obligations under the terms and conditions of this Lease where such failure has persisted for an unreasonable period of time after Notice to Landlord of such failure, (ii) the grossly negligent acts of Landlord, or (iii) the willful misconduct of Landlord. Without limitation on other obligations of Tenant that survive the expiration of the Lease Term, the clauses of this Section 19(a) shall survive the expiration or earlier termination of this Lease until all Claims against Landlord involving any of the indemnified matters are fully, finally, and absolutely barred by the applicable statutes of limitations.

(b) Neither Landlord nor any Landlord Indemnified Party shall be liable to Tenant for any loss, injury or damage (including consequential damages arising out of any loss of use of the Premises or any equipment or facilities therein) to Tenant or to any other person, or to its or their property, unless caused by or resulting from the gross negligence or willful misconduct of Landlord or Landlord's failure to perform its obligations under this Lease.

(c) Landlord shall indemnify, defend and hold Tenant and the constituent shareholders, partners or other owners thereof, and all of their agents, contractors, servants, officers, directors and employees (collectively, " **Tenant's Indemnitees** ") harmless from and against any Claims incurred by them in connection with or arising from any injury, illness, or death to any person or damage to any property if (i) such injury, illness, death or damage is caused by the gross negligence or willful misconduct of Landlord or its agents, contractors, officers, directors or employees, and (ii) such Claim is not included within the risks insured against under the insurance that Tenant is required to carry under Section 21(a). Payment shall not be a condition precedent to enforcement of the foregoing indemnity. In case any action or proceeding shall be brought against any Tenant Indemnitees by reason of any such Claim, upon Notice from Tenant, Landlord shall defend the same at Landlord's expense by counsel reasonably approved in writing by Tenant. Without limitation on other obligations of Landlord that survive the expiration of the Lease Term, the clauses of this Section 19(c) shall survive the expiration or earlier termination of this Lease until all Claims against Tenant involving any of the indemnified matters are fully, finally, and absolutely barred by the applicable statutes of limitations.

(d) Notwithstanding anything to the contrary contained herein, neither Landlord nor Tenant shall be liable for consequential or special damages hereunder. Additionally, the indemnification obligations set forth in this Section 19 are subject to the waiver of subrogation provisions of Paragraph 21(d) below.

20. DAMAGE TO TENANT'S PROPERTY

Notwithstanding the provisions of Section 19 or anything to the contrary in this Lease, neither Landlord nor any Landlord Indemnified Party shall be liable for (a) loss or damage to any property by theft or any other cause whatsoever, (b) any injury or damage to persons resulting from fire, earthquake, storms, explosion, falling plaster, steam, gas, electricity, water or rain which may leak from any part of the Building, the Parking Facilities or the Project or from the pipes, appliances or plumbing work therein or from the roof, street or sub-surface or from any other place or resulting from dampness or any other cause whatsoever, except that which is caused by, or the result of: (i) the grossly negligent acts of Landlord, (ii) the willful misconduct of Landlord, or (iii) a default by Landlord due to its failure to perform Landlord's obligations under the Lease, (c) interference with light or other incorporeal hereditaments, or (d) except for Landlord's Work, any latent defect in the Premises, the Building, the Parking Facilities or any other portion of the Project. Tenant shall immediately give Notice to Landlord in case of fire or accidents in or about the Premises, the Building, the Parking Facilities or any other portion of the Project, or of defects therein or in any fixtures or equipment that are the property of Landlord, Tenant or any other tenant or occupant of premises in the Project. Tenant acknowledges that any safety and security devices which may be provided by Landlord may not prevent theft or other criminal acts or ensure the safety of persons or property. The risk that any safety or security device may not be effective, may malfunction or may be circumvented is assumed by Tenant.

21. TENANT'S INSURANCE

(a) Tenant shall, during the Term hereof, at its sole cost and expense, keep in full force and effect the following insurance:

(i) Property insurance insuring against any perils included within the classification "Special Form." Such insurance shall insure the Building and all property owned by Tenant, for which Tenant is legally liable or that was installed at Tenant's expense, and which is located in the Building, including without limitation furniture, fittings, installations, fixtures and equipment, any other personal property, and in addition thereto, all improvements and betterments to the Premises, in an amount not less than one hundred percent (100%) of the full replacement cost thereof. If there shall be a dispute as to the amount which comprises full replacement cost, the reasonable decision of Landlord or any mortgagees of Landlord shall be conclusive. Such policy shall name Landlord, any mortgagees of Landlord and any other parties designated by Landlord as additional insureds, as their respective interests may appear;

(ii) Comprehensive General Liability Insurance on the current ISO CG 00 01 form or equivalent acceptable to Landlord, insuring Tenant against any liability arising out of the lease, use, occupancy or maintenance of the Premises, the Building or the Project, or any portion of the foregoing. Such insurance shall be in the amount of $5,000,000 per occurrence for injury to or death of one or more persons, and for damage to tangible

property (including loss of use), including blanket contractual liability, broad form damage, personal injury, completed operations, host liquor liability and owned and non-owned automobile coverage. The policy shall insure the hazards of the Premises and Tenant's operations thereon, independent contractors, contractual liability (covering the indemnity contained in Section 19 hereof) and shall (1) name Landlord and any other persons designated by Landlord and having an insurable interest in the Premises or the Project as an additional insured, (2) contain a cross liability provision and (3) contain a provision that the insurance provided the Landlord hereunder shall be primary and noncontributing with any other insurance available to the Landlord;

(iii) Worker's Compensation as required by state law and Employer's Liability insurance in the amount of $1,000,000 per employee per occurrence;

(iv) Rent abatement and business interruption insurance and extra expense coverage which shall cover Tenant's monetary obligations under this Lease and any loss of earnings attributable to perils insured against in Section 21(a)(i) for a period of at least twelve (12) months;

and

(v) Tenant shall obtain or cause Tenant’s contractors and subcontractors to secure and maintain insurance during any construction of work to the Premises at a minimum equal to the limits of liability required by Tenant. Such contractor/sub-contractor insurance shall be on a primary and non-contributory basis.

(b) All policies shall be written in a form reasonably satisfactory to Landlord and shall be taken out with insurance companies holding a General Policyholders Rating of "A- VIII" or better, as set forth in the most current issue of Best's Insurance Guide. Upon the execution of this Lease by Tenant, Tenant shall deliver to Landlord certificates evidencing the existence of the amounts and forms of coverage as required under this Section 21. Tenant shall notify Landlord in writing at least ten (10) days prior to any cancellation or reduction in coverage. Tenant shall, within ten (10) days prior to the expiration of such policies, furnish Landlord with renewal or "binders" thereof, or Landlord, upon five (5) business days’ notice to Tenant, may order such insurance (unless Tenant furnishes such renewals or “binders” within such five (5) business day period) and charge the cost thereof to Tenant as Additional Rent. If Landlord obtains any insurance that is the responsibility of Tenant hereunder, Landlord shall deliver to Tenant a written statement setting forth the cost of any such insurance and Tenant shall promptly remit said amount to Landlord.

(c) If any of Landlord's insurance policies shall be canceled or cancellation shall be threatened or the coverage thereunder reduced or threatened to be reduced because of the use of the Premises or any part thereof by Tenant or any assignee or subtenant of Tenant or by anyone Tenant permits on the Premises and, if Tenant fails to remedy the condition giving rise to such cancellation, threatened cancellation, reduction of coverage, threatened reduction of coverage, increase in premiums, or threatened increase in premiums, within forty-eight (48) hours after Notice thereof, Landlord may, at its option, but without any obligation so to do, enter upon the Premises and attempt to remedy such condition, and Tenant shall promptly pay the cost thereof to Landlord as Additional Rent.

(d) Each of Landlord and Tenant hereby waives any and all rights of recovery against the other, and against any other tenant or occupant of the Project and against the officers, employees, agents, representatives, customers and business visitors of such other party and of each such other tenant or occupant of the Project, for loss of or damage to such waiving party or its property or the property of others under its control, arising from any cause insured against under any “special form” policy of insurance required to be carried by such waiving party pursuant to the provisions of this Lease (or any other policy of insurance carried by such waiving party in lieu thereof) at the time of such loss or damage; provided that such waiver shall be limited to the extent of the net insurance proceeds payable by the relevant insurance company with respect to such loss or damage. The foregoing waiver shall be effective whether or not the waiving party actually obtains and maintains the insurance which such waiving party is required to obtain and maintain pursuant to this Lease (or any substitute therefor). Landlord and Tenant shall, upon obtaining the policies of insurance which they are required to maintain hereunder, give notice to their respective insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

22. **DAMAGE OR DESTRUCTION**

(a) If the Building and/or the Premises and/or the Project are damaged by fire or other perils covered by insurance, Landlord shall:

(i) In the event of total destruction or an uninsured casualty, at Landlord's option, as soon as reasonably possible thereafter, commence repair, reconstruction and restoration of the Building and/or the Premises and prosecute the same diligently to completion, in which event this Lease shall remain in full force and effect; provided, however, that if within sixty (60) days after the occurrence of such damage, Landlord shall by Notice to Tenant elect not to repair, reconstruct or restore the Building and/or the Premises and/or the Project, this Lease shall terminate as of the date of such total destruction.

(ii) In the event of a partial destruction (i.e., not exceeding twenty-five percent (25%) of the full insurable value) of the Building and/or the Premises and if the damage thereto is such that the Building and/or the Premises is capable of being repaired, reconstructed or restored within a period of ninety (90) days from the date the casualty occurred and if Landlord will receive insurance proceeds sufficient to cover the total cost of such repairs (without considering any deductible amounts), Landlord shall commence and proceed diligently with the work of repair, reconstruction and restoration of the Building and/or the Premises or both, as the case may be, and this Lease shall continue in full force and effect. If such work of repair, reconstruction and restoration shall require a period longer than ninety (90) days or exceeds twenty-five percent (25%) of the full insurable value of the Building and/or the Premises, or both, as the case may be, or if said insurance proceeds will not be sufficient to cover the cost of such repairs (without considering any deductible amounts), then Landlord either may elect (A) to repair, reconstruct or restore and this Lease shall continue in full force and effect, or (B) not to repair, reconstruct or restore and this Lease shall then terminate as of the date of such partial destruction. Landlord shall give Notice to Tenant of its intention regarding repairs within sixty (60) days after the occurrence of such casualty. If the damage is due to any cause other than fire or a peril covered by extended coverage insurance, Landlord may elect to terminate this Lease as of the date the casualty occurred.

(b) Upon any termination of this Lease under any of the provisions of this Section 22, the parties shall be released without further obligation to the other from the date possession of the Premises is surrendered to Landlord except for items which have therefore accrued and/or are then unpaid or which expressly survive the termination of this Lease.

(c) In the event of repair, reconstruction or restoration by Landlord following a casualty as herein provided, the Rent payable under this Lease shall be abated proportionately with the degree to which Tenant's Permitted Use is impaired during the period of such repair, reconstruction or restoration, but only to the extent that Landlord is compensated for such loss by the insurance carried or required to be carried pursuant to Section 21(a)(iv) above. T enant’s abatement period provided for herein shall continue until Tenant has been given reasonably sufficient time and sufficient access to the Premises, to rebuild the portion of the Premises it is required to rebuild (if any), to install its property, furniture, fixtures, data and telecommunications cabling and equipment and to move in to the Premises . Notwithstanding the foregoing, there shall be no abatement of Rent if such damage is caused, by Tenant's negligence or intentional wrongdoing. Tenant shall not be entitled to any compensation or damages for loss in the use of the whole or any part of the Premises and/or any inconvenience or annoyance occasioned by such damage, repair, reconstruction or restoration. If Landlord is obligated to or elects to repair or restore as herein provided, Landlord shall be obligated to make repair or restoration only of those portions of the Building and the Premises which were originally provided at Landlord's expense, and the repair and restoration of items not provided at Landlord's expense shall be the obligation of Tenant and Tenant shall be entitled to all insurance proceeds under the insurance maintained by Tenant under Section 21(a) that are allocable to such items.

(d) In the event of damage to the Premises and/or the Building, Tenant shall not be released from any of its obligations under this Lease except to the extent and upon the conditions expressly stated in this Section 22. Notwithstanding anything to the contrary contained in this Section 22, if Landlord cannot repair or restore the damaged Premises within nine (9) months after the occurrence of such damage or destruction by reason of force majeure as described in Section 34 below, Landlord or Tenant may terminate this Lease, whereupon Landlord shall be relieved

of its obligations to make such repairs or restoration and Tenant shall be released from its obligations under this Lease as of the end of said nine (9) month period.

(e) Notwithstanding anything to the contrary contained in this Section 22, Landlord shall not have any obligation whatsoever to repair, reconstruct or restore the Premises when the damage resulting from any casualty covered under this Section 22 occurs during the last twelve (12) months of the Term of this Lease or any extension hereof Notwithstanding the foregoing, if Landlord exercises its right to terminate this Lease pursuant to the provisions of this subparagraph and Tenant has an unexpired, unexercised option to renew the term of this Lease, Tenant may cause Landlord's termination exercise to be rescinded by exercising such option to renew within ten (10) business days following delivery of notice of Landlord's exercise of its right to terminate this Lease, provided that all other conditions for the effectiveness of the exercise of such option to renew are satisfied. .

(f) Landlord will exercise all termination rights hereunder in good faith or merely to gain the benefit of higher market rents or if Landlord intends to rebuild. In addition and notwithstanding anything to the contrary contained herein, if, (i) during the last 12 months of the Term or any extension thereof, twenty percent (20%) or more of the Premises is damaged or destroyed, and Tenant ceases to occupy such portion of the Premises or (ii) any damage or destruction would take more than sixty (60) days to repair; or (iii) Tenant will not receive insurance proceeds sufficient to cover the cost of restoring its tenant improvements that Landlord is not obligated to restore (without considering any deductible amounts and provided Tenant maintains the insurance required under Section 21(a)), Tenant shall have the right to terminate the Lease as of the date of such damage or destruction by written notice to Landlord, given within thirty (30) days after such damage or destruction.

(g) Tenant hereby waives the provisions of *California Civil Code* Section 1932, Subsection 2, and Section 1933, Subsection 4, and any other statute or court decision relating to the abatement or termination of a lease upon destruction of the Premises; and the provisions of this Section shall govern in case of such destruction.

23. **EMINENT DOMAIN**

(a) If all of the Premises or the Project, or such part thereof as shall prevent Tenant's use and occupancy thereof in substantially the same manner as Tenant's use and occupancy prior to the taking while still retaining substantially the same material rights and benefits it bargained to receive under this Lease, shall be taken for any public or quasi-public purpose by any lawful power or authority by exercise of the right of appropriation, condemnation or eminent domain, or sold to prevent such taking (collectively, "Taking") or if access to the Project is substantially impaired as a result of any Taking, either party shall have the right to terminate this Lease by Notice to the other effective as of the date possession is required to be surrendered. Tenant shall not assert any claim against Landlord or the taking authority for any compensation because of such taking, and Landlord shall be entitled to receive the entire amount of any award without deduction for any estate or interest of Tenant, except that Tenant shall have the right to file any separate claim available to Tenant for any taking of Tenant's personal property and fixtures belonging to Tenant and removable by Tenant upon expiration of the Term pursuant the terms of this Lease, and for moving expenses, so long as such claims do no diminish the award available to Landlord, and such claim is payable separately to Tenant. If the amount of property or the type of estate taken shall not substantially interfere with the conduct of Tenant's business in substantially the same manner as Tenant's use and occupancy prior to the taking while still retaining substantially the same material rights and benefits it bargained to receive under this Lease, Landlord shall be entitled to the entire amount of the award without deduction for any estate or interest of Tenant, Landlord shall restore the Premises to substantially their same condition prior to such partial taking, and Annual Basic Rent shall be reduced, effective as of the date the condemning authority takes possession, in the same proportion which the Rentable Square Feet of the portion of the Premises so taken bears to the Rentable Square Feet of the entire Premises before the taking. Nothing contained in this Section shall be deemed to give Landlord any interest in any award made to Tenant for the taking of personal property and fixtures belonging to Tenant.

(b) Notwithstanding anything to the contrary in Section 23(a) above, in the event of taking of the Premises or any part thereof for temporary use, (i) this Lease shall be and remain unaffected thereby and Rent shall not abate, and (ii) Tenant shall be entitled to receive for itself such portion or portions of any award made for such use with respect to the period of the taking which is within the Term, provided that if such taking shall remain in force at

the expiration or earlier termination of this Lease, Tenant shall then pay to Landlord a sum equal to the reasonable cost of performing Tenant's obligations under Section 15(a) with respect to surrender of the Premises and, upon such payment, shall be excused from such obligations. For purpose of this Section 23(b), a "temporary" taking shall be defined as a taking for a period of 180 days or less.

(c) Tenant hereby irrevocably waives and releases its rights under Section 1265.130 of the California Code of Civil Procedure.

24. **DEFAULTS AND REMEDIES**

(a) The occurrence of any one or more of the following events, upon the expiration of any applicable time period, shall constitute a default hereunder by Tenant ("Default"):

(i) Abandonment of the Premises by Tenant. Notwithstanding the provisions of *California Civil Code* Section 1951.3, "Abandonment" means any absence by Tenant from the Premises for fifteen (15) business days or longer while in default pursuant to Sections 24(a)(ii) and/or (iv);

(ii) The failure by Tenant to make any payment of Rent or Additional Rent or any other payment required to be made by Tenant hereunder, as and when due, where such failure shall continue for a period of three (3) business days after Notice thereof from Landlord to Tenant.

(iii) The failure by Tenant to observe or perform any of the express or implied covenants or provisions of this Lease to be observed or performed by Tenant, other than as specified in Section 24(a)(i) or (ii) above, where such failure shall continue for a period of thirty (30) days after Notice thereof from Landlord to Tenant. If the nature of Tenant's default is such that more than thirty (30) days are reasonably required for its cure, then Tenant shall not be deemed to be in Default if Tenant shall commence such cure within said thirty (30) day period and thereafter diligently prosecute such cure to completion; which completion shall occur not later than one hundred twenty (120) days from the date of such Notice from Landlord; or

(iv) (1) The making by Tenant of any general assignment for the benefit of creditors; (2) the filing by or against Tenant of a petition to have Tenant adjudged a bankrupt or a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days); (3) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within thirty (30) days; (4) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease where such seizure is not discharged within thirty (30) days; or (5) Tenant's convening of a meeting of its creditors or any class thereof for the purpose of effecting a moratorium upon or composition of its debts, or any class thereof.

