TRANSENTERIX INC.
Form 10-Q
May 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the Quarterly Period ended March 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 Number 0-19437

TRANSENTERIX, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 11-2962080 |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. employer<br>identification no.) |
| 635 Davis Drive, Suite 300, Morrisville, NC | 27560 |
| (Address of principal executive offices) | (Zip code) |

Registrant’s telephone number, including area code: (919) 765-8400

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company," and "emerging growth 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 of the Exchange Act.

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

203,976,789 shares of the Company's common stock, par value $0.001 per share, were outstanding as of May 4, 2018.

TRANSENTERIX, INC.

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FORWARD-LOOKING STATEMENTS

In addition to historical financial information, this report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) that concern matters that involve risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact contained in this report, including statements regarding future events, our future financial performance, our future business strategy and the plans and objectives of management for future operations, are forward-looking statements. We have attempted to identify forward-looking statements by terminology including “anticipates,” “believes,” “can,” “continue,” “could,” “estimates “expects,” “intends,” “in the event that,” “may,” “plans,” “potential,” “predicts,” “should” or “will” or the negative of these ter comparable terminology. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Readers are urged to carefully review and consider the various disclosures made by us, which attempt to advise interested parties of the risks, uncertainties, and other factors that affect our business, operating results, financial condition and stock price, including without limitation the disclosures made under the captions “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Financial Statements,” “Notes to Consolidated Financial Statements “and “Risk Factors” in this report, as well as the disclosures made in the TransEnterix, Inc. Annual Report on Form 10-K for the year ended December 31, 2017 filed on March 8, 2018, or the Fiscal 2017 Form 10-K, and other filings we make with the Securities and Exchange Commission, or SEC. Furthermore, such forward-looking statements speak only as of the date of this report. We expressly disclaim any intent or obligation to update any forward-looking statements after the date hereof to conform such statements to actual results or to changes in our opinions or expectations except as required by applicable law. References in this report to “we,” “our,” “us,” or the “Company” refer to TransEnterix, Inc., including its subsidiaries, TransEnterix International; TransEnterix Italia S.r.l.; TransEnterix Europe S.à.R.L; TransEnterix Asia Pte. Ltd.; TransEnterix Taiwan Ltd; and TransEnterix Japan KK.

Any disclosure in this report regarding the receipt of CE Mark or Section 510(k) clearance for any of the Company’s products does not mean or infer any endorsement of the Company’s products by any government agency including, without limitation, the U.S. Food and Drug Administration, or FDA.

TransEnterix, Inc.

Consolidated Statements of Operations and Comprehensive Income (Loss)

(in thousands except per share amounts)

(Unaudited)

| | March 31, 2018 | 2017 |
|---|---|---|
| Revenue | $4,767 | $1,946 |
| Cost of revenue | 2,555 | 1,334 |
| Gross profit | 2,212 | 612 |
| Operating Expenses (Income) | | |
| Research and development | 5,265 | 6,855 |
| Sales and marketing | 5,970 | 3,723 |
| General and administrative | 2,676 | 3,049 |
| Amortization of intangible assets | 2,827 | 1,636 |
| Change in fair value of contingent consideration | 627 | 1,227 |
| Gain from sale of SurgiBot assets, net | (11,996 ) | — |
| Total Operating Expenses (Income) | 5,369 | 16,490 |
| Operating Loss | (3,157 ) | (15,878 ) |
| Other Income (Expense) | | |
| Change in fair value of warrant liabilities | 1,829 | — |
| Interest expense, net | (386 ) | (334 ) |
| Other expense | (58 ) | (60 ) |
| Total Other Income (Expense), net | 1,385 | (394 ) |
| Loss before income taxes | $(1,772 ) | $(16,272 ) |
| Income tax benefit | 890 | 858 |
| Net loss | $(882 ) | $(15,414 ) |
| Other comprehensive income | | |
| Foreign currency translation gain | 2,308 | 1,133 |
| Comprehensive income (loss) | $1,426 | $(14,281 ) |
| Net loss per share - basic and diluted | $0.00 | $(0.13 ) |
| Weighted average common shares outstanding - basic and diluted | 199,900 | 121,660 |

See accompanying notes to consolidated financial statements.

TransEnterix, Inc.

Consolidated Balance Sheets

(in thousands, except share amounts)

| | March 31, 2018 (unaudited) | December 31, 2017 |
|---|---|---|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | $ 87,634 | $ 91,217 |
| Accounts receivable, net | 1,837 | 1,536 |
| Inventories | 11,644 | 10,817 |
| Interest receivable | 101 | 80 |
| Other current assets | 8,304 | 9,344 |
| Total Current Assets | 109,520 | 112,994 |
| Restricted cash | 6,779 | 6,389 |
| Property and equipment, net | 6,406 | 6,670 |
| Intellectual property, net | 51,233 | 52,638 |
| Goodwill | 71,954 | 71,368 |
| Other long term assets | 283 | 192 |
| Total Assets | $ 246,175 | $ 250,251 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Accounts payable | $ 3,614 | $ 3,771 |
| Accrued expenses | 8,222 | 10,974 |
| Deferred revenue | 1,018 | 1,088 |
| Deferred gain on sale of SurgiBot assets | — | 7,500 |
| Contingent consideration – current portion | 760 | 719 |
| Notes payable - current portion, net of debt discount | 6,583 | 4,788 |
| Total Current Liabilities | 20,197 | 28,840 |
| Long Term Liabilities | | |
| Contingent consideration – less current portion | 12,285 | 11,699 |
| Notes payable - less current portion, net of debt discount | 6,863 | 8,385 |
| Warrant liabilities | 11,745 | 14,090 |
| Net deferred tax liabilities | 7,727 | 8,389 |
| Total Liabilities | 58,817 | 71,403 |
| Commitments and Contingencies (Note 18) | | |
| Stockholders' Equity | | |
| Common stock $0.001 par value, 750,000,000 shares authorized at March 31, 2018 and December 31, 2017; 201,972,831 and 199,282,003 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively | 201 | 199 |
| Additional paid-in capital | 628,332 | 621,261 |
| Accumulated deficit | (448,511 ) | (447,640 ) |
| Accumulated other comprehensive income | 7,336 | 5,028 |
| Total Stockholders' Equity | 187,358 | 178,848 |

| | | |
|---|---|---|
| Total Liabilities and Stockholders' Equity | $ 246,175 | $ 250,251 |

See accompanying notes to consolidated financial statements.

TransEnterix, Inc.

Consolidated Statements of Stockholders' Equity

(in thousands)

(Unaudited)

| | Common Stock Shares | Common Stock Amount | Treasury Stock Shares | Treasury Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2017 | 199,282 | $ 199 | — | $ — | $ 621,261 | $ (447,640 ) | $ 5,028 | $ 178,848 |
| Stock-based compensation | — | — | — | — | 1,834 | — | — | 1,834 |
| Issuance of common stock and warrants, net of issuance costs | — | — | — | — | 11 | — | — | 11 |
| Exercise of stock options and warrants | 1,038 | 1 | — | — | 2,227 | — | — | 2,228 |
| Award of restricted stock units | 367 | — | — | — | — | — | — | — |
| Return of common stock to pay withholding taxes on restricted stock | — | — | 174 | — | — | — | — | — |
| Cancellation of treasury stock | — | — | (174) | — | — | — | — | — |
| Issuance of common stock related to sale of SurgiBot assets | 1,286 | 1 | — | — | 2,999 | — | — | 3,000 |
| Cumulative effect of change in accounting principle (Note 2) | — | — | — | — | — | 11 | — | 11 |
| Other comprehensive income | — | — | — | — | — | — | 2,308 | 2,308 |
| Net loss | — | — | — | — | — | (882 ) | — | (882 ) |
| Balance, March 31, 2018 | 201,973 | $ 201 | — | — | $ 628,332 | $ (448,511 ) | $ 7,336 | $ 187,358 |

See accompanying notes to consolidated financial statements.

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TransEnterix, Inc.

Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

| | Three Months Ended March 31, 2018 | | | 2017 | |
|---|---|---|---|---|---|
| Operating Activities | | | | | |
| Net loss | $ | (882 | ) | $ | (15,414 | ) |
| Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities: | | | | | |
| Gain from sale of SurgiBot assets, net | | (11,996 | ) | | — | |
| Depreciation | | 660 | | | 532 | |
| Amortization of intangible assets | | 2,827 | | | 1,636 | |
| Amortization of debt discount and debt issuance costs | | 274 | | | 31 | |
| Stock-based compensation | | 1,834 | | | 2,139 | |
| Deferred tax benefit | | (890 | ) | | (858 | ) |
| Change in fair value of warrant liabilities | | (1,829 | ) | | — | |
| Change in fair value of contingent consideration | | 627 | | | 1,227 | |
| Changes in operating assets and liabilities, net of effect of acquisition: | | | | | |
| Accounts receivable | | (296 | ) | | (753 | ) |
| Interest receivable | | (21 | ) | | 2 | |
| Inventories | | (604 | ) | | (320 | ) |
| Other current and long term assets | | 1,171 | | | (251 | ) |
| Accounts payable | | (217 | ) | | (759 | ) |
| Accrued expenses | | (2,871 | ) | | (1,161 | ) |
| Deferred revenue | | (86 | ) | | — | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net cash and cash equivalents used in operating activities | | (12,299 | ) | | (13,949 | ) |
| Investing Activities | | | | | | |
| Proceeds related to sale of SurgiBot assets, net | | 4,496 | | | — | |
| Purchase of property and equipment | | (218 | ) | | (501 | ) |
| Proceeds from sale of property and equipment | | 17 | | | — | |
| Net cash and cash equivalents provided by (used in) investing activities | | 4,295 | | | (501 | ) |
| Financing Activities | | | | | | |
| Payment of notes payable | | — | | | (1,966 | ) |
| Proceeds from issuance of common stock and warrants, net of issuance costs | | 11 | | | 5,304 | |
| Proceeds from issuance of common stock related to sale of SurgiBot assets | | 3,000 | | | — | |
| Proceeds from exercise of stock options and warrants | | 1,712 | | | — | |
| Net cash and cash equivalents provided by financing activities | | 4,723 | | | 3,338 | |
| Effect of exchange rate changes on cash and cash equivalents | | 88 | | | 40 | |
| Net decrease in cash, cash equivalents and restricted cash | | (3,193 | ) | | (11,072 | ) |
| Cash, cash equivalents and restricted cash, beginning of period | | 97,606 | | | 34,590 | |
| Cash, cash equivalents and restricted cash, end of period | $ | 94,413 | | $ | 23,518 | |
| Supplemental Disclosure for Cash Flow Information | | | | | | |

| | | | | |
|---|---|---|---|---|
| Interest paid | $ | 304 | $ | 233 |
| Supplemental Schedule of Noncash Investing and Financing Activities | | | | |
| Transfer of inventories to property and equipment | $ | 71 | $ | — |
| Issuance of common stock as contingent consideration | $ | — | $ | 5,227 |
| Reclass of warrant liability to common stock and additional paid-in capital | $ | 516 | $ | — |

See accompanying notes to consolidated financial statements.

TransEnterix, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. Organization and Capitalization

TransEnterix, Inc. (the "Company") is a medical device company that is digitizing the interface between the surgeon and the patient to improve minimally invasive surgery by addressing the clinical and economic challenges associated with current laparoscopic and robotic options in today's value-based healthcare environment. The Company is focused on the commercialization of the Senhance™ Surgical System (the "Senhance System"), which digitizes laparoscopic minimally invasive surgery. The Senhance System allows for robotic precision, haptic feedback, surgeon camera control via eye sensing and improved ergonomics while offering responsible economics.

The Senhance System has been granted a CE Mark in Europe for laparoscopic abdominal and pelvic surgery, as well as limited thoracic operations excluding cardiac and vascular surgery. In April 2017, the Company submitted a 510(k) application to the FDA for the Senhance System. On October 13, 2017, the Company received 510(k) clearance from the FDA for use in laparoscopic colorectal and gynecologic surgery. The Senhance System is available for sale in the U.S., the EU and select other countries.