Any Landlord Notice required hereby shall be in lieu of, and not in addition to, any Notice required under California Code of Civil Procedure Section 1161 and Tenant hereby expressly waives the notice requirements of California Code of Civil Procedure Section 1162.

(b) In the event of any such Default by Tenant, in addition to any other remedies available to Landlord at law or in equity, including without limitation the remedies of Civil Code Section 1951.2 and any successor statute, Landlord shall have the immediate option to terminate this Lease and all rights of Tenant hereunder. If Landlord shall elect to so terminate this Lease then Landlord may recover from Tenant: (i) The worth at the time of award of any unpaid Rent which had been earned at the time of such termination; plus (ii) the worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such Rent loss that Tenant proves could have been reasonably avoided; plus (iii) the worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such Rent loss that Tenant proves could be reasonably avoided; plus (iv) any other amount necessary to compensate Landlord for all the detriment caused by Tenant's failure to perform Tenant's obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of

recovering possession of the Premises, expenses of reletting, including necessary repair, renovation and alteration of the Premises, reasonable attorneys' fees and any other reasonable costs; provided that any such reletting costs shall be amortized over the term of any new lease, and Tenant shall only be liable for the portion amortizing during the balance of the Term.

As used in Sections 24(b)(i) and (ii) above, the "worth at the time of award" is computed by allowing interest at the maximum rate permitted by law. As used in Section 24(b)(iii) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco ("Discount Rate") at the time of award plus one percent (1%). If the format or components of the Discount Rate are materially changed, or if the Discount Rate ceases to exist, Landlord shall substitute a discount rate which is maintained by the Federal Reserve Bank of San Francisco or similar financial institution and which is most nearly equivalent to the Discount Rate.

(c) If any such Default by Tenant occurs, Landlord may utilize the remedy described in *California Civil Code* Section 1951.4.

(d) If Tenant abandons the Premises or if Landlord shall elect to re-enter as provided above or shall take possession of the Premises pursuant to legal proceeding or pursuant to any notice provided by law, then if Landlord does not elect to terminate this Lease as provided above, Landlord may from time to time, without terminating this Lease, either recover all Rent as it becomes due or relet the Premises or any part thereof for the Term of this Lease on terms and conditions as Landlord in its sole discretion may deem advisable with the right to make alterations and repairs to the Premises.

If Landlord shall elect to so relet, such reletting shall not relieve Tenant of any obligation hereunder, except that the rents received by Landlord from such reletting shall be applied as follows: first, to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; second, to the payment of any cost of such reletting; third, to the payment of the cost of any alterations and repairs to the Premises; fourth, to the payment of Rent due and unpaid hereunder and the residue, if any, shall be held by Landlord and applied to payment of future Rent as the same may become due and payable hereunder. Should that portion of such rents received from such reletting during any month, which is applied to the payment of Rent hereunder, be less than the Rent payable during that month by Tenant hereunder, then Tenant shall pay such deficiency to Landlord immediately upon demand therefor by Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as ascertained, any costs and expenses, including reasonable attorneys' fees, incurred by Landlord in such reletting or in making such alterations and repairs not covered by the rents received from such reletting.

(e) Tenant hereby acknowledges that Default by Tenant hereunder, and Landlord's election to prepare and serve a Notice of Default hereunder, will cause Landlord to incur costs not contemplated by this Lease, and costs in addition to any costs which may be reimbursed to Landlord by any provision which may be contained herein relative to the payment of interest or late charges on amounts due hereunder. Accordingly, Landlord shall be entitled to reasonable attorneys' fees and all other reasonable costs and expenses incurred in the preparation and service of Notice of Default and consultations in connection therewith, whether or not legal action is subsequently commenced in connection with such Default. It is further hereby specifically agreed by and between Landlord and Tenant that any and all such fees and costs shall be deemed Additional Rent hereunder, and may, at the option of Landlord, be included in any Notice of Default hereunder.

(f) Landlord shall be in default hereunder if (i) in the event a failure by Landlord is with respect to the payment of money, Landlord fails to pay such unpaid amounts within thirty (30) days of written notice from Tenant that the same was not paid when due; or (ii) in the event a failure by Landlord is other than (i) above, Landlord fails to perform such obligation within a reasonable time period with the expenditure of diligent efforts, but in no event more than thirty (30) days after the receipt of notice from Tenant specifying in detail Landlord's failure to perform; provided, however, if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be in default under this Lease if it shall commence such performance within such thirty (30) day period and thereafter diligently pursue the same to completion. Upon any such default by Landlord under this Lease, Tenant may, except as otherwise specifically provided in this Lease to the contrary, exercise any of its rights provided at law or in equity.

(g) Should Landlord fail to make any repairs or otherwise maintain the Premises, the Buildings and the Project in the manner in which Landlord is obligated under the terms of this Lease (including Landlord's Work), and such failure materially interferes with Tenant's ability to operate its business in the Premises, then, provided Landlord has not reasonably disputed the need for such repair or maintenance, if Landlord fails to complete the repairs or perform the maintenance within a reasonable period of time (not to exceed thirty (30) days) after notice (or such longer time as is reasonably necessary so long as Landlord has commenced to cure such failure within a reasonable period of time and is diligently proceeding with such cure), Tenant may proceed, upon delivery of an additional three (3) business days' notice to Landlord specifying Tenant's intent to take such action, to make such repairs in a reasonable manner at the prevailing cost of same. Tenant shall not be permitted to make any repairs to the structural portions of the Premises. Any work required to the roof of the Building must be performed by Landlord's designated roofing contractor. Landlord shall reimburse Tenant therefor within thirty (30) days after the completion of the repairs by Tenant and receipt by Landlord of final lien waivers and a copy of the paid invoices, setting forth in reasonable detail the work performed and materials used. Tenant shall indemnify and hold Landlord harmless for any damage caused to the Building or Building Systems by Tenant exercising its self-help right. Notwithstanding anything to the contrary in this Lease, if Tenant has not received payments due from Landlord as of the end of the thirtieth (30 th) day following Landlord's receipt of a statement or notice thereof, Tenant shall have the right to offset said sums against each month's Monthly Installment of Basic Rent due under this Lease until the total amount of such sums due to Tenant has been recaptured by Tenant through such offset.

(h) In the event that Tenant is prevented from using, and does not use, the Premises or any portion thereof, as a result of (i) any repair, maintenance or alteration performed by Landlord, or which Landlord failed to perform, after the Commencement Date and required by this Lease, which substantially interferes with Tenant's use of the Premises, or (ii) any failure to provide services, utilities or access to the Premises or Common Areas as required by this Lease (either such set of circumstances as set forth in items (i) or (ii), above, to be known as an "Abatement Event"), then Tenant shall give Landlord notice of such Abatement Event, and if such Abatement Event continues for three (3) consecutive business days after Landlord's receipt of any such notice (or occurs for ten (10) non-consecutive business days in any six (6) month period (provided Landlord is notified of each of such Abatement Event) (in either of such events, the "Eligibility Period") then the Annual Basic Rent and Tenant's Percentage of Operating Expenses and Real Property Taxes shall be abated or reduced based on that portion of the Premises which Tenant is prevented from using, as the case may be, after expiration of the Eligibility Period for such time that Tenant continues to be so prevented from using, and does not use for the normal conduct of Tenant's business, the Premises or a portion thereof, in the proportion that the rentable area of the portion of the Premises that Tenant is prevented from using, and does not use, bears to the total rentable area of the Premises; provided, however, in the event that Tenant is prevented from using, and does not use, a portion of the Premises for a period of time in excess of the Eligibility Period and the remaining portion of the Premises is not sufficient to allow Tenant to effectively conduct its business therein, and if Tenant does not conduct its business from such remaining portion, then for such time after expiration of the Eligibility Period during which Tenant is so prevented from effectively conducting its business therein, the Annual Basic Rent and Tenant's Percentage of Operating Expenses and Real Property Taxes for the entire Premises shall be abated for such time as Tenant continues to be so prevented from using, and does not use, the Premises. If, however, Tenant reoccupies any portion of the Premises during such period, the Rent allocable to such reoccupied portion, based on the proportion that the rentable area of such reoccupied portion of the Premises bears to the total rentable area of the Premises, shall be payable by Tenant from the date Tenant reoccupies such portion of the Premises. To the extent an Abatement Event is caused by an event covered by Section 22 or 23 of this Lease, then Tenant's right to abate rent shall be governed by the terms of such Section 22 or 23, as applicable, and the Eligibility Period shall not be applicable thereto. If Tenant's right to abatement occurs during a free rent period which arises after the Commencement Date, Tenant's free rent period shall be extended for the number of days that the abatement period overlapped the free rent period.

25. **NO WAIVER**

All rights, options and remedies of Landlord or Tenant contained in this Lease shall be construed and held to be cumulative, and not one of them shall be exclusive of the other, and Landlord or Tenant, as applicable, shall have the right to pursue any one or all of such remedies or any other remedy or relief which may be provided by law, whether or not stated in this Lease. The waiver by either party of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of any subsequent breach of the same or any other term, covenant or

condition herein contained, nor shall any custom or practice which may grow up between the parties in the administration of the terms hereof be deemed a waiver of or in any way affect the right of a party to insist upon the performance by the other party in strict accordance with said terms. The subsequent acceptance of Rent hereunder by Landlord or payment of Rent hereunder by Tenant shall not be deemed to be a waiver of any preceding breach by Tenant or Landlord, as applicable, of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular Rent so accepted, regardless of Landlord's or Tenant's knowledge of such preceding breach at the time of Landlord's acceptance or Tenant's payment of such Rent. No acceptance by Landlord of a lesser sum than the Annual Basic Rent and Additional Rent or other sum then due shall be deemed to be other than on account of the earliest installment of such Rent or other amount due, nor shall any endorsement or statement on any check or any letter accompanying any check be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such installment or other amount or pursue any other remedy provided in this Lease.

26. **ASSIGNMENT AND SUBLETTING**

(a) Subject to Section 26(i), Tenant shall not voluntarily or by operation of law, assign, sell, encumber, pledge or otherwise transfer all or any part of its interest in this Lease or in the Premises or sublease all or any part of the Premises, or allow any other person or entity to occupy or use all or any part of the Premises, without first obtaining Landlord's prior written consent, which consent Landlord shall not unreasonably withhold or delay. Any assignment, sale, encumbrance, pledge, sublease or other transfer without Landlord's prior written consent shall be voidable at Landlord's election and shall constitute a Default.

(b) For purposes hereof, unless Tenant is a publicly traded company, any of the following shall constitute a voluntary assignment subject to the provisions of this Section:

(i) If Tenant is a partnership or limited liability company. (A) a change in ownership effected voluntarily, involuntarily, or by operation of law or forty-nine percent (49%) or more of the partners or members of forty-nine percent (49%) or more of the partnership or membership interest; or (B) the dissolution of the partnership or limited liability company without its immediate reconstitution;

(ii) If Tenant is a corporation: (A) the sale or other transfer of more than an aggregate of forty-nine percent (49%) of the shares of Tenant (B) the sale, mortgage, hypothecation , or pledge of more than an aggregate of forty-nine percent (49%) of the value of Tenant's unencumbered assets, or (C) the dissolution, merger, consolidation, or other reorganization of Tenant.

No consent to an assignment, encumbrance or sublease shall constitute a waiver of any provision of this Section 26 or consent to any future assignment, encumbrance or transfer.

(c) If Tenant desires to assign, hypothecate or otherwise transfer this Lease or sublet the Premises, then at least thirty (30) days prior to the date when Tenant desires the assignment or sublease to be effective ("Assignment Date") Tenant shall give Landlord a Notice ("Assignment Notice"), setting forth the name, address and business of the proposed assignee or sublessee, information (including references) concerning the character, ownership and financial condition of the proposed assignee or sublessee, the Assignment Date, any ownership or commercial relationship between Tenant and the proposed assignee or sublessee and the consideration and all other material terms and conditions of the proposed assignment or sublease, all in such detail as Landlord shall reasonably require. If Landlord reasonably requests additional detail, the Assignment Notice shall not be deemed to have been received until Landlord receives such additional detail, and Landlord may withhold consent to any assignment or sublease until such information is provided to it.

(d) Within thirty (30) days of Landlord's receipt of such Assignment Notice, and all information specified in Section 26(c) above, Landlord may, by Notice to Tenant, elect to: (i) consent to such proposed assignment, encumbrance or sublease upon the terms and to the subtenant or assignee proposed; or (ii) refuse to give its consent, specifying in reasonable detail the reasonable reason(s) therefor. Tenant shall, at Tenant's own cost and expense, discharge in full any commissions which may be due and owing as a result of any proposed assignment or subletting.

(e) As a condition for granting its consent to any assignment, encumbrance or sublease, Landlord shall be entitled to require that the assignee remit directly to Landlord on a monthly basis, all monies due to Tenant by said assignee. In addition, as a condition to Landlord's consent to any assignment, transfer or hypothecation of this Lease shall be the delivery to Landlord of a true copy of a fully executed instrument of assignment and assumption, transfer or hypothecation, and the delivery to Landlord of an agreement executed by the assignee in form and substance reasonably satisfactory to Landlord and expressly enforceable by Landlord, whereby the assignee assumes and agrees to be bound by all of the terms and provisions of this Lease and to perform all of the obligations of Tenant hereunder. As a condition to Landlord's consent to any sublease, such sublease (or the consent document specifically evidencing Landlord's consent thereto) shall be delivered to Landlord in advance.

(f) If Landlord shall consent to an assignment or sublease under the provisions of this Section 26, Tenant shall pay Landlord's reasonable expenses, costs and attorneys' fees incurred in connection with processing such consent, not to exceed $1500 for each request. If Landlord shall consent to any assignment of this Lease, Tenant shall pay to Landlord, as Additional Rent, fifty percent (50%) of all sums and other consideration in excess of the Rent due hereunder paid to Tenant by the assignee for Tenant's leasehold estate hereunder after Tenant has deducted its expenses for subletting or assigning, including tenant improvements, reasonable brokerage and legal fees, rent and operating expense abatement or other reasonable sublease and assignment concessions, as and when such sums and other consideration are paid by the assignee to Tenant shall instruct the assignee to pay such sums and other consideration directly to Landlord. If for any proposed sublease, Tenant receives Annual Basic Rent or other consideration, either initially or over the term of the sublease, in excess of the Annual Basic Rent called for hereunder or, in case of the sublease of a portion of the Premises, in excess of such Annual Basic Rent fairly allocable to such portion, Tenant shall pay to Landlord as Additional Rent hereunder fifty percent (50%) of the excess after Tenant has deducted its expenses for subletting or assigning, including tenant improvements, reasonable brokerage and legal fees, rent and operating expense abatement or other reasonable sublease and assignment concessions, of each such payment of rent or other consideration received by Tenant promptly after its receipt. Landlord's consent to any assignment or subletting shall not relieve Tenant or any assignee or sublessee from any obligation under this Lease whether or not accrued as of the date of the assignment or subletting.

(g) All options to extend, renew or expand, if any, contained in this Lease are personal to Tenant. Consent by Landlord to any assignment or subletting shall not include consent to the assignment or transfer of any such rights with respect to the Premises, any special privileges or extra services granted to Tenant (and such options, rights, privileges or services shall terminate upon such assignment or subletting), unless Landlord specifically grants in writing such options, rights, privileges or services to such assignee or subtenant. Notwithstanding anything to the contrary contained herein, all options to extend, renew or expand, if any, contained in this Lease shall transfer to a Permitted Transferee.

(h) If Landlord consents to such assignment or subletting or does not exercise any option set forth in Section 26(d) above within said thirty (30) day period, Tenant may thereafter within one hundred eighty (180) days after the expiration of said thirty (30) day period enter into a valid assignment or sublease of the Premises or portion thereof, upon substantially the same terms and conditions described in the information required to be furnished by Tenant to Landlord pursuant to Section 26(c), or upon other terms not materially less favorable to Tenant; provided, however, that any material change in such terms shall be subject to Landlord's consent as provided in this Section and, provided further, that any amount to be paid to Landlord by Tenant in connection therewith pursuant to Section 26(f) above shall be paid to Landlord upon the later of consummation of such transaction or receipt by Tenant of such consideration.

(i) So long as Tenant is not entering into the Permitted Transfer (as defined below) for the purpose of avoiding or otherwise circumventing the remaining terms of this Paragraph 26, Tenant may assign its entire interest under this Lease or sublease a portion of the Premises, without the consent of Landlord, to (a) an affiliate, subsidiary or parent of Tenant, or a corporation, partnership or other legal entity wholly owned by Tenant, (b) any entity, controlling, controlled by or under common control of Tenant or Tenant’s parent, (c) a successor to Tenant by purchase, merger, consolidation or reorganization; (each such transfer a “Permitted Transfer” and any such assignee of a Permitted Transfer, a “Permitted Transferee”), provided Tenant notifies Landlord no less than thirty (30) days prior to the effective date of the assignment and provides Landlord with evidence that the net worth of the Permitted Transferee at the time of the Transfer is equal to or exceeds the net worth of Tenant as of the Commencement Date or

at the time of transfer, whichever is less. In addition, Tenant may share occupancy of the Premises with Tenant's contractors, customers, partners, or business teammates, which for purposes hereof shall not be considered an assignment or subletting; provided, Tenant shall be fully responsible for all actions of such occupants and shall indemnify, defend and hold harmless Landlord for any and all claims, losses and damages related to such occupants. For purposes of this Section 26(i), "Control" means the possession of the power to direct or cause the direction of the management or policies of such entity. Tenant acknowledges that following a Permitted Transfer, Tenant remains fully liable for all obligations and liabilities under this Lease.