The Senhance System is a multi-port robotic surgery system which allows multiple robotic arms to control instruments and a camera. The system features advanced technology to enable surgeons with haptic feedback and the ability to move the camera via eye movement. The system replicates laparoscopic motion that is familiar to experienced surgeons, and integrates three-dimensional high definition vision technology. The Senhance System also offers responsible economics to hospitals by offering robotic technology with reusable instruments thereby reducing additional costs per surgery when compared to other robotic solutions.

The Company also developed the SurgiBot™ System, a single-port, robotically enhanced laparoscopic surgical platform. On December 18, 2017, the Company announced that it had entered into an agreement with Great Belief International Limited ("GBIL") to advance the SurgiBot System towards global commercialization. The agreement transfers ownership of the SurgiBot System assets, while the Company retains the option to distribute or co-distribute the SurgiBot System outside of China. GBIL intends to have the SurgiBot System manufactured in China and obtain Chinese regulatory clearance from the China Food and Drug Administration ("CFDA"), while entering into a nationwide distribution agreement with China National Scientific and Instruments and Materials Company ("CSIMC") for the Chinese market. The agreement provides the Company with proceeds of at least $29 million, of which $7.5 million was received in December 2017. An additional $7.5 million was received at the second closing in March 2018, which included a $3.0 million equity investment at $2.33 per share of common stock. The remaining $14.0 million, representing minimum royalties, will be paid beginning at the earlier of receipt of Chinese regulatory approval or five years after the second closing date.

On September 18, 2015, the Company entered into a Membership Interest Purchase Agreement, (the "Purchase Agreement") with Sofar S.p.A., ("Sofar") as seller, Vulcanos S.r.l. ("Vulcanos"), as the acquired company, and TransEnterix International, Inc. ("TransEnterix International"), a direct, wholly owned subsidiary of the Company which was incorporated in September 2015, as buyer. The closing of the transactions occurred on September 21, 2015 (the "Closing Date") pursuant to which the Company acquired all of the membership interests of Vulcanos from Sofar (now known as the “Senhance Acquisition”), and changed the name of Vulcanos to TransEnterix Italia S.r.l (“TransEnterix Italia”). The Senhance Acquisition included all of the assets, employees and contracts related to the Senhance System. See Note 3 for a description of the related transactions.

On September 3, 2013, TransEnterix Surgical, Inc. a Delaware corporation (“TransEnterix Surgical”), and SafeStitch Medical, Inc., a Delaware corporation (“SafeStitch”) consummated a merger transaction whereby TransEnterix Surgical merged with a merger subsidiary of SafeStitch, with TransEnterix Surgical as the surviving entity in the merger (the “Merger”). As a result of the Merger, TransEnterix Surgical became a wholly owned subsidiary of SafeStitch. On December 6, 2013, SafeStitch changed its name to TransEnterix, Inc. and increased the authorized shares of common stock from 225,000,000 to 750,000,000, and authorized 25,000,000 shares of preferred stock, par value $0.01 per share.

As used herein, the term “Company” refers to the combination of SafeStitch and TransEnterix Surgical after giving effect to the Merger, and includes TransEnterix International, Inc.; TransEnterix Italia S.r.l.; TransEnterix Asia Pte. Ltd.; TransEnterix Taiwan Ltd.; and TransEnterix Japan KK after giving effect to the Senhance Acquisition.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company has prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with the instructions to Form 10-Q and the standards of accounting measurement set forth in the Interim Reporting Topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). Consequently, the Company has not necessarily included in this Form 10-Q all information and footnotes required for audited financial statements. In the opinion of the Company’s management, the accompanying unaudited condensed consolidated financial statements in this Form 10-Q contain all adjustments, consisting only of normal recurring adjustments, except as otherwise indicated, necessary for a fair statement of its financial position, results of operations, and cash flows of the Company for all periods presented. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for any subsequent period or for the entire year. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the Company’s audited financial statements and the notes thereto included in the Fiscal 2017 Form 10-K. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with generally accepted accounting principles in the U.S. (“U.S. GAAP”) have been condensed or omitted in the accompanying interim consolidated financial statements. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The accompanying Consolidated Financial Statements include the accounts of the Company and its direct and indirect wholly owned subsidiaries, SafeStitch LLC, TransEnterix Surgical, Inc., TransEnterix International, Inc., TransEnterix Italia S.r.l., TransEnterix Europe S.Á.R.L; TransEnterix Asia Pte. Ltd.; TransEnterix Taiwan Ltd.; and TransEnterix Japan KK. All inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include identifiable intangible assets and goodwill, contingent consideration, warrant liabilities, stock compensation expense, restructuring and other charges, excess and obsolete inventory reserves, and deferred tax asset valuation allowances.

Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with original maturities of 90 days or less at the time of purchase to be cash equivalents.

Restricted cash at March 31, 2018 includes $6.0 million in a money market account, held in connection with the Company’s notes payable (see Note 13) and $779,000 in cash accounts held as collateral primarily under the terms of an office operating lease, credit cards and automobile leases. Restricted cash at December 31, 2017 includes $6.0 million in a money market account, held in connection with the Company’s notes payable and $389,000 in cash accounts held as collateral primarily under the terms of an office operating lease, credit card agreement and automobile leases.

Concentrations and Credit Risk

The Company’s principal financial instruments subject to potential concentration of credit risk are cash and cash equivalents, including amounts held in money market accounts. The Company places cash deposits with a federally insured financial institution. The Company maintains its cash at banks and financial institutions it considers to be of high credit quality; however, the Company’s cash deposits may at times exceed the FDIC insured limit. Balances in excess of federally insured limitations may not be insured. The Company has not experienced losses on these accounts, and management believes that the Company is not exposed to significant risks on such accounts.

The Company’s accounts receivable are derived from net revenue to customers located throughout the world. The Company evaluates its customers’ financial condition and, generally, requires no collateral from its customers. The Company provides reserves for potential credit losses but has not experienced significant losses to date. The Company had one customer who accounted for 74% of the Company’s net accounts receivable at March 31, 2018 and a different customer who constituted 88% of the Company’s net accounts receivable at December 31, 2017. The Company had two customers who accounted for 91% of the Company’s net revenue for the three months ended March 31, 2018 and a different customer who constituted 91% of the Company’s net revenue for the three months ended March 31, 2017.

Accounts Receivable

Accounts receivable are recorded at net realizable value, which includes an allowance for estimated uncollectable accounts. The allowance for uncollectible accounts was determined based on historical collection experience.

Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or net realizable value. Inventory costs include direct materials, direct labor, and normal manufacturing overhead. The Company records reserves, when necessary, to reduce the carrying value of inventory to its net realizable value. Management considers forecast demand in relation to the inventory on hand, competitiveness of product offerings, market conditions and product life cycles when determining excess and obsolescence and net realizable value adjustments. At the point of loss recognition, a new, lower-cost basis for that inventory is established, and any subsequent improvements in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Identifiable Intangible Assets and Goodwill

Identifiable intangible assets are recorded at cost, or when acquired as part of a business acquisition, at estimated fair value. Certain intangible assets are amortized over 5 to 10 years. Similar to tangible personal property and equipment, the Company periodically evaluates identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Intellectual property consists of purchased patent rights and developed technology acquired as part of a business acquisition. Amortization of the patent rights is recorded using the straight-line method over the estimated useful life of the patents of 10 years. Amortization of the developed technology is recorded using the straight-line method over the estimated useful life of 5 to 7 years. This method approximates the period over which the Company expects to receive the benefit from these assets.  No impairment existed at March 31, 2018 or December 31, 2017.

Indefinite-lived intangible assets, such as goodwill, are not amortized. The Company tests the carrying amounts of goodwill for recoverability on an annual basis at December 31 or when events or changes in circumstances indicate evidence a potential impairment exists, using a fair value based test. The Company continues to operate in one segment, which is considered to be the sole reporting unit and therefore, goodwill is tested for impairment at the enterprise level. See Note 10 for additional information related to goodwill impairment recorded during the second quarter of 2016. No impairment existed at March 31, 2018 or December 31, 2017.