27. **SUBORDINATION**

Subject to Tenant's receipt of commercially reasonable non-disturbance protection from any mortgagor or hold of deed of trust on the Promises or the Project, without the necessity of any additional documents being executed by Tenant for the purpose of effecting a subordination, and at the election of Landlord or any mortgagee or holder of deed of trust with a lien on the Building or the Project or any ground lessor with respect to the Building or the Project, this Lease shall be subject and subordinate at all times to: (a) all ground leases or underlying leases which may now exist or hereafter be executed affecting the Building, the Project, or the land upon which the Building and the Project are situated, or both; and (b) the lien of any mortgage or deed of trust which may now exist or hereafter be executed in any amount for which the Building, the Project, the land upon which the Building and the Project are situated, ground leases or underlying leases, or Landlord's interest or estate in any of said items is specified as security. Landlord shall cause any future lienholder senior or made senior to this Lease to provide Tenant with a commercially reasonable non-disturbance agreement as a condition precedent to any subordination by Tenant under this Lease.

Notwithstanding the foregoing, Landlord shall have the right to subordinate or cause to be subordinated such ground leases or any such liens to this Lease. If any ground lease or underlying lease terminates for any reason or any mortgage or deed of trust is foreclosed or a conveyance in lieu of foreclosure is made for any reason, Tenant shall, notwithstanding any subordination, attorn to and become the tenant of the successor-in-interest to Landlord, at the option of such successor-in-interest to Landlord. Tenant covenants and agrees to execute and deliver, within ten (10) business days after demand by Landlord therefor, any commercially reasonable additional documents evidencing the priority or subordination of this Lease with respect to any such ground leases, underlying leases or the lien of any such mortgage or deed of trust.

28. **SNDA**

Landlord agrees to use its commercially reasonable efforts, but at no cost to Landlord, to assist Tenant in obtaining a Subordination, Non-Disturbance and Attornment Agreement ("SNDA") from the current holder of the existing deed of trust encumbering the Project by providing Tenant with (a) a lender's standard form SNDA, a copy of which is attached hereto as Exhibit "J" and (b) the lender's or the lender's servicer's contact information. It is the parties' intent to permit Tenant to work directly with the lender or lender's servicer to finalize the SNDA. Landlord further agrees to contact the lender if necessary to assist in finalizing the SNDA. Any fees charged by lender or lender's servicer in connection with the SNDA shall be paid by Tenant.

29. **ESTOPPEL CERTIFICATE**

(a) Within ten (10) business days following any written request which Landlord may make from time to time, Tenant shall execute and deliver to Landlord a statement, in a form substantially similar to the form of Exhibit "E" attached hereto, and incorporated herein by this reference or as otherwise reasonably required by Landlord's lender ("Tenant Estoppel Certificate"). Landlord and Tenant intend that any statement delivered pursuant to this Section 29 may be relied upon by any mortgagee, beneficiary, purchaser or prospective purchaser of the Building or the Project or any interest therein.

(b) Tenant's failure to deliver such statement within such time shall be conclusive upon Tenant (i) that this Lease is in full force and effect, without modification except as may be represented by Landlord, (ii) that there

are no uncured defaults in Landlord's performance, and (iii) that not more than one (1) month's Annual Basic Rent has been paid in advance.

(c) Within ten (10) business days following any written request which Tenant may make from time to time, Landlord shall execute and deliver to Tenant a statement in form reasonably satisfactory to Tenant and Landlord (i) acknowledging whether or not the Lease is then in full force and effect and has been modified (and if modified, setting forth the specific nature of all modifications) and (ii) setting forth the date to which the fixed and additional rent has been paid, and (iii) stating whether or not, to the best knowledge of Landlord, Tenant is in default under the Lease, and if Tenant is in default, setting forth the specific nature of all such defaults. Landlord acknowledges that any statement delivered pursuant to this Section may be relied upon by the party to whom it is delivered.

30. **PROJECT PLANNING**

Intentionally Deleted.

31. **SURRENDER OF PREMISES**

(a) The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Landlord, operate as an assignment to it of any or all subleases or subtenancies. Upon the expiration or earlier termination of this Lease, subject to the terms of this Section 31(a) and Section 14(a), Tenant shall peaceably surrender the Premises and all alterations and additions thereto, broom-clean and in good order, repair and condition, free from any and all Hazardous Materials resulting solely from Tenant's use and occupancy, including those Tenant allows to occupy the Premises, of the Premises and Project, reasonable wear and tear, casualty, condemnation and repairs which are the responsibility of Landlord hereunder excepted, and shall comply with the provisions of Section 14(a). Tenant shall have no obligation to remove any Tenant Improvements or perform any restoration work with respect to any Tenant Improvements except to the extent Landlord notified Tenant of such obligation on or before Landlord's approval of the applicable Space Plan (as defined in the Work Letter). In addition, Tenant may elect to remove all or some of Tenant's equipment and trade fixtures from the Premises. Subject to the foregoing, Tenant must, at Tenant's sole cost, remove upon termination of their Lease, any and all of Tenant's furniture, furnishings, equipment, movable partitions of less than full height from floor to ceiling and other personal property as well as all data/telecommunications cabling and wiring, whether inside walls, under any raised floor or above any ceiling (collectively, "Personalty"). Personalty not so removed shall be deemed abandoned by the Tenant and title to the same shall thereupon pass to Landlord under this Lease as by a bill of sale, but Tenant shall remain responsible for the reasonable cost of removal and disposal of such Personalty, as well as any damage caused by such removal. In addition, Tenant shall terminate as of the expiration of the Term or earlier termination of this Lease, at its sole cost and expense, including the payment of any termination or cancellation fees, all contracts with respect to the maintenance and repair of the Premises. The delivery of keys to any employee of Landlord or to Landlord's agent or any employee thereof shall not be sufficient to constitute a termination of this Lease or a surrender of the Premises.

(b) In connection with its surrender of the Premises, Tenant shall submit to Landlord at least sixty (60) days prior to the expiration date of this Lease (or in the event of an earlier termination of this Lease, as soon as reasonably possible following such termination), the following information (i) a list of any Hazardous Materials existing on the Premises resulting from Tenant's use of the Premises or during Tenant's occupancy of the Premises, or while Tenant is the "Tenant" under this Lease unless such Hazardous Materials are brought onto the Premises by Landlord, and (ii) Tenant's plan to remove those items on the list. Upon termination or expiration of the Term, Tenant at its sole expense shall cause all Hazardous Materials located in or about the Premises, the Building and/or the Project, and all installations (whether interior or exterior) relating to the storage, use, disposal or transportation of Hazardous Materials, including, but not limited to the emergency generator, and resulting from Tenant's use of the Premises or during Tenant's occupancy of the Premises, or while Tenant is the "Tenant" under this Lease unless such Hazardous Materials are brought onto the Premises by Landlord to be removed from the property and transported for use, storage or disposal in accordance and compliance with all Laws and other requirements respecting Hazardous Materials. To the extent required by Applicable Laws, Tenant shall apply for and shall obtain from all appropriate regulatory

authorities (including any applicable fire department or regional water quality control board) all permits, approvals and clearances necessary for the closure of the Project and shall take all other actions as may be required to complete the closure of the Building and the Project.

(c) Tenant hereby indemnifies, and agrees to protect, defend and hold Landlord harmless from and against all liability, costs, claims, judgments, losses, demands, causes of action, proceedings or hearings, including Landlord's reasonable attorney's fees and court costs, and diminution in value of the Premises to the extent resulting from any Tenant default under this Section 31, Sections 8(b)(ii) and (iii), or the handling, placement, discharge, release, storage, disposal, or use of Hazardous Materials on or about the Premises by Tenant during the Term as during Tenant's compliance with the provisions of this Section 31.

The provisions of this Section 31 shall survive the termination or earlier expiration of the Lease.

32. **PERFORMANCE BY TENANT**

All covenants and agreements to be performed by Tenant under any of the terms of this Lease shall be performed by Tenant at Tenant's sole cost and expense and, without any abatement of rent, except as otherwise provided herein. If Tenant shall fail to pay any sum of money owed to any party other than Landlord, for which it is liable hereunder, or if Tenant shall fail to perform any other act on its part to be performed hereunder, Landlord may, without waiving or releasing Tenant from obligations of Tenant, but shall not be obligated to, make any such payment or perform any such other act to be made or performed by Tenant upon ten (10) business days prior notice to Tenant, except in cases of emergency. All sums so paid by Landlord and all costs incurred by Landlord in connection therewith shall be payable to Landlord on demand as Additional Rent.

33. **PARKING**

During the Term, Tenant and Tenant's employees, invitees, visitors, customers, suppliers, and shippers (collectively, "Tenant's Parking Invitees") shall be granted an exclusive license to use, without additional charge, all of the parking areas in the Common Areas. The use by Tenant, and/or Tenant's Parking Invitees, of the Parking Facilities of the Project shall be subject to the terms and conditions set forth herein below and in Exhibit "G" attached hereto and by this reference incorporated herein ("Parking Rules and Regulations"). Subject to compliance with applicable Laws, Tenant shall have the right, from time to time during the Term, to designate some or all of such parking space as reserved.

34. **FORCE MAJEURE**

Neither party shall have any liability whatsoever to the other party on account of (a) the inability of such party to fulfill, or any delay in fulfilling, any of such party's non-monetary obligations under this Lease by reason of strike, other labor trouble, governmental preemption or priorities or other controls in connection with a national or other public emergency, or shortages of fuel, supplies or labor resulting therefrom, inclement weather, earthquake, terrorism, or any other cause, whether similar or dissimilar to the above, beyond such party's reasonable control; or (b) except as otherwise expressly provided herein, any failure or defect in the supply, quantity, character, or maintenance of electricity, water, intrabuilding network telephone and data cable service, or other service furnished to the Premises by reason of any requirement, act or omission of the public utility or others furnishing the Building with such service, or for any other reason, whether similar or dissimilar to the above, beyond such party's reasonable control which cannot be remedied by the payment of amounts owed. If this Lease specifies a time period for performance of an obligation of Landlord, that time period shall be extended by the period of any delay in Landlord's performance caused by any of the events of force majeure described above.

35. **LIMITATION ON LIABILITY.**

In consideration of the benefits accruing hereunder, Tenant and all successors and assigns covenant and agree that, in the event of any actual or alleged failure, breach or default hereunder by Landlord: (a) the sole and exclusive remedy shall be against Landlord's interest in the Building, including, subject to the rights of Landlord's lender, Landlord's interest in any insurance or condemnation proceeds and rental income which Landlord receives; (b) only Landlord shall be sued or named as a party in any suit or action; (c) no writ of attachment, execution, possession, or sale, will ever be levied against the assets of Landlord, except the Building; (d) the obligations under this Lease do not constitute personal obligations of any Landlord Indemnified Party other than Landlord, and Tenant shall not seek recourse against any Landlord Indemnified Party or any of their personal assets for satisfaction of any liability in respect to this Lease; and (e) these covenants and agreements are enforceable by Landlord. None of Tenant's partners, subpartners, parent organizations, affiliates, subsidiaries, or their respective officers, directors, legal representatives, agents, servants, employees, or independent contractors shall have any personal liability for any default under this Lease, and Landlord hereby expressly waives and releases such personal liability on behalf of itself and all persons claiming by, through or under Landlord.

36. **SIGNAGE**

Tenant shall receive standard directory and suite signage. In addition, Tenant shall have the right to (a) install one Building top sign on one side of one Building (the "Building Top Sign"); and (b) replace the monument sign for the Project (the "Monument Sign"). The Building Top Sign and the Monument Sign are collectively referred to as the "Exterior Signs". To the extent approved in advance by the City of Aliso Viejo, Tenant may install a second Building Top Sign and/or Building top sign on other Buildings, all in a mutually agreed to location which shall be included in the definition of "Exterior Sign". The location, size, content, design, color, lighting, method of attachment and material of the Exterior Signs must be approved in writing in advance by both Landlord, which approval shall not be unreasonably withheld, conditioned or delayed, and the City of Aliso Viejo and shall be consistent with Landlord's signage criteria for the Project. In addition, the Exterior Signs must be in compliance with all applicable covenant, conditions and restrictions and all applicable City laws, regulations and ordinances. The Exterior Signs shall be installed by an installer reasonably approved in advance by Landlord, which approval shall not be unreasonably withheld, conditioned or delayed. Tenant shall be responsible for the maintenance of the Exterior Signs during the Term, as well as the removal of the Exterior Signs upon the expiration or earlier termination of the Lease. All costs and expenses associated with the fabrication, installation, maintenance, repair and removal of the Exterior Signs shall be borne exclusively by Tenant. All rights to the Exterior Signs are personal to Glaukos Corporation or a Permitted Transferee.

37. **MISCELLANEOUS**

(a) Rules and Regulations. Tenant shall faithfully observe and comply with the "Rules and Regulations", a copy of which is attached hereto, marked Exhibit "F," and incorporated herein by this reference ("Rules and Regulations"), and all reasonable modifications thereof and additions thereto made from time to time by Landlord. Landlord shall provide Tenant with notice at least ten (10) business days' prior to making any changes to the Rules and Regulations. The rules and regulations for the development shall not be established, changed, revised or enforced in any unreasonable way by Landlord or enforced by Landlord in a way that unreasonably interferes with Tenant's use of the Premises or which increases Tenant's obligations or decreases Tenant's rights under the Lease. Landlord shall not be responsible to Tenant for the violation or nonperformance by any other tenant or occupant of the Building or the Project of any of said Rules and Regulations.

(b) Conflict of Laws. This Lease shall be governed by and construed pursuant to the laws of the State of California.

(c) Successors and Assigns. Except as otherwise provided in this Lease, all of the covenants, conditions and provisions of this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

(d) Professional Fees. If Landlord or Tenant should bring suit or other action for possession of the Premises, for the recovery of any sum due under this Lease, or because of the breach of any provisions of this Lease, or for any other relief against Tenant or Landlord, as applicable, hereunder, or in the event of any other litigation between the parties with respect to this Lease, then all reasonable costs and reasonable expenses, including without limitation actual professional fees such as appraisers', accountants', and attorneys' fees, incurred by the prevailing party therein shall be paid by the other party, which obligation on the part of the other party shall be deemed to have accrued on the date of the commencement of such action and shall be enforceable whether or not the action is prosecuted to judgment. If Landlord is named as a defendant in any suit brought against Tenant in connection with or arising out of Tenant's occupancy hereunder, Tenant shall pay to Landlord its costs and expenses incurred in such suit, including without limitation its actual professional fees such as appraisers', accountants' and attorneys' fees except to the extent that such fees arise out of Landlord's gross negligence, willful misconduct or failure to perform its obligations hereunder.

(e) Mortgagee Protection. Tenant shall use commercially reasonable efforts to give Notice to any beneficiary of a deed of trust or mortgage covering the Premises whose address shall have been furnished to Tenant of any default on the part of Landlord under this Lease, and, except in cases of emergency, shall offer such beneficiary or mortgagee a reasonable opportunity to cure the default, including time to obtain possession of the Premises by power of sale or a judicial foreclosure if necessary to effect a cure.

(f) Definition of Landlord. The term "Landlord", as used in this Lease, so far as covenants or obligations on the part of Landlord are concerned, shall be limited to mean and include only the owner or owners, at the time in question, of the fee title of the Premises or the lessees under any ground lease, if any. In the event of any transfer, assignment or other conveyance or transfers of any such title, the original landlord herein named (and in case of any subsequent transfers or conveyances, the then grantor) shall be automatically freed and relieved from and after the date of such transfer, assignment or conveyance of all liability as respects the performance of any covenants or obligations on the part of Landlord contained in this Lease thereafter to be performed. Without further agreement, the transferee of such title shall be deemed to have assumed and agreed to observe and perform any and all obligations of Landlord hereunder, during its ownership of the Premises. Landlord may transfer its interest in the Premises without the consent of Tenant and such transfer or any subsequent transfer shall not be deemed a violation on Landlord's part of any of the terms and conditions of this Lease.

(g) Identification of Tenant. If more than one person executes this Lease as Tenant, (a) each of them shall be jointly and severally liable for observing and performing all of the terms, covenants, conditions, provisions and agreements of this Lease to be observed and performed by Tenant, and (b) the term "Tenant" as used in this Lease shall mean and include each of them jointly and severally. The act of or Notice from, or Notice or refund to, or the signature of any one or more of them, with respect to the tenancy of this Lease, including but not limited to any renewal, extension, expiration, termination or modification of this Lease, shall be binding upon each and all of the persons executing this Lease as Tenant with the same force and effect as if each and all of them had so acted, so given or received such Notice or refund, or so signed.

(h) Terms and Headings. The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular. Words used in any gender include other genders. The section headings of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof.

(i) Examination of Lease. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of or option for lease, and it is not effective as a lease or otherwise until execution by and delivery to both Landlord and Tenant.

(j) Time. Time is of the essence with respect to the performance of every provision of this Lease in which time is a factor.

(k) Jury Trial. To the extent permitted by Law, Landlord and Tenant waive the right to a trial by jury.

(l) Prior Agreement; Amendments. This Lease contains all of the agreements of the parties hereto with respect to any matter covered or mentioned in this Lease, and no prior agreement or understanding pertaining to any

such matter, written or verbal, shall be effective for any purpose. No provisions of this Lease may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors-in-interest.

(m) Separability. Any provision of this Lease held to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision hereof, and such other provisions shall remain in full force and effect.

(n) Recording. Tenant shall not record this Lease; provided, however, Tenant may record a Memo of Lease; provided that the recorded Memo of Lease will not include any of the business terms of this Lease other than the Term and any options to extend. Upon the expiration or earlier termination of this Lease, or any assignment of Tenant's interest in this Lease, Tenant shall record a Quitclaim Deed in a proper form sufficient to remove the Memo of Lease from title. This provision shall survive the termination of this Lease.

(o) Modification for Lender. If, in connection with obtaining construction, interim or permanent financing for the Project the lender shall request reasonable modifications in this Lease as a condition to such financing, Tenant will not unreasonably withhold, delay or condition its consent thereto provided that such modifications do not materially or adversely affect any right of Tenant under this Lease or increase any of Tenant's obligations under the Lease.

(p) Financial Statements. At any time during the Term of this Lease, if Tenant is no longer a publicly traded company, Tenant shall, upon ten (10) days' Notice from Landlord, provide Landlord with financial statements for the current year and the two (2) years prior. Such statement shall be prepared in accordance with generally accepted accounting principles, shall be certified as true and correct by Tenant's chief financial officer and, if such is the normal practice of Tenant, shall be audited by an independent certified public accountant.

(q) Confidentiality. Neither party shall make an announcement in relation to this Lease without the other party's prior written consent. In addition, each party shall keep the terms of this Lease and any related documents confidential and shall advise its brokers, consultants and advisors to keep such terms confidential. Notwithstanding the foregoing, a party may disclose the terms of this Lease to its accountants in connection with the preparation of such party's financial statements or tax returns, to an assignee of this Lease or sublessee of the Premises, or to an entity or person to whom disclosure is required by applicable law, the Securities Exchange Commission or any applicable securities exchange or in connection with any action brought to enforce this Lease.

(r) Quiet Enjoyment. Landlord covenants and agrees with Tenant that unless there is an uncured Default by Tenant under this Lease, as set forth in Section 24 above, Tenant shall during the Term peaceably and quietly have, hold and enjoy the Premises in accordance with this Lease.

(s) Tenant as Corporation or Partnership. If Tenant or Landlord is a corporation, partnership or limited liability company, Tenant and Landlord and the persons executing this Lease on behalf of Tenant and Landlord, respectively, represent and warrant that it is an entity duly qualified to do business in California and that the individuals executing this Lease on Tenant's behalf or Landlord's behalf, as applicable, are duly authorized to execute and deliver this Lease on its behalf, in the case of a corporation, in accordance with its by-laws and with a duly adopted resolution of the board of directors of Tenant or Landlord, as applicable, a copy of which shall be delivered to the other party upon execution hereof by Tenant or Landlord, as applicable, in the case of a partnership, in accordance with the partnership agreement and the most current amendments thereto, if any, copies of which shall be delivered to Landlord or Tenant, as applicable, upon execution hereof by Tenant or Landlord, as applicable, and, in the case of a limited liability company, in accordance with its governing documents and any documents required thereby, copies of which shall be delivered to Landlord or Tenant, as applicable, upon execution hereof by Tenant or Landlord, as applicable, and that this Lease is binding upon Tenant and Landlord, as applicable, in accordance with its terms.

38. **OFAC**

Tenant represents and warrants that (a) Tenant and, to Tenant's actual knowledge, each person or entity owning an interest in Tenant is (i) not currently identified on the Specially Designated Nationals and Blocked Persons List maintained by the Office of Foreign Assets Control, Department of the Treasury ("OFAC") and/or on any other

similar list maintained by OFAC pursuant to any authorizing statute, executive order or regulation (collectively, the "List"), and (ii) not a person or entity with whom a citizen of the United States is prohibited to engage in transactions by any trade embargo, economic sanction, or other prohibition of United States law, regulation, or Executive Order of the President of the United States, and (iii) not an Embargoed Person (as hereinafter defined), (b) to Tenant's actual knowledge, none of the funds or other assets of Tenant constitute property of, or are beneficially owned, directly or indirectly, by any Embargoed Person, and (c) to Tenant's actual knowledge, no Embargoed Person has any interest of any nature whatsoever in Tenant (whether directly or indirectly). The term "Embargoed Person" means any person, entity or government subject to trade restrictions under U.S. law, including but not limited to, the International Emergency Economic Powers Act, 50 U.S.C. §1701 et seq., The Trading with the Enemy Act, 50 U.S.C. App. 1 et seq., and any Executive Orders or regulations promulgated thereunder.

39. **OPTION TO EXTEND.**

Provided Tenant is not in Default and has not assigned or subleased any portion of the Premises, other than to a Permitted Transferee, Tenant shall have the right and option ("Option") to extend the Term of this Lease for two (2) additional periods of five (5) years each (each an "Option Term") with respect to all of the Premises. The Option Term shall commence on the day immediately succeeding the last day of the then current Term and shall end on the day immediately preceding the fifth (5 th) anniversary of the first day of such Option Term.

Tenant shall exercise the Option by giving written notice to Landlord of its election to do so not earlier than twelve (12) months or later than nine (9) months prior to the expiration date of the applicable Term. The giving of such notice of extension by Tenant shall automatically extend the Term of this Lease for such Option Term, and no instrument of renewal or extension need be executed. In the event that Tenant fails to give notice to Landlord, this Lease shall automatically terminate at the end of the Term, as extended, and Tenant shall have no further option to extend the Term of this Lease. The Option shall be exercisable by Tenant only on the express condition that at the time of the exercise, and at all times after the exercise of the Option until the commencement of the Option Term, Tenant shall not be in Default under any of the provisions of this Lease and Tenant or a Permitted Transferee is occupying the Premises. The Option is personal to Glaukos Corporation and/or a Permitted Transferee.

The Option Term shall be on all the terms and conditions of this Lease, except that: (i) following Tenant's exercise of the second Option Term, Tenant shall have no further right or option to extend the Term as provided by this Paragraph and (ii) the Annual Basic Rent for each Option Term shall be the Fair Market Rental Value of the Premises (including periodic adjustments) for such Option Term, determined pursuant to the following paragraph. If Tenant subleases any portion of the Premises or assigns or otherwise transfers any interest under this Lease, the Option shall lapse.

For the purposes hereof, "Fair Market Rental Value" of the Premises shall mean the prevailing annual market rental value (which rental value determination may include increases in Rent during the Option Term) for space of comparable type, size, quality and location in comparable buildings located within Aliso Viejo, California, as of the date of commencement of the applicable Option Term ("Comparable Transactions"), taking into consideration and adjusting for, as appropriate, the amount and availability of parking, differences in project amenities, condition of the space in question, operating expense protections, insurance obligations and type of lease (net, gross, etc.), as well as the following concessions (collectively, the "Renewal Concessions"): (i) rental abatement concessions, if any, being granted such tenants in connection with such comparable space; (ii) tenant improvements or allowances provided or to be provided for such comparable space taking into account and deducting the value of the existing Tenant Improvements in the Premises, such value to be based upon the age, quality and layout of the Tenant Improvements existing in the Premises are specifically suitable to Tenant (iii) other reasonable monetary concessions being granted such tenants in connection with such comparable space. The fact that landlords are or are not paying real estate brokerage commissions in connection with such comparable space and the period of rental abatement, if any, granted to tenants in comparable transactions in connection with the design, permitting and construction of tenant improvements in such comparable spaces shall not be considered. The Fair Market Rental Value shall additionally include a determination as to whether, and if so to what extent, Tenant must provide Landlord with financial security, such as a letter of credit or security deposit, for Tenant's Rent obligations in connection with Tenant's lease of the Premises during the applicable Option Term. Such determination shall be made by reviewing the extent of financial

security then generally being imposed in Comparable Transactions from tenants of comparable financial condition and credit history to the then existing financial condition and credit history of Tenant (with appropriate adjustments to account for differences in the then-existing financial condition of Tenant and such other tenants).

Promptly after receiving Tenant's notice of its election to exercise the Option to extend the Term of this Lease (but in no event less than six (6) months prior to the expiration of the existing Term, Landlord shall provide Tenant with Landlord's good faith estimate of the Fair Market Rental Value of the Premises for the Option Term ("Landlord's Fair Market Rental Value Notice"). In the event that Tenant objects to Landlord's determination of the Fair Market Rental Value within twenty (20) business days following Tenant's receipt of Landlord's Fair Market Rental Value Notice, Landlord and Tenant shall attempt to agree upon the Fair Market Rental Value using their good faith efforts. If Landlord and Tenant fail to reach agreement within ten (10) business days following Tenant's objection to the Fair Market Rental Value (the "Outside Agreement Date"), then within five (5) business days after the Outside Agreement Date, the parties shall each make a separate determination of the Fair Market Rental Value, which determinations shall be submitted to arbitration in accordance with Subsections (i) through Subsection (vii) below.

(i) Landlord and Tenant shall each appoint one arbitrator who shall be a real estate broker who shall have been active over the five (5) year period ending on the date of such appointment in the leasing of commercial office properties in Aliso Viejo, California. The determination of the arbitrators (including the third arbitrator provided for below) shall be limited solely to the issue of whether Landlord's or Tenant's submitted Fair Market Rental Value is the closest to the actual Fair Market Rental Value, as determined by the arbitrators, taking into account the requirements herein. Each such arbitrator shall be appointed within fifteen (15) days after the applicable Outside Agreement Date.

(ii) The two (2) arbitrators so appointed shall within ten (10) days of the date of the appointment of the last appointed arbitrator agree upon and appoint a third neutral arbitrator who shall be qualified under the same criteria set forth hereinabove for qualification of the initial two (2) arbitrators.

(iii) The three (3) arbitrators shall within thirty (30) days of the appointment of the third arbitrator reach a decision as to whether the parties shall use Landlord's or Tenant's submitted Fair Market Rental Value and shall notify Landlord and Tenant thereof.

(iv) The decision of the majority of the three (3) arbitrators shall be binding upon Landlord and Tenant.

(v) If either Landlord or Tenant fails to appoint an arbitrator within fifteen (15) days after the applicable Outside Agreement Date, then the arbitrator appointed by one of them shall reach a decision, notify Landlord and Tenant thereof and such arbitrator's decision shall be binding upon Landlord and Tenant.

(vi) If the two (2) arbitrators fail to agree upon and appoint a third arbitrator, or if both parties fail to appoint an arbitrator, then the appointment of the third arbitrator or any arbitrator shall be dismissed and the matter to be decided (that is, the selection of Landlord's or Tenant's submitted Fair Market Rental Value) shall be forthwith submitted to arbitration under the provisions of the American Arbitration Association, but subject to the instruction set forth in this Subsection.

(vii) The cost of the arbitration shall be paid by Landlord and Tenant equally.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties have executed this Lease as of the date first written above.

LANDLORD:

CIP 2014 SG ALISO OWNER LLC,
a Delaware limited liability company

By: Stillwater Investment Group, LLC, a
California limited liability company
its Authorized Signatory

By: /s/ John Drachman
Name: John Drachman
Title: President

TENANT:

GLAUKOS CORPORATION, a Delaware corporation

By: /s/ Thomas W. Burns
Name: Thomas W. Burns
Title: President & CEO

By: /s/ Joseph E. Gilliam
Name: Joseph E. Gilliam
Title: Chief Financial Officer

EXHIBIT "A"

PROJECT

SITE PLAN

[To Be Provided]

EXHIBIT "B"

WORK LETTER AGREEMENT

Tenant Build

This Work Letter Agreement shall set forth the terms and conditions relating to the construction of the Tenant Improvements in the Premises and, as applicable, the Project. This Work Letter Agreement is essentially organized chronologically and addresses the issues of the construction of the Premises and, as applicable, the Project, in sequence, as such issues will arise. All references in this Work Letter Agreement to Articles, Sections or Subsections of "this Lease" shall mean the relevant portions of this Lease to which this Work Letter Agreement is attached as Exhibit "B" and of which this Work Letter Agreement forms a part, and all references in this Work Letter Agreement to Sections of "this Work Letter Agreement" shall mean the relevant portion of Sections 1 through 8 of this Work Letter Agreement.

SECTION 1

LANDLORD'S INITIAL CONSTRUCTION IN THE PREMISES

Landlord's predecessor-in-interest has constructed the base, shell and core (i) of the Building, and (ii) of the floor of the Building on which the Premises is located (collectively, the "Base, Shell and Core"). Tenant has inspected and hereby approves the condition of the Base, Shell and Core, and agrees that, except to the extent included in Landlord's Work, the Premises, Base, Shell and Core shall be delivered to Tenant in its current "AS-IS" condition.

The Tenant Improvements (as defined in Section 1(h) of this Lease) to be initially installed in the Premises and, as applicable, the Project shall be designed and constructed by Tenant pursuant to this Work Letter Agreement. Landlord acknowledges and agrees that Tenant intends to design and construct the Tenant Improvements in multiple phases (each a "Construction Phase" and collectively, the "Construction Phases") with separate construction drawings, permits, construction contracts, etc. for each Construction Phase. Accordingly, the terms of this Work Letter Agreement shall apply separately to each Construction Phase, as described below or as otherwise appropriate given the nature of the obligation.

SECTION 2

IMPROVEMENTS

2.1 Construction Allowance. Tenant shall be entitled to a one-time improvement allowance (the "Tenant Improvement Allowance") in the amount of up to Twelve Million Six Hundred Sixty-Eight Thousand Four Hundred Fifteen Dollars $12,668,415) (based on $77.50 per Rentable Square Foot, plus $288,100 representing the cost for the Courtyard Work) to pay for the costs of the Tenant Improvements and that qualify as "Tenant Improvement Allowance Items" pursuant to Section 2.2 below. In no event shall Landlord be obligated to make disbursements pursuant to this Work Letter Agreement in a total amount that exceeds the Tenant Improvement Allowance.

2.2 Disbursement of Tenant Improvement Allowance. Except as otherwise set forth in this Work Letter Agreement, the Tenant Improvement Allowance shall be disbursed by Landlord in accordance with the provisions of Sections 6.1-6.3 of this Work Letter Agreement for costs related to the construction of the Tenant Improvements and for the following items and costs (collectively, the "Tenant Improvement Allowance Items"): (i) payment of the fees of the "Architect," the "Engineers," as those terms are defined in Section 3.1 of this Work Letter Agreement and other design and/or construction professionals, (ii) the cost of permits, fees and assessments, project and construction management fees incurred by Tenant, the cost to construct the Tenant Improvements in accordance with the Construction Documents, the cost of data and voice cabling and its installation throughout the Premises and the cost of furniture, fixtures and equipment necessary for Tenant to conduct its day-to-day business at the Premises; (iii) the cost of any changes in the Base, Shell and Core required by the Construction Drawings; (iv) the cost of any changes to the Construction Drawings or Tenant Improvements required by applicable building codes (the "Code"); and (v)

Landlord's construction oversight fee which is one percent (1%) of the lesser of (i) the Tenant Improvement Allowance; or (ii) Tenant's hard and soft costs to complete the Tenant Improvements. Any costs to complete the Tenant Improvements and/or pay for the Tenant Improvement Allowance Items in excess of the Tenant Improvement Allowance shall be paid by Tenant.

SECTION 3

CONSTRUCTION DRAWINGS

3.1 Selection of Architect/Construction Drawings. Tenant shall retain an architect licensed by the State of California that is acceptable to Landlord (such approval not to be unreasonably withheld, conditioned or delayed) ("Architect") to prepare the "Construction Drawings," as that term is defined in this Section 3.1. Tenant shall deliver to Landlord a true, correct and complete copy of the fully executed architect's agreement between Tenant and Tenant's Architect within three (3) business days after it has been fully executed. Tenant shall also retain engineering consultants approved by Landlord (such approval not to be unreasonably withheld, conditioned or delayed) (the "Engineers") to prepare all engineering plans and specifications relating to the structural, mechanical, electrical, plumbing, HVAC and life safety work of the Tenant Improvements. The plans, specifications and drawings to be prepared by Architect and the Engineers hereunder shall be known collectively as the "Construction Drawings." All Construction Drawings shall be subject to Landlord's approval, which shall not be unreasonably withheld, conditioned or delayed. Tenant and Architect shall verify, in the field, the dimensions and conditions as shown on the relevant portions of the base building plans, and Tenant and Architect shall be solely responsible for the same, and Landlord shall have no responsibility in connection therewith. Landlord's review of the Construction Drawings as set forth in this Section 3, shall be for its sole purpose and shall not imply Landlord's review of the same, or obligate Landlord to review the same, for quality, design, Code compliance or other like matters.

3.2 Space Plan. The Architect shall prepare for Tenant and Landlord's approval (such approval not to be unreasonably withheld, conditioned or delayed) a space plan for each Construction Phase of the construction of the Tenant Improvements (collectively, the "Space Plans"). The Space Plans shall include a layout and designation of all offices, rooms and other partitioning, their intended use, and equipment to be contained therein. At the time of Landlord's approval of the applicable Space Plan, Landlord shall advise Tenant of any improvements which Tenant may be required to remove or restore upon the expiration or earlier termination of the Lease.

3.3 Final Working Drawings. The Architect and the Engineers shall complete the Construction Drawings for the Premises in a form which is complete to allow subcontractors to bid on the work and to obtain all applicable permits (collectively, the "Final Working Drawings") and shall submit the same to Landlord for its approval which approval shall not be unreasonably withheld, conditioned or delayed. If Landlord disapproves the Final Working Drawings, Landlord shall specify its reasons for such disapproval in writing to Tenant along with reasonable recommendations for revisions to the Final Working Drawings that would cause Landlord to approve the Final Working Drawings. Any disapproval shall be limited to determining if and to the extent a Design Problem (defined below) exists, as determined by Landlord in its reasonable discretion. "Design Problem(s)" shall be limited to the following: (i) possible damage to or an adverse effect on the building systems, (ii) possible damage to or an adverse effect on the Building structure, (iii) non-compliance with applicable Laws or Code, or (iv) an adverse effect on the value or operation of the Building. Accordingly, notwithstanding that any Space Plan, the Construction Drawings, the Final Working Drawings, Approved Working Drawings (as defined below) are reviewed by Landlord or its lender, space planner, architect, engineers and consultants, and notwithstanding any advice or assistance which may be rendered to Tenant by Landlord or Landlord's space planner, architect, engineers, and consultants, Landlord shall have no liability whatsoever in connection therewith and shall not be responsible for any omissions or errors contained in the Space Plan, the Construction Drawings, the Final Working Drawings, Approved Working Drawings.

3.4 No Representations Regarding Intended Use. Notwithstanding anything to the contrary contained in this Lease or herein, Landlord's participation in the preparation of the Space Plan, the Construction Drawings, the Final Working Drawings, Approved Working Drawings and/or any other plans or specifications for the Tenant Improvements shall not constitute any representation or warranty, express or implied, that the Tenant Improvements, if built substantially in accordance with the Final Working Drawings, will be suitable for Tenant's Permitted Use. Tenant acknowledges and agrees that the Tenant Improvements are intended for use by Tenant and the specifications and design requirements for such Tenant Improvements are not within the special knowledge or experience of

Landlord. Landlord's sole obligation with respect to the Tenant Improvements shall be to disburse the Tenant Improvement Allowance (defined below) on the terms provided below, and any costs or expense required for the modification of the Tenant Improvements to more adequately meet Tenant's Permitted Use shall be borne entirely by Tenant except for Landlord's contribution of the Tenant Improvement Allowance.