In-Process Research and Development

In-process research and development (“IPR&D”) assets represent the fair value assigned to technologies that were acquired, which at the time of acquisition have not reached technological feasibility and have no alternative future use. IPR&D assets are considered to be indefinite-lived until the completion or abandonment of the associated research and development projects. During the period that the IPR&D assets are considered indefinite-lived, they are tested for impairment on an annual basis, or more frequently if the Company becomes aware of any events occurring or changes in circumstances that indicate that the fair value of the IPR&D assets are less than their carrying amounts. If and when development is complete, which generally occurs upon regulatory approval, and the Company is able to commercialize products associated with the IPR&D assets, these assets are then deemed definite-lived and are amortized based on their estimated useful lives at that point in time. If development is terminated or abandoned, the Company may have a full or partial impairment charge related to the IPR&D assets, calculated as the excess of carrying value of the IPR&D assets over fair value. The IPR&D was acquired on September 21, 2015.

On October 13, 2017, upon regulatory approval and the ability to commercialize the products associated with the IPR&D assets, the assets were deemed definite-lived, reclassified to intellectual property and are now amortized based on their estimated useful lives.

Property and Equipment

Property and equipment consists primarily of machinery, manufacturing equipment, demonstration equipment, computer equipment, furniture, and leasehold improvements, which are recorded at cost.

Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Machinery, manufacturing and demonstration equipment | 3-5 years |
| Computer equipment | 3 years |
| Furniture | 5 years |
| Leasehold improvements | Lesser of lease term or 3 to 10 years |

Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited or charged to operations. Repairs and maintenance costs are expensed as incurred.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine the recoverability of its long-lived assets, the Company evaluates the probability that future estimated undiscounted net cash flows will be less than the carrying amount of the assets. If such estimated cash flows are less than the carrying amount of the long-lived assets, then such assets are written down to their fair value. The Company's estimates of anticipated cash flows and the remaining estimated useful lives of long-lived assets could be reduced in the future, resulting in a reduction to the carrying amount of long-lived assets.

Contingent Consideration

Contingent consideration is recorded as a liability and is the estimate of the fair value of potential milestone payments related to business acquisitions. Contingent consideration is measured at fair value using a discounted cash flow model utilizing significant unobservable inputs including the probability of achieving each of the potential milestones and an estimated discount rate associated with the risks of the expected cash flows attributable to the various milestones. Significant increases or decreases in any of the probabilities of success or changes in expected timelines for achievement of any of these milestones would result in a significantly higher or lower fair value of these milestones, respectively, and commensurate changes to the associated liability. The contingent consideration is revalued at each reporting period and changes in fair value are recognized in the consolidated statements of operations and comprehensive income (loss).

Deferred Gain on Sale of SurgiBot Assets

In conjunction with the agreement with GBIL in relation to the transfer of the SurgiBot System assets, the Company received $7.5 million in December 2017. This amount was included in deferred gain on sale of SurgiBot assets in the consolidated balance sheet pending transfer of the assets in March 2018 and was recognized in gain from sale of SurgiBot assets in the consolidated statement of operations and comprehensive income (loss) for the three months ended March 31, 2018.

Warrant Liabilities

The Company's Series B Warrants are measured at fair value using a simulation model which takes into account, as of the valuation date, factors including the current exercise price, the expected life of the warrant, the current price of the underlying stock, its expected volatility, holding cost and the risk-free interest rate for the term of the warrant (see Note 5). The warrant liability is revalued at each reporting period and changes in fair value are recognized in the consolidated statements of operations and comprehensive income (loss). The selection of the appropriate valuation model and the inputs and assumptions that are required to determine the valuation requires significant judgment and requires management to make estimates and assumptions that affect the reported amount of the related liability and reported amounts of the change in fair value. Actual results could differ from those estimates, and changes in these estimates are recorded when known. As the warrant liability is required to be measured at fair value at each reporting date, it is reasonably possible that these estimates and assumptions could change in the near term.

Translation of Foreign Currencies

The functional currency of the Company's operational foreign subsidiaries is Euros. The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the period. The cumulative translation effect for a subsidiary using a functional currency other than the U.S. dollar is included in accumulated other comprehensive income or loss as a separate component of stockholders' equity.