3.5 Permits. The Final Working Drawings for the applicable Construction Phase of construction of the Tenant Improvements must have been reviewed and approved by Landlord in accordance with Section 3.3 above (the "Approved Working Drawings") prior to the commencement of such Construction Phase of construction of the Tenant Improvements. Tenant shall cause the Architect to submit the Approved Working Drawings to the appropriate municipal authorities for all applicable building permits necessary to allow "Contractor," as that term is defined in Section 4.1 below, to commence and fully complete the construction of the particular Construction Phase of Tenant Improvements (the "Permits"). No material changes, modifications or alterations in the Approved Working Drawings may be made without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed.

3.6 Change Orders. In the event Tenant desires to materially change the Final Working Drawings, Tenant shall deliver written notice (the "Change Notice") of the same to Landlord, setting forth in detail the changes (the "Tenant Change") Tenant desires to make. Promptly after receipt of a Change Notice related to a Tenant Change, Landlord shall either (a) approve the Tenant Change, or (b) disapprove the Tenant Change and deliver a notice to Tenant specifying in reasonably sufficient detail the reasons for Landlord's disapproval, which approval shall be limited to determining if and to the extent a Design Problem exists, as determined by Landlord in its reasonable discretion.

3.7 Time Deadlines. Tenant shall use its good faith efforts and due diligence to cooperate with the Architect, the Engineers, and Landlord to complete Construction Drawings and the permitting process and to receive the permits for the Tenant Improvements in a timely manner based on the applicable Construction Phase of construction of the Tenant Improvements selected by Tenant. Tenant shall meet with Landlord on a scheduled basis to be mutually determined by Landlord and Tenant, to discuss Tenant's progress in connection with the applicable Construction Phase of the Tenant Improvements. The parties acknowledge that Tenant will not have access to the Premises prior to April 1, 2019. To the extent permitted by City ordinance and any applicable CC&Rs, Landlord shall not restrict the hours during which construction activities may occur within the Premises.

SECTION 4

CONSTRUCTION OF THE IMPROVEMENTS

4.1 Contractor. Tenant shall enter into a construction contract (the "Construction Contract") with a general contractor designated by Tenant and approved by Landlord (which approval shall not be unreasonably withheld, conditioned or delayed) ("Contractor") to construct the applicable Construction Phase of the Tenant Improvements in accordance with the Final Working Drawings. Tenant shall cause the Contractor to submit to Landlord a completed AIA Form A 305-1986 (Contractor's Qualification Statement") to assist Landlord in determining its approval or disapproval of Tenant's proposed Contractor. Landlord shall also have the right to review and approve the subcontractors and vendors selected by Tenant which approval shall not be unreasonably withheld, conditioned or delayed.

4.2 Cost Proposal. After the Approved Working Drawings for each Construction Phase are signed by Landlord and Tenant, Tenant shall provide Landlord with a cost proposal for the applicable Construction Phase in accordance with the Approved Working Drawings, which cost proposal shall include, as nearly as possible, the cost of all Tenant Improvement Allowance Items to be incurred by Tenant in connection with the design and construction of the Tenant Improvements (the "Cost Proposal").

4.3 Construction of Tenant Improvements by Contractor under the Supervision of Tenant.

Tenant's Contractor shall construct the Tenant Improvements in accordance with the Approved Working Drawings and the Cost Proposal.

SECTION 5

COMPLETION OF THE IMPROVEMENTS

5.1 Tenant's Responsibility. Subject to disbursement from the Tenant Improvement Allowance by Landlord, as provided in Section 6 of this Exhibit "B", Tenant, at Tenant's sole expense, shall be responsible for the design, plans, approvals, permits, fees, and construction, for the Tenant Improvements.

5.2 Permits and Code Compliance. The Tenant Improvements shall conform to governmental approvals and permits, and all applicable local, state and federal laws, building, health, and safety codes, ordinances, rules, regulations, and standards. Where discrepancies exist among the various regulations, the strictest standards shall govern.

5.3 Insurance. Tenant shall indemnify, defend and hold harmless Landlord, and Landlord's trustees, beneficiaries, employees and agents, from all liability in connection with the Tenant Improvements, except for liability arising from Landlord's gross negligence or intentionally wrongful acts or omissions in conformance with Article 19 of this Lease. During the performance of the Tenant Improvements, in addition to other insurance required under Article 21 of this Lease, Tenant shall provide, or cause its contractor(s) to provide, insurance as specified in this Section 5.3, and such insurance as may from time to time be required by city, county, state or federal laws, codes, regulations or authorities, together with such other insurance as is reasonably necessary or appropriate under the circumstances. Pursuant to Article 21, all insurance policies required under this Exhibit, except as noted above, shall name Landlord, Landlord's agents and lenders, having an interest in the Premises or the Building as additional insureds and shall be primary and non-contributory basis where applicable and in accordance with the insurance provisions of this Lease; except Workers' Compensation Insurance, which shall contain an endorsement waiving all rights of subrogation against Landlord, Landlord's agents and employees. Tenant shall provide Landlord with thirty (30) days' prior written notice of any alteration or termination of coverage.

5.3.1 Builder's Risk Insurance. Tenant or its Contractor shall provide an "All Physical Loss" Builder's Risk insurance policy on the Tenant Improvements. The policy shall include as insureds Tenant, its Contractor and subcontractors, Landlord, any mortgagees of Landlord and any other additional insureds designated by Landlord as insured parties, as their respective interests may appear within the Premises. The amount of insurance to be provided shall be one hundred percent (100%) replacement cost of Tenant Improvements as provided in Subsection 21(a)(i).

5.4 Prior to Construction. At least five (5) days prior to the commencement of construction for the applicable Construction Phase of the Tenant Improvements, Tenant shall deliver to Landlord the following:

5.4.1 Cost Proposal. A copy of the Cost Proposal.

5.4.2 Construction Contract. The Construction Contract between Contractor and Tenant for the completion of the applicable Construction Phase of the Tenant Improvements which shall be subject to Landlord's reasonable review and approval, not to be unreasonably withheld, conditioned or delayed, and after approval by Landlord, shall be referred to, for the applicable Construction Phase, as the "Construction Contract". Landlord shall complete its review and provide detailed comments (if any) on the applicable Construction Contract within ten (10) business days after Landlord's receipt of the same. The parties acknowledge that the Construction Contract will provide for a ten percent (10%) retention as provided under the AIA Contract signed by the Contractor and Tenant ("Contractor's Final Retention").

5.4.3 Contact List. A list of names, addresses, regular and 24-hour "emergency" phone numbers, fax numbers and e-mail addresses for Tenant's Contractor, mechanical and electrical subcontractors, and any other known subcontractors working at the Premises.

5.4.4 Schedule. The Schedule for the construction of the applicable Construction Phase of the Tenant Improvements, including starting and completion dates.

5.4.5 Insurance. Certificates of insurance as required in Section 5.3 above.

5.4.6 Permits. Photocopy of permit card(s) for the Tenant Improvements as issued by applicable governing agencies.

5.5 Construction. The Tenant Improvements shall be constructed in a first-class, professional manner in conformity with the Approved Working Drawings. Only new, first-quality materials shall be used.

5.5.1 General Contractor. The Tenant Improvements shall be completed by the Contractor as the general contractor.

5.5.2 Safety Regulations. All of the Tenant Improvements must be planned and conducted in an orderly manner, with the highest regard for the safety of the public, the workers, and the property, and in conformity with all local, California and federal job-safety requirements, including OSHA and Cal-OSHA regulations. If Tenant fails to comply with these requirements, Landlord shall have the right, at Tenant's cost, to cause remedial action as deemed necessary by Landlord to protect the public and the Premises. All of the Tenant Improvements must be constructed in accordance with all applicable laws.

5.5.3 Intentionally Deleted.

5.5.4 Trash Removal and Cleanup. At all times, Contractor and Tenant shall keep the Premises reasonably clean and free of dirt, dust, stains and trash related to the construction of the Tenant Improvements.

5.5.5 No Other Alterations. All Alterations other than the Tenant Improvements are subject to the applicable provisions of this Lease pertaining to Alterations.

5.5.6 Warranties. Tenant shall cause Contractor and all other subcontractors, to warrant in writing their portion of the Tenant Improvements to be free from defects in workmanship and materials for at least one (1) year and to repair or replace, without additional charge, all work done under its contract which shall become defective within such warranty period. All such warranties must inure to the benefit of, and be enforceable by, both Landlord and Tenant.

5.5.7 Intentionally Deleted.

5.6 Completion. Within thirty (30) days (or other reasonable time as may be appropriate due to factors beyond Tenant's control) following the completion of the applicable Construction Phase of the Tenant Improvements, Tenant shall deliver to Landlord the following:

5.6.1 Permit Cards. Copies of all building permit cards, with all required governing agency "final" sign offs, indicating that the permit scope has been completed satisfactorily.

5.6.2 Warranties. Copies of warranties, as described in Section 5.5.6 of this Exhibit "B".

5.6.3 Other Documentation. All documentation required pursuant to Section 6.3 below to the extent not previously provided.

SECTION 6

IMPROVEMENT ALLOWANCE

6.1 Payment Request. Landlord shall make disbursements of the Tenant Improvement Allowance to Tenant or such other parties as designated by Tenant pursuant to Section 6.2 below to pay for the Tenant Improvement Allowance Items, within thirty (30) days after Tenant's submission of a payment request which includes the items set forth in Section 6.1.2 – 6.1.7 below. If an item or items are not included in the submission package, once Tenant has supplied the missing item(s), payment shall be made as of the later of (a) thirty (30) days after Tenant's original submission of the payment request in question, and (b) ten (10) days after receipt by Landlord of the missing item(s). Landlord or its construction manager shall have the right to inspect the Tenant Improvements in connection with any

payment request (such inspection to be limited to confirming that the Tenant Improvements substantially conform to the Approved Working Drawings). Landlord shall not be required to make disbursements from the Tenant Improvement Allowance more than once in any 30-day period.

6.1.1 As the cost of the Tenant Improvements is expected to exceed the Tenant Improvement Allowance, and as the extent of such overage is not yet known, the parties agree that Landlord shall pay one hundred percent (100%) of each approved and properly submitted request for payment until Landlord has disbursed in the aggregate a portion of the Tenant Improvement Allowance up to the amount of the Letter of Credit following which Landlord shall pay fifty percent (50%) of each approved and properly summited request for payment and Tenant shall be responsible for the other fifty percent (50%) until the remaining amount of the Tenant Improvement Allowance has been disbursed. Thereafter, Tenant shall pay one hundred percent (100%) of all remaining costs for the Tenant Improvements. Tenant shall pay such excess costs, and provide Landlord with evidence of such payment and lien waivers. Additionally, upon the earlier of (i) substantial completion of the Tenant Improvements; or (ii) the TI Allowance Reconciliation Date, Tenant shall submit to Landlord a reconciliation of all costs incurred for the Tenant Improvements. If such reconciliation shows that Tenant has paid for any costs that should have been funded from the Tenant Improvement Allowance (i.e., due to the fact that Landlord and Tenant are each paying 50% of the costs of the Tenant Improvements after Landlord has paid for 100% of Tenant Improvements up to the face amount of the Letter of Credit), Landlord shall pay such amount to Tenant within thirty (30) days after the TI Allowance Reconciliation Date.

6.1.2 A request for payment signed by Tenant on the form reasonably acceptable to Landlord certifies, to the best of Tenant's knowledge, (a) the percent of the Tenant Improvements covered by the Construction Contract completed and that percent not completed as of the date of the payment request, (b) unpaid costs for which invoices have been received from the Contractor and the subcontractors as of the date of the payment request, (c) the amount funded from the Tenant Improvement Allowance and/or paid to date by Tenant (during such periods when Tenant is required to pay a 50% share of the costs), (d) all costs projected to be necessary to complete the Tenant Improvements, (e) the application of all past receipts, and (f) evidence that Tenant has incurred no less than the requested amount for the Tenant Improvements.

6.1.3 Credits to which Tenant is entitled under the Construction Contract and any subcontracts, specifically deductive change orders.

6.1.4 Copies of invoices from Tenant and its subcontractors, suppliers and others requesting payment, accompanied by executed Conditional Waivers and Releases Upon Progress Payment which conform with the provisions of California Civil Code Section 3262(d)(1) from Tenant and Potential Lien Claimants (defined in Section 6.4 below) who are receiving payments from a payment request, as to any work performed on and materials delivered to the Building for which payment is requested in the current payment request.

6.1.5 Executed Unconditional Waivers and Releases Upon Progress Payment, which releases conform with the provisions of California Civil Code Section 3262(d)(2) from Tenant and all other Potential Lien Claimants with regard to any payments received in the immediately preceding progress payment by any such parties.

6.1.6 Invoices from service providers qualified for payment as a Tenant Improvement Allowance Item.

6.1.7 Prior to the commencement of construction, insurance certificates from Tenant's Contractor evidencing insurance required hereunder. Insurance certificates, if previously provided, need not be provided in connection with each payment request.

6.2 Payments. Within the period provided in the Construction Contract, and subject to Tenant's compliance with the provisions of Section 6.1 above, Landlord shall deliver a check, in payment of the lesser of: (a) either one hundred percent (100%) of the amounts so requested, or Landlord's fifty percent (50%) share of the amounts so requested by Tenant, as applicable according to Section 6.1.1, (such payment shall be less a ten percent (10%) retention (the aggregate amount of such retentions to be known as the "Final Retention") of the amount of that portion

of the request which is subject to the Construction Contract unless the payment request already reflects the Contractor's Final Retention); or (b) the balance of any remaining available portion of the Tenant Improvement Allowance (not including the Final Retention unless the payment request already reflects the Contractor's Final Retention). Landlord's payment of any amounts shall not be deemed Landlord's approval or acceptance of the work furnished or materials supplied as set forth in Tenant's payment request. If Tenant has not submitted the required mechanic's lien waivers and releases from Tenant and Potential Lien Claimants, Landlord shall withhold from the disbursement an amount equal to one hundred fifty percent (150%) of the value of labor and/or materials for which a mechanic's lien waiver and release was not submitted, and the balance of the payment request shall be disbursed by Landlordin accordance with this Section 6.2. The payment check shall be made payable individually to Tenant, or, upon request by Tenant, to Tenant's designee.

If Landlord fails to make a payment in accordance with the provisions of this Section 6.2 or Section 6.3 below, provided Landlord has not notified Tenant of any missing or disputed item in Tenant's payment request, Tenant shall provide a notice to Landlord that the applicable payment has not been paid and it is Tenant's intent to offset the amount of the requested payment (the "Offset Notice") and if the requested payment is not made within fifteen (15) days of Landlord's receipt of the Offset Notice, Tenant shall have the right to offset said unpaid amount against each month's Monthly Installment of Basic Rent due under this Lease until the total amount of such unpaid payment has been recaptured by Tenant through such offset.

6.3 Contractor's Final Retention. Subject to the provisions of this Work Letter Agreement, a check for the Contractor's Final Retention or, if applicable, the Final Retention, payable either (a) jointly to Tenant and any subcontractor if a lien claim has been filed by such subcontractor or (b) to Tenant, and shall be delivered by Landlord to Tenant within three (3) days after all of the following have occurred: (i) Tenant has delivered to Landlord original, properly executed mechanic's lien releases in compliance with California Civil Code Section 3262(d)(3) from itself and any Potential Lien Claimants; (ii) Landlord's reasonable determination that no substandard work by Tenant or any other agents of Tenant including the subcontractors of Tenant exists; (iii) Landlord's reasonable determination that the construction of the Tenant Improvements in the Premises has been completed in accordance with the Approved Work Drawings; (iv) Tenant's delivery to Landlord of two blue line sets of drawings with notations indicating material deviations between the actual construction and the Approved Work Drawings, prepared by Tenant or its Contractor; (v) all items required pursuant to Section 5.6 of this Exhibit "B"; and (vi) Tenant's written certification that it has accepted the work, subject to punch list items, warranty items and latent defects. Notwithstanding the foregoing to the contrary, in the event that Tenant, Contractor or any major subcontractor files a mechanic's lien against the Premises or does not submit the requisite mechanic's lien releases, Landlord shall withhold from the Contractor's Final Retention (or, if applicable, the Final Retention) an amount equal to one hundred fifty percent (150%) of the claimed amount or value of services and material until the requisite mechanic's lien releases are delivered to Landlord and the balance of the Contractor's Final Retention (or, if applicable, the Final Retention) shall be released.

6.4 Potential Lien Claimants. The term "Potential Lien Claimants" shall mean Tenant and those persons and entities who are engaged by Tenant or its agents and are described in Sections 3110 and 3111 of the California Civil Code who are entitled to lien rights, but only to the extent that the claimant complies with the preliminary twenty (20) day notice requirement of Section 3087 of the California Civil Code, if required by such section.

6.5 Deposit of Tenant Improvement Allowance in Escrow. If Landlord sells the Property prior to disbursement of the full Tenant Improvement Allowance, an amount equal to the undisbursed portion of the Tenant Improvement Allowance as of the closing date for the sale of the Property shall be placed in an escrow account for Tenant's benefit following the Closing at an escrow company reasonably acceptable to Tenant and the buyer of the Property ("Buyer"). The Tenant and the Buyer shall submit commercially reasonable and mutually acceptable instructions to the escrow holder that are consistent with the terms of this Work Letter Agreements. Such instructions shall require the escrow holder to make disbursements from the escrow upon Tenant's submission of the documentation required under Section 6.1 and in accordance with the timing set forth in Section 6.1.

SECTION 7

COMPLETION OF THE TENANT IMPROVEMENTS

7.1 Substantial Completion. Each Construction Phase of the Tenant Improvements shall be deemed "Substantially Complete" (and "Substantial Completion" shall be deemed to have occurred) upon the date upon which (i) construction of such Construction Phase of the Tenant Improvements has been substantially completed pursuant to the Approved Working Drawings, with the exception of any minor punch list items, (ii) any Tenant fixtures, work-stations, built-in furniture, or equipment to be installed by Tenant for such Construction Phase have been installed with the exception of any minor punch list items, and (iii) a temporary or permanent certificate of occupancy or other equivalent approval from the local governmental authority has been issued permitting occupancy of such Construction Phase of the Tenant Improvements (such as sign off on the building inspection cards). Each Construction Phase of the Tenant Improvements shall be deemed Substantially Complete notwithstanding the fact that minor details of construction, mechanical adjustments or decorations that do not materially interfere with Tenant's use and enjoyment of the Premises remain to be performed (items normally referred to as "punch list" items).

SECTION 8

MISCELLANEOUS

8.1 Tenant's Representative. Tenant has designated Kevin Massey as its sole representative with respect to the matters set forth in this Work Letter Agreement, who, until further notice to Landlord, shall have full authority and responsibility to act on behalf of the Tenant as required in this Work Letter Agreement.

8.2 Landlord's Representative. Prior to commencement of construction of the Tenant Improvements, Landlord shall designate a representative with respect to the matters set forth in this Work Letter Agreement, who, until further notice to Tenant, shall have full authority and responsibility to act on behalf of Landlord as required in this Work Letter Agreement.

8.3 Time is of the Essence of this Work Letter Agreement. Unless otherwise indicated, all references herein to a "number of days" shall mean and refer to calendar days.

8.4 Inspection. After substantial completion of each Construction Phase of the Tenant Improvements, upon reasonable advance notice from Tenant to Landlord, Tenant shall cause the Contractor to inspect the Premises with a representative of Tenant and Landlord and Tenant's architect shall provide a letter of substantial completion prepared on the appropriate AIA form.

IN WITNESS WHEREOF, this Work Letter Agreement is executed as of the date first written above.

LANDLORD:

CIP 2014 SG ALISO OWNER,
LLC, a Delaware limited liability company

By: Stillwater Investment Group, LLC, a
California limited liability company
Its: Authorized Signatory

By: _____
Name: John Drachman
Its: President

Date: _____

TENANT:

GLAUKOS CORPORATION,
a Delaware corporation

By: _____

Its: _____

By: _____

Its: _____

Date: _____

EXHIBIT "C"

MEMORANDUM OF LEASE TERMS

To: _____ Date: _____

_____

_____

Re: Lease ("Lease") dated _____ ___, 20___, between CIP 2014/SG ALISO OWNER LLC, a Delaware limited liability company, Landlord, and _____ _____, a _____, Tenant, concerning Suite _____ located at _____ _____, California _____ ("Premises").

Gentlemen:

In accordance with the Lease, we wish to advise and/or confirm as follows:

1. That the Premises have been accepted herewith by the Tenant as being substantially complete in accordance with the subject Lease and that there is no deficiency in construction.

2. That the Tenant has possession of the Premises and acknowledges that under the provisions of the Lease the Term of said Lease shall commence as of _____ _____ for a term of _____ _____ ending on _____ _____.

3. That in accordance with the Lease, rent commenced to accrue on _____ _____.

4. If the Commencement Date of the Lease is other than the first day of the month, the first billing will contain a pro rata adjustment. Each billing thereafter shall be for the full amount of the monthly installment as provided for in Lease.

5. Rent is due and payable in advance on the first day of each and every month during the Term of the Lease. Your rent checks should be made payable to _____ _____ at_____ _____.

6. The number of Rentable Square Feet within the Premises is _____ square feet.

7. The number of Rentable Square Feet within the Building is _____ square feet.

8. The number of Rentable Square Feet within the Project is _____ square feet.

9. Tenant's Percentage, as adjusted based upon the number of Rentable Square Feet within the Premises, is _____%.

10. Tenant's Building Share is _____%.

Dated _____ ___, 20__, at _____.

AGREED AND ACCEPTED:

TENANT:

_____

_____

By: _____
Name: _____
Its: _____

Date: _____

LANDLORD:

CIP 2014/SG ALISO OWNER LLC,
a Delaware limited liability company

By: Stillwater Investment Group, LLC, a
California limited liability company
its Authorized Signatory

By: _____
Name: John Drachman
Title: President

Date: _____

SAMPLE ONLY
NOT FOR EXECUTION

EXHIBIT "D"

INTENTIONALLY DELETED

EXHIBIT "E"

TENANT ESTOPPEL CERTIFICATE

The undersigned _____ ("Tenant"), hereby certifies to _____, a _____, as follows:

1. Attached hereto is a true, correct and complete copy of that certain lease dated _____ ___, 20__, between CIP 2014/SG ALISO OWNER LLC, a Delaware limited liability company ("Landlord"), and Tenant ("Lease"), which demises premises located at _____ _____, California _____. The Lease is now in full force and effect and has not been amended, modified or supplemented, except as set forth in Section 4 below.

2. The Term of the Lease commenced on _____ ___, 20__.

3. The Term of the Lease shall expire on _____ ___, 20__.

4. The Lease has: (Initial one)

(_____) not been amended, modified, supplemented, extended, renewed or assigned.

(_____) been amended, modified, supplemented, extended, renewed or assigned by the following described agreements, copies of which are attached hereto:

_____

_____

_____

5. Tenant has accepted and is now in possession of said premises.

6. Tenant acknowledges that the Lease will be assigned to _____ and that no modification, adjustment, revision or cancellation of the Lease or amendments thereto shall be effective unless written consent of _____ is obtained, and that until further notice, payments under the Lease may continue as heretofore.

7. The amount of fixed monthly rent is $_____.

8. The amount of security deposits (if any) is $_____. No other security deposits have been made.

9. Tenant is paying the full lease rental which has been paid in full as of the date hereof. No rent or other charges under the Lease have been paid for more than thirty (30) days in advance of its due date.

10. All work required to be performed by Landlord under the Lease has been completed.

11. There are no Defaults on the part of the Landlord or Tenant under the Lease.

12. Except as expressly set forth in the Lease, Tenant has no defense as to its obligations under the Lease and claims no set-off or counterclaim against Landlord.

13. Tenant has no right to any concession (rental or otherwise) or similar compensation in connection with renting the space it occupies except as provided in the Lease. All provisions of the Lease and the amendments thereto (if any) referred to above are hereby ratified.

The foregoing certification is made with the knowledge that _____ _____is about to fund a loan to Landlord or _____

_____ is about purchase the Project (or part thereof) from Landlord and that _____ is relying upon the representations herein made in funding such loan or in purchasing the Project (or part thereof).

IN WITNESS WHEREOF, this certificate has been duly executed and delivered by the authorized officers of the undersigned as of _____ ___, 20__.

TENANT:

_____,
a _____

By: _____
Name: _____
Its: _____

SAMPLE ONLY
NOT FOR EXECUTION

EXHIBIT "F"

RULES AND REGULATIONS

1. No sign, advertisement or notice shall be displayed, printed or affixed on or to the Premises or to the outside or inside of the Project or so as to be visible from outside the Premises or Project without Landlord's prior written consent. Landlord shall have the right to remove any non-approved sign, advertisement or notice, without notice to and at the expense of Tenant, and Landlord shall not be liable in damages for such removal. All approved signs or lettering on doors and walls shall be printed, painted, affixed or inscribed at the expense of Tenant by Landlord or by a person selected by Landlord and in a manner and style acceptable to Landlord.

2. Toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein.

3. Tenant shall not overload the floor of the Premises or mark, drive nails, screw or drill into the partitions, ceilings or floor or in any way deface the Premises; provided, however, Tenant may use commercially reasonable nails and similar commercially reasonable items for the hanging of artwork, diplomas and similar commercially reasonable items. Should there be a need for signage additional to the Project standard tenant placard, a written request shall be made to Landlord to obtain approval prior to any installation. All costs for said signage shall be Tenant's responsibility.

4. In no event shall Tenant place a load upon any floor of the Premises or portion of any such flooring exceeding the floor load per square foot of area for which such floor is designed to carry and which is allowed by law, or any machinery or equipment which shall cause excessive vibration to the Premises or noticeable vibration to any other part of the Project. Prior to bringing any heavy safes, vaults, large computers or similarly heavy equipment into the Project, Tenant shall inform Landlord in writing of the dimensions and weights thereof and shall obtain Landlord's consent thereto. Such consent shall not constitute a representation or warranty by Landlord that the safe, vault, or other equipment complies, with regard to distribution of weight and/or vibration, with the provision of this Rule 6 nor relieve Tenant from responsibility for the consequences of such noncompliance, and any such safe, vault or other equipment which Landlord determines to constitute a danger to the Project or a nuisance to other tenants, either alone or in combination with other heavy and/or vibrating objects and equipment, shall be promptly removed by Tenant, at Tenant's cost, upon Landlord's written notice of such determination and demand for removal thereof.

5. Tenant shall not use or keep in the Premises or Project any kerosene, gasoline, or inflammable, explosive or combustible fluid or material, or use any method of heating or air-conditioning other than that supplied by Landlord

6. Tenant shall not lay linoleum, tile, carpet or other similar floor covering so that the same shall be affixed to the floor of the Premises in any manner except as reasonably approved by Landlord.

7. Tenant shall not make, or permit not be made, any unseemly or disturbing noises, or disturb or interfere with occupants of neighboring buildings or premises or those having business with it by the use of any musical instrument, radio, phonographs or unusual noise, or in any other way.

8. No bicycles, vehicles or animals of any kind shall be brought into or kept in or about the Premises, and no cooking shall be done or permitted by any tenant in the Premises, except to the extent otherwise permitted in the tenant's lease and except that the preparation of coffee, tea, hot chocolate and similar items for tenants, their employees and visitors shall be permitted. No tenant shall cause or permit any unusual or objectionable odors to be produced in or permeate from or throughout the Premises. The foregoing notwithstanding, Tenant shall have the right to use a microwave and to heat microwavable items typically heated in an office. No hot plates, toasters, toaster ovens or similar open element cooking apparatus shall be permitted in the Premises.

9. The sashes, sash doors, skylights, windows and doors that reflect or admit light and air into the halls, passageways or other public places in the Project shall not be covered or obstructed by any tenant, nor shall any bottles, parcels or other articles be placed on the window sills.

10. No additional locks or bolts of any kind shall be placed upon any of the doors or windows by any tenant, nor shall any changes be made in existing locks or the mechanisms thereof unless Landlord is first notified thereof, gives written approval, and is furnished a key thereof. Each tenant must, upon the termination of his tenancy, give to Landlord all keys and key cards of stores, offices, or toilets or toilet rooms, either furnished to, or otherwise procured by, such tenant, and in the event of the loss of any keys so furnished, such tenant shall pay Landlord the cost of replacing the same or of changing the lock or locks opened by such lost key if Landlord shall deem it necessary to make such change. If more than two keys for one lock are desired, Landlord will provide them upon payment therefor by Tenant. Tenant shall not key or re-key any locks. All locks shall be keyed by Landlord's locksmith only.

11. Landlord shall have the right to prohibit any advertising by any tenant which, in Landlord's opinion, tends to impair the reputation of the Project or its desirability as an office building and upon written notice from Landlord any tenant shall refrain from and discontinue such advertising.

12. Subject to the authority of law enforcement or in order to prevent a prescriptive easement, Tenant shall have access to the Premises and Project on a 24 hour, 365 day a year basis at no additional cost to Tenant. Landlord reserves the right to control access to the equipment areas of the Project outside the Premises. Each tenant shall be responsible for all persons for whom it requests after-hours access and shall be liable to Landlord for all acts of such persons. Landlord shall have the right from time to time to establish reasonable rules and charges pertaining to freight elevator usage, including the allocation and reservation of such usage for tenants' initial move-in to their premises, and final departure therefrom. Landlord may also establish from time to time reasonable rules and charges for accessing the equipment areas of the Project, including the risers, rooftops and telephone closets.

13. Any person employed by any tenant to do janitorial work shall, while in the Project and outside of the Premises, be subject to and under the control and direction of the Office of the Project or its designated representative such as security personnel (but not as an agent or servant of Landlord, and the Tenant shall be responsible for all acts of such persons).

14. Canvassing, soliciting and peddling in the Project are prohibited and each tenant shall cooperate to prevent the same.

15. All office equipment of any electrical or mechanical nature shall be placed by tenants in the Premises in settings reasonably approved by Landlord, to absorb or prevent any vibration, noise or annoyance.

16. No air-conditioning unit or other similar apparatus shall be installed or used by any tenant without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. Tenant shall pay the cost of all electricity used for air-conditioning in the Premises if such electrical consumption exceeds normal office requirements, regardless of whether additional apparatus is installed pursuant to the preceding sentence.

17. All electrical ceiling fixtures hung in offices or spaces along the perimeter of the Project must be fluorescent and/or of a quality, type, design and bulb color approved by Landlord. Tenant shall not permit the consumption in the Premises of more than 2½ watts per net usable square foot in the Premises in respect of office lighting nor shall Tenant permit the consumption in the Premises of more than 1½ watts per net usable square foot of space in the Premises in respect of the power outlets therein, at any one time. If such limits are exceeded, Landlord shall have the right to require Tenant to remove lighting fixtures and equipment and/or to charge Tenant for the cost of the additional electricity consumed.

18. The Project is a non-smoking Project. Smoking or carrying lighted cigars or cigarettes in the Premises or the Project, including the elevators in the Project, is prohibited.

19. Tenant shall not, without Landlord's prior written consent (which consent may be granted or withheld in Landlord's absolute discretion), allow any employee or agent to carry any type of gun or other firearm in or about any of the Premises, Project or Development.

EXHIBIT "G"

PARKING RULES AND REGULATIONS

The following rules and regulations shall govern the use of the Parking Facilities which are appurtenant to the Project:

1. Except for the gross negligence or willful misconduct of Landlord, Landlord shall not be responsible for any damage to vehicles, injuries to persons, or loss of property, all of which risks are assumed by the party using the Parking Facilities. All claimed damage, injuries, or loss must be reported, itemized in writing and delivered to the Manager promptly within ten (10) days after any claimed damage, injuries, or loss occurs. Any claim not so made is waived. In any event, (i) the total liability of Landlord, if any, is limited to Two Hundred Fifty Dollars ($250) for all damages to any vehicle and/or loss of any property, and (ii) Landlord is not responsible for loss of use of any vehicle nor for the loss of use of any property.

2. Tenant shall have exclusive use of all parking within the Project. Neither Tenant, nor Tenant's Parking Invitees, if prohibited by applicable law, park any vehicles overnight in the parking areas other than automobiles, motorcycles, motor driven or non-motor driven bicycles or four wheeled trucks.

3. If the existing Premises are no longer occupied solely by Tenant, its assignee and/or sublessee, parking stickers, parking cards or any other device or form of identification supplied by Landlord (or its operator), if any, as a condition of use of the Parking Facilities shall remain the property of Landlord (or its operator). Such parking identification device must be displayed as requested and may not be mutilated in any manner. The serial number of the parking identification device may not be obliterated. Devices are not transferable or assignable and any device in the possession of an unauthorized holder will be void. There will be a replacement charge to the Tenant or person designated by Tenant of $25.00 for loss of any parking card. There shall be a security deposit of $25.00 due at issuance for each card key issued to Tenant. In addition, Landlord may charge a fee for parking stickers, cards or other parking control devices supplied by Landlord.

4. No overnight or extended term storage of vehicles shall be permitted, if prohibited by applicable law.

5. Vehicles must be parked entirely within painted stall lines of a single parking stall.

6. All directional signs and arrows must be observed.

7. The speed limit within all parking areas shall be five (5) miles per hour.

8. Parking is prohibited:

   (a) in areas not striped for parking;

   (b) in aisles;

   (c) where "no parking" signs are posted;

   (d) on ramps;

   (e) in cross-hatched areas;

   (f) in loading areas; and

9. Every parker is required to park and lock his own vehicle.

10. Loss or theft of parking identification devices must be reported to the Project parking facility manager immediately, and a lost or stolen report must be filed by the Tenant or user of such parking identification device at the time. If applicable, Landlord has the right to exclude any car from the Parking Facilities that does not have an identification device.

11. Any parking identification devices reported lost or stolen found on any unauthorized care will be confiscated and the illegal holder will be subject to prosecution.

12. The parking facilities are for the sole purpose of parking one automobile per space. Washing, waxing, cleaning or servicing of any vehicle in any area not specifically reserved for such purpose is prohibited.

13. The parking operators, managers or attendants are not authorized to make or allow any exceptions to these rules and regulations.

14. Tenant's, and Tenant's Parking Invitees', continued right to use any parking spaces in the Parking Facilities is conditioned upon Tenant, and Tenant's Parking Invitees, abiding by these rules and regulations and those contained in this Lease. Further, if this Lease terminates for any reason whatsoever, Tenant's, and Tenant's Parking Invitees', right to use the parking spaces in the Parking Facilities shall terminate concurrently therewith.

15. Landlord reserves the right to refuse the sale of monthly stickers or other parking identification devices to any tenant or person and/or his agents or representatives who willfully refuse to comply with these rules and regulations and all unposted City, State or Federal ordinances, laws or agreements.

16. Tenant agrees to acquaint all employees with these Rules and Regulations.

17. Provided Tenant, its assignee or sublessee, occupies the entire Premises, Tenant shall be permitted, in compliance with all Applicable Laws, including the provisions of any applicable CC&Rs, easements and any other rules imposed by the Master Association, to impose a closed/controlled parking area.

EXHIBIT "H"

JANITORIAL SPECIFICATIONS

Intentionally Deleted.

EXHIBIT "I"

LETTER OF CREDIT TERMS

Tenant shall deliver to Landlord, as collateral for the full performance by Tenant of all of its obligations under this Lease and for all losses and damages Landlord may suffer as a result of any Default by Tenant under this Lease including, but not limited to, any post lease termination damages under section 1951.2 of the California Civil Code, a standby, irrevocable letter of credit (the "Letter of Credit"), substantially in the form of Exhibit "L" attached hereto or in such other form acceptable to Landlord in its reasonable discretion and containing the terms required herein, in the face amount designated in Paragraph 1(n) (the "Letter of Credit Amount"), naming Landlord as beneficiary. The Letter of Credit shall be issued by a money-center, solvent and nationally recognized bank (a bank which accepts deposits, maintains accounts, has a local office in Orange County) that will negotiate a letter of credit, and whose deposits are insured by the FDIC (as defined below). The issuing bank shall be acceptable to Landlord in Landlord's reasonable discretion, and shall permit multiple and partial draws on the Letter of Credit. Tenant shall cause the Letter of Credit to be continuously maintained in effect (whether through replacement, renewal or extension) in the Letter of Credit Amount through the date (the "Letter of Credit Expiration Date") which is thirty (30) days after the expiration of the Term of this Lease, or any extension thereof. If the Letter of Credit held by Landlord expires earlier than the Letter of Credit Expiration Date (whether by reason of a stated expiration date or a notice of termination or non-renewal given by the issuing bank), Tenant shall deliver a new Letter of Credit or certificate of renewal or extension to Landlord not later than thirty (30) days prior to the expiration date of the Letter of Credit then held by Landlord. Any renewal or replacement Letter of Credit shall comply with all of the provisions of this Section 1, and shall remain in effect (whether through replacement, renewal or extension) in the Letter of Credit Amount through the Letter of Credit Expiration Date upon the same terms as the expiring Letter of Credit or such other terms as may be acceptable to Landlord in its reasonable discretion.

Landlord shall have the immediate right to draw up to the then-aggregate face amount of the Letter of Credit, in whole or in part, at any time and from time to time (each of the following being an "Letter of Credit Draw Event"): (i) If such amount is due and payable to Landlord under the terms and conditions of this Lease, beyond applicable notice and cure periods or (ii) if the Letter of Credit held by Landlord expires (or is set to expire) earlier than the Letter of Credit Expiration Date (whether by reason of a stated expiration date or a notice of termination or non-renewal given by the issuing bank), and Tenant fails to deliver to Landlord, at least thirty (30) days prior to the expiration date of the Letter of Credit then held by Landlord, a renewal or substitute Letter of Credit that is in effect and that complies with the provisions of this Lease, including the amount of the Letter of Credit required under this Lease (such failure in this clause (ii) hereinafter being referred to as a "Renewal Failure") following five (5) days notice to Tenant of the Renewal Failure; (iii) Tenant has filed a voluntary petition under the U.S. Bankruptcy Code or any state bankruptcy code (collectively, "Bankruptcy Code"), (iv) an involuntary petition has been filed against Tenant under the Bankruptcy Code, (v) Tenant is placed into receivership or conservatorship, or becomes subject to similar proceedings under Federal or State law; (vi) Tenant executes an assignment for the benefit of creditors and/or (vii) if (1) any of the issuing bank's Fitch Ratings (or other comparable ratings to the extent the Fitch Ratings are no longer available) have been reduced below a "BBB+" rating, or (2) there is otherwise a material adverse change in the financial condition of the issuing bank, and Tenant has failed to provide Landlord with a replacement Letter of Credit that complies with the provisions of this Lease, including the Letter of Credit Amount required under this Lease, within thirty (30) days following Landlord's written demand therefor (with no other notice or cure or grace period being applicable thereto, notwithstanding anything in this Lease to the contrary) (such failure in this clause (iii) hereinafter being referred to as an "Issuing Bank Replacement Failure"). No condition or term of this Lease shall be deemed to render the Letter of Credit conditional to justify the issuer of the Letter of Credit in failing to honor a drawing upon such Letter of Credit in a timely manner. In addition, in the event the issuing bank is placed into receivership or conservatorship by the Federal Deposit Insurance Corporation or any successor or similar entity (as applicable, the "FDIC"), and the FDIC does not honor the commitments of such issuing bank, then, effective as of the date such receivership or conservatorship occurs, the Letter of Credit shall be deemed to fail to meet the requirements of this Lease, and, within ten (10) days following Landlord's notice to Tenant of such receivership or conservatorship (the "Letter of Credit FDIC Replacement Notice"), Tenant shall replace the Letter of Credit with a substitute letter of credit from a different issuer (which issuer shall be acceptable to Landlord in its reasonable discretion) and that complies in all respects with the requirements of this Lease. If Tenant fails to replace the Letter of Credit with a conforming, substitute letter of credit pursuant to the terms and conditions of this Section 2 as a result of a Renewal Failure or an Issuing Bank

Replacement Failure, then, notwithstanding anything in this Lease to the contrary, Landlord shall have the right to declare Tenant in Default of this Lease for which there shall be no notice or grace or cure periods being applicable thereto (other than the aforesaid ten (10) day period). Tenant shall be responsible for the payment of any and all costs incurred with the review of any replacement Letter of Credit (including without limitation Landlord's reasonable attorneys' fees), which replacement is required pursuant to this Section or is otherwise requested by Tenant.

Tenant hereby acknowledges and agrees that Landlord is entering into this Lease in material reliance upon the ability of Landlord to draw upon the Letter of Credit upon the occurrence of any Letter of Credit Draw Event. Upon the occurrence of any Letter of Credit Draw Event, Landlord may, but without obligation to do so, and without additional notice to Tenant, draw upon the Letter of Credit, in part or in whole, to cure any such Letter of Credit Draw Event and/or to compensate Landlord for any and all damages of any kind or nature sustained or which Landlord reasonably estimates that it will sustain resulting from Tenant's Default under this Lease or other Letter of Credit Draw Event and/or to compensate Landlord for any and all damages arising out of, or incurred in connection with, the termination of this Lease, including, without limitation, those specifically identified in Section 1951.2 of the California Civil Code. The use, application or retention of the Letter of Credit, or any portion thereof, by Landlord shall not prevent Landlord from exercising any other right or remedy provided by this Lease or by any applicable law, it being intended that Landlord shall not first be required to proceed against the Letter of Credit, and such Letter of Credit shall not operate as a limitation on any recovery to which Landlord may otherwise be entitled. Tenant agrees not to interfere in any way with payment to Landlord of the proceeds of the Letter of Credit, either prior to or following a "draw" by Landlord of any portion of the Letter of Credit, regardless of whether any dispute exists between Tenant and Landlord as to Landlord's right to draw upon the Letter of Credit. No condition or term of this Lease shall be deemed to render the Letter of Credit conditional to justify the issuer of the Letter of Credit in failing to honor a drawing upon such Letter of Credit in a timely manner. Tenant agrees and acknowledges that (i) the Letter of Credit constitutes a separate and independent contract between Landlord and the issuing bank, (ii) Tenant is not a third party beneficiary of such contract, (iii) Tenant has no property interest whatsoever in the Letter of Credit or the proceeds thereof, and (iv) in the event Tenant becomes a debtor under any chapter of the Bankruptcy Code, Tenant is placed into receivership or conservatorship, and/or there is an event of a receivership, conservatorship or a bankruptcy filing by, or on behalf of, Tenant, neither Tenant, any trustee, nor Tenant's bankruptcy estate shall have any right to restrict or limit Landlord's claim and/or rights to the Letter of Credit and/or the proceeds thereof by application of Section 502(b)(6) of the U.S. Bankruptcy Code or otherwise. If Landlord draws on the Letter of Credit due to a Renewal Failure or an Issuing Bank Replacement Failure and is holding those proceeds of the Letter of Credit before application due to any other Letter of Credit Draw Event (the "Letter of Credit Proceeds") and has not elected to terminate this Lease due to Tenant's failure to deliver a replacement letter of credit as required under Section 2 above, then Landlord agrees to return to Tenant the Letter of Credit Proceeds, provided that Tenant is not then in Default under this Lease (other than as a result of Tenant's failure to deliver the replacement letter of credit) and Tenant concurrently delivers to Landlord a substitute letter of credit in the Letter of Credit Amount that complies in all respects with the requirements of this Lease (including, in the case of a Letter of Credit Issuing Bank Replacement Failure, a substitute Letter of Credit from a different issuer, which issuer shall be acceptable to Landlord in its reasonable discretion). Nothing contained in the immediately preceding sentence shall imply that Landlord waives any right to declare Tenant in Default under this Lease due to a Renewal Failure or an Issuing Bank Replacement Failure.

If Landlord assigns or transfers its interest in this Lease, Landlord may, upon notice to Tenant and without first obtaining Tenant's consent thereto, transfer all or any portion of its interest in and to the Letter of Credit to Landlord's assignee, successor, transferee or mortgagee and/or to have the Letter of Credit reissued in the name of Landlord's assignee, successor, transferee or mortgagee. If Landlord transfers its interest in the Building and transfers the Letter of Credit (or any proceeds thereof then held by Landlord) in whole or in part to the transferee, Landlord shall, without any further agreement between the parties hereto, thereupon be released by Tenant from all liability therefor. The provisions hereof shall apply to every transfer or assignment of all or any part of the Letter of Credit to a new landlord. In connection with any such transfer of the Letter of Credit by Landlord, Tenant shall execute and submit to the issuer of the Letter of Credit such applications, documents and instruments as may be necessary to effectuate such transfer. Landlord shall be responsible to pay any then-applicable "market-rate" transfer fee in connection with such transfer

Landlord and Tenant acknowledge and agree that in no event or circumstance shall the Letter of Credit or any renewal of it or any proceeds of it be (1) deemed to be or treated as a "security deposit" within the meaning of California Civil Code Section 1950.7, (2) subject to the terms of Section 1950.7, or (3) intended to serve as a "security

deposit" within the meaning of Section 1950.7. Landlord and Tenant (1) further acknowledge and agree that the Letter of Credit is not intended to serve as a security deposit and Section 1950.7 and any and all other laws, rules, and regulations applicable to security deposits in the commercial context ("Security Deposit Laws") shall have no applicability or relevancy to the Letter of Credit, and (2) waive any and all rights, duties, and obligations either party may now or in the future have relating to or arising from the Security Deposit Laws.

EXHIBIT "J"

FORM OF SNDA

AFTER RECORDING, RETURN TO :

ACM CRE Fund I, LP
444 Madison Avenue, 19 th Floor
New York, New York 10022
Attention: Asset Management

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

This Subordination, Non-Disturbance and Attornment Agreement (this " Agreement ") dated _____, 2018 is made by and between _____ (" Tenant "), and ACM CRE FUND I, LP, a Delaware limited partnership (" Lender ").

WHEREAS, on or about the date hereof, CIP 2014 SG ALISO OWNER LLC, a Delaware limited liability company (together with its successors, assigns and all future owners of the Property (hereinafter defined), " Landlord ") and one or more of Landlord's affiliates (collectively, " Borrower ") and Lender will enter into that certain Loan Agreement (the " Loan Agreement "), pursuant to which Lender will make a loan facility available to Borrower (the " Loan ") pursuant to the provisions of such Loan Agreement and the documents entered into in connection therewith (the " Loan Documents "), which Loan is secured by, among other things, a mortgage, deed of trust, deed to secure debt or similar security instrument (as the same may have been or may be from time to time renewed, extended, amended or supplemented, the " Security Instrument "), to be recorded in the applicable land records, covering, among other property, the land (the " Land ") described in Exhibit A which is attached hereto and incorporated herein by reference, and the improvements (" Improvements ") thereon (such Land and Improvements being herein together called the " Property ");

WHEREAS, Tenant is the tenant under a lease from Landlord dated _____ (as it may from time to time be renewed, extended, amended or supplemented, the " Lease "), covering a portion of the Property, more particularly described in the Lease (said portion being herein referred to as the " Premises "); and

WHEREAS, the term "Landlord" as used herein means the present landlord under the Lease or, if the landlord's interest is transferred in any manner, the successor(s) or assign(s) occupying the position of landlord under the Lease at the time in question.

NOW, THEREFORE, in consideration of the mutual agreements herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. **Subordination. Tenant agrees and covenants that the Lease and the rights of Tenant thereunder, all of Tenant's right, title and interest in and to the Property covered by the Lease, and any lease thereafter executed by Tenant covering any part of the Property, are and shall be subject, subordinate and inferior to (a) the Security Instrument and the rights of Lender thereunder, and all right, title and interest of Lender in the Property, and (b) all other security documents now or hereafter securing payment of any indebtedness of the Landlord (or any prior landlord) to Lender which cover or affect the Property (the "Security Documents"). This Agreement is not intended and shall not be construed**

to subordinate the Lease to any deed of trust, mortgage or other security document other than those referred to in the preceding sentence, securing the Loan.

2. **Non-Disturbance. Lender agrees that so long as the Lease is in full force and effect and Tenant is not in default in the payment of rent, additional rent or other payments or in the performance of any of the other terms, covenants or conditions of the Lease on Tenant's part to be performed (beyond the period, if any, specified in the Lease within which Tenant may cure such default),**

(a) Tenant's possession and use of the Premises under the Lease shall not be disturbed or interfered with by Lender in the exercise of any of its rights under the Security Instrument or in connection with any conveyance in lieu of foreclosure and the enforcement of the Security Instrument by the Lender shall not terminate the Lease, and

(b) upon any foreclosure of the Security Instrument or conveyance in lieu of foreclosure, New Owner (as defined below) shall recognize all of Tenant's rights under the Lease and shall be bound to Tenant as landlord under the Lease, and

(c) Lender will not join or name Tenant as a party defendant for the purpose of terminating Tenant's interest and estate under the Lease in any proceeding for foreclosure, receivership, trustee's sale or other proceeding to enforce the Security Instrument.

3. **Attornment.**

(a) Tenant covenants and agrees that in the event of foreclosure of the Security Instrument, whether by power of sale or by court action, or upon a transfer of the Property by conveyance in lieu of foreclosure (the purchaser at foreclosure or the transferee in lieu of foreclosure, including Lender if it is such purchaser or transferee, being herein called " New Owner "), Tenant shall attorn to the New Owner as Tenant's new landlord, and agrees that the Lease shall continue in full force and effect as a direct lease between Tenant and New Owner upon all of the terms, covenants, conditions and agreements set forth in the Lease and this Agreement, except for provisions which are impossible for New Owner to perform; provided, however, that in no event shall the New Owner be:

(i) liable for any act, omission, default, misrepresentation, or breach of warranty, of any previous landlord (including Landlord) or obligations accruing prior to New Owner's actual ownership of the Property provided, however, that nothing contained in this subsection shall be deemed to release New Owner from any obligation it may have to cure any default under the Lease that is capable of being cured by New Owner and which continues after New Owner's acquisition of Landlord's interest in the Lease and;

(ii) subject to any offset, defense, claim or counterclaim (that are not specifically provided for in the Lease or have accrued as a result of a default that is not capable of being cured by New Owner) which Tenant might be entitled to assert against any previous landlord (including Landlord);

(iii) bound by any payment of rent, additional rent or other payments, made by Tenant to any previous landlord (including Landlord) for more than one (1) month in advance;

(iv) bound by any material amendment or modification of the Lease hereafter made, or consent or acquiescence by any previous landlord (including Landlord) under the Lease to any assignment or sublease hereafter granted, without the written consent of Lender; or

(v) liable for any deposit that Tenant may have given to any previous landlord (including Landlord) which has not, as such, been transferred to New Owner.

(b) The provisions of this Agreement regarding attornment by Tenant shall be self-operative and effective without the necessity of execution of any new lease or other document on the part of any party hereto or the respective heirs, legal representatives, successors or assigns of any such party. Tenant agrees, however, to execute and deliver upon the request of New Owner, any instrument or certificate which in the reasonable judgment of New

Owner may be necessary or appropriate to evidence such attornment, including a new lease of the Premises on the same terms and conditions as the Lease for the unexpired term of the Lease.

(c) Nothing herein shall be construed as a waiver of any contractual claim that Tenant may have against Landlord, or as a release of Landlord from liability to Tenant, on account of the non-performance of any obligation of Landlord under the Lease.

4. **Estoppel Certificate. Tenant agrees to execute and deliver from time to time, upon the request of Landlord or of any holder(s) of any of the indebtedness or obligations secured by the Security Instrument, a certificate regarding the status of the Lease, consisting of statements, if true (or if not, specifying why not), (a) that the Lease is in full force and effect, (b) the date through which rentals have been paid, (c) the date of the commencement of the term of the Lease, (d) the nature of any amendments or modifications of the Lease, (e) to the best of Tenant's knowledge no default, or state of facts which with the passage of time or notice (or both) would constitute a default, exists under the Lease, (f) no setoffs, recoupments, estoppels, claims or counterclaims exist against Landlord, and (g) such other matters as may be reasonably requested.**

5. **Acknowledgment and Agreement by Tenant. Tenant acknowledges and agrees as follows:**

(a) Tenant acknowledges that the Security Instrument includes an assignment of leases and rents. Tenant hereby expressly consents to such assignment and agrees that such assignment shall, in all respects, be superior to any interest Tenant has in the Lease of the Property, subject to the provisions of this Agreement. Tenant will not amend, alter or waive any provision of, or consent to the amendment, alteration or waiver of any provision of the Lease without the prior written consent of Lender. Tenant shall not prepay any rents or other sums due under the lease for more than one (1) month in advance of the due date therefor. Tenant acknowledges that Lender will rely upon this instrument in connection with the making of the Loan and entering into the Loan Documents.

(b) Lender, in making any disbursements to Landlord, is under no obligation or duty to oversee or direct the application of the proceeds of such disbursements, and such proceeds may be used by Landlord for purposes other than improvement of the Property.

(c) From and after the date hereof, in the event of any act or omission by Landlord which would give Tenant the right, either immediately or after the lapse of time, to terminate the Lease or to claim a partial or total eviction, Tenant will not exercise any such right (i) until it has given written notice of such act or omission to the Lender; and (ii) until the same period of time as is given to Landlord under the Lease to cure such act or omission shall have elapsed following such giving of notice to Lender, but in any event not less than thirty (30) days after receipt of such notice or, in the event the default is not readily capable of being cured by Lender without obtaining possession of the Property and Lender acts diligently to obtain possession of the Property and promptly cures or causes the cure of all such defaults that are capable of being cured without Lender's obtaining possession of the Property, such longer period of time as may be necessary to obtain possession of the Property and thereafter cure such default, act, or omission, during which period of time Lender shall be permitted to cure or remedy such default, act or omission; provided, however, that Lender shall have no duty or obligation to cure or remedy any breach or default. In the event Lender fails to cure said default, Tenant shall have all rights and remedies provided in the Lease. It is specifically agreed that Tenant shall not, as to Lender, require cure of any such default which is personal to Landlord, and therefore not susceptible to cure by Lender.

(d) In the event that Lender notifies Tenant of a default under the Security Instrument, Loan Agreement or other Loan Documents and demands that Tenant pay its rent and all other sums due under the Lease directly to Lender, Tenant shall honor such demand and pay the full amount of its rent and all other sums due under the Lease directly to Lender, without offset, or as otherwise required pursuant to such notice, beginning with the payment next due after such notice of default (provided that such next payment is not due within ten (10) days from such notice from Lender), without inquiry as to whether a default actually exists under the Security Instrument, Loan Agreement or otherwise in connection with the other Loan Documents, and notwithstanding any contrary instructions of or demands from Landlord.

(e) Tenant shall send a copy of any notice or statement under the Lease to Lender at the same time such notice or statement is sent to Landlord if such notice or statement has a material impact on the economic terms, operating covenants or duration of the Lease.

(f) Tenant has no right or option of any nature whatsoever, whether pursuant to the Lease or otherwise, to purchase the Premises or the Property, or any portion thereof or any interest therein, and to the extent that Tenant has had, or hereafter acquires, any such right or option, same is hereby acknowledged to be subject and subordinate to the Security Instrument and is hereby waived and released as against Lender and New Owner.

(g) This Agreement satisfies any condition or requirement in the Lease relating to the granting of a non-disturbance agreement and Tenant waives any requirement to the contrary in the Lease.

(h) Lender and any New Owner shall have no liability to Tenant or any other party for any conflict between the provisions of the Lease and the provisions of any other lease affecting the Property, including, but not limited to, any provisions relating to exclusive or non-conforming uses or rights, renewal options and options to expand, and in the event of such a conflict, Tenant shall, subject to the foregoing, have the same rights it has pursuant to the Lease.

(i) Lender and any New Owner shall have no obligation nor incur any liability with respect to the erection or completion of the improvements in which the Premises are located or for completion of the Premises or any improvements for Tenant's use and occupancy, either at the commencement of the term of the Lease or upon any renewal or extension thereof or upon the addition of additional space, pursuant to any expansion rights contained in the Lease.

(j) Lender and any New Owner shall have no obligation nor incur any liability with respect to any warranties of any nature whatsoever, whether pursuant to the Lease or otherwise, including, without limitation, any warranties respecting use, compliance with zoning, Landlord's title, Landlord's authority, habitability, fitness for purpose or possession.

(k) In the event that Lender or any New Owner shall acquire title to the Premises or the Property, Lender or such New Owner shall have no obligation, nor incur any liability, beyond Lender's or New Owner's then equity interest, if any, in the Property or the Premises, and Tenant shall look exclusively to such equity interest of Lender or New Owner, if any, for the payment and discharge of any obligations imposed upon Lender or New Owner hereunder or under the Lease or for recovery of any judgment from Lender, or New Owner, and in no event shall Lender, New Owner, nor any of their respective officers, directors, shareholders, agents, representatives, servants, employees or partners ever be personally liable for such judgment.

(l) Tenant will not permit, the generation, treatment, storage or disposal of any hazardous substance as defined under federal, state, or local law, on the Premises or Property except for such substances of a type and only in a quantity normally used in connection with the occupancy or operation of buildings such as the Improvements, which substances are being held, stored, and used in strict compliance with federal, state, and local laws. Tenant shall be solely responsible for and shall reimburse and indemnify Landlord, New Owner or Lender, as applicable, for any loss, liability, claim or expense, including without limitation, cleanup and all other reasonable expenses, including, without limitation, reasonable legal fees that Landlord, New Owner or Lender, as applicable, may incur by reason of Tenant's use of the Premises subsequent to the date hereof in violation of the requirements of this Paragraph 5(l).

6. **Intentionally Omitted.**

7. **Lease Status. Tenant certifies to Lender that Tenant has no knowledge of any default on the part of Landlord or Tenant under the Lease, that the Lease is bona fide and contains all of the agreements of the parties thereto with respect to the letting of the Premises and that all of the agreements and provisions therein contained are in full force and effect.**

8. **Notices. All notices, requests, consents, demands and other communications required or which any party desires to give hereunder shall be in writing and shall be deemed sufficiently given or furnished if delivered by personal delivery, by telegram, telex, or facsimile, by expedited delivery service with proof of delivery, or by registered or certified United States mail, postage prepaid, at the addresses specified at the end of this Agreement (unless changed by similar notice in writing given by the particular party whose address is to be changed). Any such notice or communication shall be deemed to have been given either at the time of personal delivery or, in the case of delivery service or mail, as of the date of first attempted delivery at the address and in the manner provided herein, or, in the case of telegram, telex or facsimile, upon receipt. Notwithstanding the foregoing, no notice of change of address shall be effective except upon receipt. This Paragraph 8 shall not be construed in any way to affect or impair any waiver of notice or demand provided in this Agreement or in the Lease or in any document evidencing, securing or pertaining to the loan evidenced by the Note or to require giving of notice or demand to or upon any person in any situation or for any reason.**

9. **Miscellaneous.**

(a) This Agreement supersedes any inconsistent provision of the Lease.

(b) Nothing contained in this Agreement shall be construed to derogate from or in any way impair, or affect the lien, security interest or provisions of the Security Instrument, Loan Agreement or other Loan Documents.

(c) This Agreement shall inure to the benefit of the parties hereto, their respective successors and permitted assigns, and any New Owner, and its heirs, personal representatives, successors and assigns; provided, however, that in the event of the assignment or transfer of the interest of Lender, all obligations and liabilities of the assigning Lender under this Agreement shall terminate, and thereupon all such obligations and liabilities shall be the responsibility of the party to whom Lender's interest is assigned or transferred; and provided further that the interest of Tenant under this Agreement may not be assigned or transferred without the prior written consent of Lender.

(d) THIS AGREEMENT AND ITS VALIDITY, ENFORCEMENT AND INTERPRETATION SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK AND APPLICABLE UNITED STATES FEDERAL LAW EXCEPT ONLY TO THE EXTENT, IF ANY, THAT THE LAWS OF THE STATE IN WHICH THE PROPERTY IS LOCATED NECESSARILY CONTROL.

(e) The words "herein", "hereof", "hereunder" and other similar compounds of the word "here" as used in this Agreement refer to this entire Agreement and not to any particular section or provision.

(f) This Agreement may not be modified orally or in any manner other than by an agreement in writing signed by the parties hereto or their respective successors in interest.

(g) If any provision of this Agreement shall be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality or unenforceability shall not apply to or affect any other provision hereof, but this Agreement shall be construed as if such invalidity, illegality, or unenforceability did not exist.

[SIGNATURES AND NOTARIES ON FOLLOWING PAGES]

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

LENDER :

ADDRESS OF LENDER :

ACM CRE FUND I, LP

ACM CRE Fund I, LP
444 Madison Avenue, 19 th Floor
New York, New York 10022
Attention: Asset Management

By: _____
Name: _____
Title: _____

ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF _____)
) :ss
COUNTY OF _____)

On _____ ____, 2018, before me, _____, Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

_____
Name: _____
Notary Public

(SEAL)

TENANT :

ADDRESS OF TENANT : [_____]

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF _____)
) :ss
COUNTY OF _____)

On _____ ____, 2018, before me, _____, Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

_____
Name: _____
Notary Public

(SEAL)

LANDLORD :

ADDRESS OF LANDLORD :

CIP 2014 SG ALISO OWNER LLC

CIP 2014 SG Aliso Owner LLC
c/o CrossHarbor Capital Partners LLC
520 Newport Center Drive, Suite 400
Newport Beach, CA 92660
Attn: Eric Boyd, Managing Director

By: _____
Name: _____
Title: _____

ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF _____)
) :ss
COUNTY OF _____)

On _____ ____, 2018, before me, _____, Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

_____
Name: _____
Notary Public

(SEAL)

EXHIBIT "A"

LEGAL DESCRIPTION OF THE LAND

EXHIBIT "K"

Intentionally Deleted.

EXHIBIT "L"

FORM OF LETTER OF CREDIT

Follows

DATE:
IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER:

APPLICANT
GLAUKOS CORPORATION
229 AVENIDA FABRICANTE
SAN CLEMENTE, CA 92672

BENEFICIARY
CIP 2014/SG ALISO OWNER LLC
C/O GREENLAW MANAGEMENT, INC.
18301 VON KARMAN AVENUE, SUITE 250
IRVINE, CA 92612

ISSUING BANK
BANK OF AMERICA, N.A.
ONE FLEET WAY
PA6-580-02-30
SCRANTON, PA 18507-1999

AMOUNT
NOT EXCEEDING USD 8,775,000.00 NOT EXCEEDING EIGHT MILLION SEVEN HUNDRED SEVENTY FIVE THOUSAND AND 00/100'S US DOLLARS

EXPIRATION
NOVEMBER 1, 2019 AT OUR COUNTERS

WE HEREBY ISSUE THIS IRREVOCABLE LETTER OF CREDIT NO. XXXXXXXX IN YOUR FAVOR, FOR THE ACCOUNT OF APPLICANT, FOR UP TO AN AGGREGATE AMOUNT OF USD 8,775,000.00 AVAILABLE BY YOUR DRAFT (S) DRAWN ON US AT SIGHT, ACCOMPANIED BY THE FOLLOWING:

1. BENEFICIARY'S WRITTEN, DATED STATEMENT ON BENEFICIARY LETTERHEAD SIGNED BY AN AUTHORIZED SIGNATORY READING:

"BENEFICIARY IS PERMITTED TO DRAW ON THIS LETTER OF CREDIT UNDER THE EXPRESS TERMS OF THE LEASE DATED _____, BY AND BETWEEN GLAUKOS CORPORATION AND CIP 2014/SG ALISO OWNER LLC."

2. THE ORIGINAL OF THIS LETTER OF CREDIT AND AMENDMENT (S), IF ANY.

PARTIAL DRAWINGS ARE PERMITTED.

IT IS A CONDITION OF THIS LETTER OF CREDIT THAT IT IS DEEMED TO BE AUTOMATICALLY EXTENDED WITHOUT AMENDMENT FOR PERIOD (S) OF ONE YEAR EACH FROM THE CURRENT EXPIRY DATE HEREOF, OR ANY FUTURE EXPIRATION DATE, UNLESS AT LEAST THIRTY (30) DAYS PRIOR TO ANY EXPIRATION DATE, WE NOTIFY YOU BY REGISTERED MAIL OR OVERNIGHT COURIER AT THE ABOVE LISTED ADDRESS THAT WE ELECT NOT TO CONSIDER THIS LETTER OF CREDIT EXTENDED FOR ANY SUCH ADDITIONAL PERIOD. IN NO EVENT SHALL THE EXPIRATION DATE EXCEED APRIL 30, 2032, THE FINAL EXPIRATION DATE.

ANY SUCH NOTICE SHALL BE EFFECTIVE WHEN SENT BY US AND UPON SUCH NOTICE TO YOU, YOU MAY DRAW AT ANY TIME PRIOR TO THE THEN CURRENT

DRAFT

THIS IS AN INTEGRAL PART OF LETTER OF CREDIT NUMBER:

EXPIRATION DATE, UP TO THE FULL AMOUNT THEN AVAILABLE HEREUNDER, AGAINST YOUR DRAFT (S) DRAWN ON US AT SIGHT AND THE ORIGINAL OF THIS LETTER OF CREDIT AND ALL AMENDMENTS THERETO, ACCOMPANIED BY YOUR STATEMENT, SIGNED BY AN AUTHORIZED SIGNATORY, ON YOUR LETTERHEAD STATING THAT YOU ARE IN RECEIPT OF BANK OF AMERICA, N.A.'S NOTICE OF NON - EXTENSION UNDER LETTER OF CREDIT NO. XXXXXXXX AND THE APPLICANT'S OBLIGATION TO YOU REMAINS.

THIS LETTER OF CREDIT IS TRANSFERABLE IN FULL AND NOT IN PART. ANY TRANSFER MADE HEREUNDER MUST CONFORM STRICTLY TO THE TERMS HEREOF AND TO THE CONDITIONS OF RULE 6 OF THE INTERNATIONAL STANDBY PRACTICES (ISP98) FIXED BY THE INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NO. 590.

SHOULD YOU WISH TO EFFECT A TRANSFER UNDER THIS CREDIT, SUCH TRANSFER WILL BE SUBJECT TO THE RETURN TO US OF THE ORIGINAL CREDIT INSTRUMENT, ACCOMPANIED BY OUR FORM OF TRANSFER, PROPERLY COMPLETED AND SIGNED BY AN AUTHORIZED SIGNATORY OF YOUR FIRM, BEARING YOUR BANKERS STAMP AND SIGNATURE AUTHENTICATION, AND SUBJECT TO YOUR PAYMENT OF OUR CUSTOMARY TRANSFER CHARGES. SUCH TRANSFER FORM IS AVAILABLE UPON REQUEST.

DRAFT (S) MUST STATE: "DRAWN UNDER BANK OF AMERICA, N.A. STANDBY L/C NO. XXXXXXXX DATED XXXXXXXXXX XX, XXXX."

PRESENTATION OF SUCH DRAFT (S) AND DOCUMENT (S) MAY BE MADE AT OUR OFFICE LOCATED AT BANK OF AMERICA, N.A., ONE FLEET WAY, MC: PA6-580-02-30, SCRANTON, PA 18507-1999, BY OVERNIGHT COURIER, OR BY TELECOPY TO FACSIMILE NO. 800-755-8743, CONFIRMED BY TELEPHONE TO 1-800-370-7519 OPT. NO. 1. RECEIPT OF SUCH TELEPHONE NOTICE SHALL NOT BE A CONDITION TO PRESENTATION HEREUNDER. IF PRESENTED BY FAX, DOCUMENTS ARE NOT REQUIRED TO BE SENT BY COURIER.

WE HEREBY AGREE WITH YOU THAT DRAFT (S) DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS LETTER OF CREDIT SHALL BE DULY HONORED UPON DUE PRESENTATION TO US.

THIS LETTER OF CREDIT IS SUBJECT TO THE INTERNATIONAL STANDBY PRACTICES (ISP98), THE INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NO.590.

IF YOU REQUIRE ANY ASSISTANCE OR HAVE ANY QUESTIONS REGARDING THIS TRANSACTION, PLEASE CALL 800-370-7519.

_____
AUTHORIZED SIGNATURE

DRAFT COPY
FOR DISCUSSION AND REVIEW PURPOSES ONLY

PLEASE SIGNIFY YOUR ACCEPTANCE AND APPROVAL TO ISSUE THIS FORM:

_____
APPLICANT'S AUTHORIZED SIGNATURE (S) (DATE)

THIS DOCUMENT CONSISTS OF 2 PAGE (S).

DRAFT

OFFICE BUILDING LEASE

BETWEEN

CIP 2014/SG, ALISO OWNER LLC,
a Delaware limited liability company

(LANDLORD)

AND

GLAUKOS CORPORATION,
a Delaware corporation

(TENANT)

November 14, 2018

LIST OF EXHIBITS			SECTION REFERENCE
A	-	Project Site Plan	2(a)
B	-	Work Letter	2(a)
C	-	Memorandum of Lease Terms	3
D	-	Intentionally Deleted	18
E	-	Form of Estoppel Certificate	28
F	-	Rules and Regulations	30
G	-	Parking Rules and Regulations	39
H	-	Intentionally Deleted	Exhibit D
I	-	Letter of Credit Terms	1(n)
J	-	Form of SNDA	28
K		Intentionally Deleted	
L		Letter of Credit	

Exhibit 21

Subsidiaries

Subsidiary Name	Jurisdiction
Glaukos Germany GmbH	Germany
Glaukos Japan GK	Japan
Glaukos Australia Pty Ltd	Australia
Glaukos Canada Inc.	Canada
Glaukos France SAS	France
Glaukos Ireland Limited	Ireland
Glaukos Netherlands B.V.	Netherlands
Glaukos Produtos Médicos Ltda.	Brazil
Glaukos Sweden AB	Sweden
Glaukos UK Limited	England and Wales
Glaukos Singapore PTE. LTD.	Singapore
Glaukos Medical Spain, S.L.	Spain
Glaukos (Switzerland) AG	Switzerland
Glaukos Norway AS	Norway
GKOS Medical, Unipessoal LDA	Portugal
Glaukos Belgium	Belgium

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-224822) pertaining to the Glaukos Corporation 2015 Omnibus Incentive Compensation Plan and 2015 Employee Stock Purchase Plan;

(2) Registration Statement (Form S-8 No. 333-212106) pertaining to Glaukos Corporation 2015 Omnibus Incentive Compensation Plan and 2015 Employee Stock Purchase Plan; and

(3) Registration Statement (Form S-8 No. 333-205372) pertaining to the Glaukos Corporation 2015 Omnibus Incentive Compensation Plan, 2015 Employee Stock Purchase Plan, 2011 Stock Plan, and 2001 Stock Option Plan;

of our reports dated February 27, 2019, with respect to the consolidated financial statements of Glaukos Corporation and the effectiveness of internal control over financial reporting of Glaukos Corporation included in this Annual Report (Form 10-K) for the year ended December 31, 2018.

/s/ Ernst & Young LLP

Irvine, California
February 27, 2019

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas W. Burns, certify that:

1. I have reviewed this Annual Report on Form 10-K of Glaukos Corporation;

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

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

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

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

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

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

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

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

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

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

Date: February 27, 2019

/s/ THOMAS W. BURNS
Name: Thomas W. Burns
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13 a -14(a) AND RULE 15 d -14(a) OF THE SECURITIES EXCHANGE ACT, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph E. Gilliam, certify that:

1. I have reviewed this Annual Report on Form 10-K of Glaukos Corporation;

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

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

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

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

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

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

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

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

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

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

Date: February 27, 2019

/s/ JOSEPH E. GILLIAM
Name: Joseph E. Gilliam
Chief Financial Officer & Sr. Vice President, Corporate Development

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas W. Burns, President and Chief Executive Officer of Glaukos Corporation (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Annual Report on Form 10-K for the year ended December 31, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: February 27, 2019

/s/ THOMAS W. BURNS

Name: Thomas W. Burns

President and Chief Executive Officer

This certification accompanies and is being "furnished" with this Report, shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that Section and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph E. Gilliam, Chief Financial Officer & Sr. Vice President, Corporate Development of Glaukos Corporation (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Annual Report on Form 10-K for the year ended December 31, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: February 27, 2019

/s/ JOSEPH E. GILLIAM
Name: Joseph E. Gilliam
Chief Financial Officer & Sr. Vice President, Corporate Development

This certification accompanies and is being "furnished" with this Report, shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that Section and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.