The Company's intercompany accounts are denominated in the functional currency of the foreign subsidiary. Gains and losses resulting from the remeasurement of intercompany receivables that the Company considers to be of a long-term investment nature are recorded as a cumulative translation adjustment in accumulated other comprehensive income or loss as a separate component of stockholders' equity, while gains and losses resulting from the remeasurement of intercompany receivables from a foreign subsidiary for which the Company anticipates settlement in the foreseeable future are recorded in the consolidated statement of operations and comprehensive income (loss). The net gains and losses included in net loss in the consolidated statements of operations and comprehensive income (loss) for the three months ended March 31, 2018 and 2017 were not significant.

Risk and Uncertainties

The Company is subject to a number of risks similar to other similarly-sized companies in the medical device industry. These risks include, without limitation, the historical lack of profitability; the Company's ability to raise additional capital; its ability to successfully develop, clinically test and commercialize its products; the timing and outcome of the regulatory review process for its products; changes in the health care and regulatory environments of the United States, Italy, other countries in the European Union, and other countries in which the Company intends to operate; its ability to attract and retain key management, marketing and scientific personnel; competition from new entrants; its ability to successfully prepare, file, prosecute, maintain, defend and enforce patent claims and other intellectual property rights; its ability to successfully transition from a research and development company to a marketing, sales and distribution concern; competition in the market for robotic surgical devices; and its ability to identify and pursue development of additional products.

Revenue Recognition

The Company adopted ASC Topic 606, Revenue from Contracts with Customers, on January 1, 2018. The Company's revenue consists of product revenue resulting from the sale of systems, system components, instruments and accessories, and service revenue. The Company accounts for a contract with a customer when there is a legally enforceable contract between the Company and the customer, the rights of the parties are identified, the contract has commercial substance, and collectability of the contract consideration is probable. The Company's revenues are measured based on consideration specified in the contract with each customer, net of any sales incentives and taxes collected from customers that are remitted to government authorities.

The Company's system sale arrangements generally contain multiple products and services. For these bundled sale arrangements, the Company accounts for individual products and services as separate performance obligations if they are distinct, which is if a product or service is separately identifiable from other items in the bundled package, and if a customer can benefit from it on its own or with other resources that are readily available to the customer. The Company's system sale arrangements include a combination of the following performance obligations: system(s), system components, instruments, accessories, and system service. The Company's system sale arrangements generally include a five-year period of service. The first year of service is generally free and included in the system sale arrangement and the remaining four years are generally included at a stated service price. The Company considers the service terms in the arrangements that are legally enforceable to be performance obligations. Other than service, the Company generally satisfies all of the performance obligations up-front. System components, system accessories, instruments, accessories, and service are also sold on a standalone basis.

The Company recognizes revenues as the performance obligations are satisfied by transferring control of the product or service to a customer. The Company generally recognizes revenue for the performance obligations as follows:

- System sales. For systems and system components sold directly to end customers, revenue is recognized when the Company transfers control to the customer, which is generally at the point when acceptance occurs that indicates customer acknowledgment of delivery or installation, depending on the terms of the arrangement. For systems sold through distributors, for which distributors responsible for installation, revenue is recognized generally at the time of shipment. The Company's system arrangements generally do not provide a right of return. The systems are generally covered by a one-year warranty. Warranty costs were not material for the periods presented.
- 

- Instruments and accessories. Revenue from sales of instruments and accessories is recognized when control is transferred to the customers, which generally occurs at the time of shipment, but also occurs at the time of delivery depending on the customer arrangement. Accessory products include sterile drapes used to help ensure a sterile field during surgery, vision products such as replacement endoscopes, camera heads, light guides, and other items that facilitate use of the Senhance Surgical System.
- Service. Service revenue is recognized ratably over the term of the service period as the customers benefit from the service throughout the service period. Revenue related to services performed on a time-and-materials basis is recognized when performed.

For multiple-element arrangements, revenue is allocated to each performance obligation based on its relative standalone selling price. Standalone selling prices are based on observable prices at which the Company separately sells the products or services. Due to limited sales to date, standalone selling prices are not directly observable. The Company estimates the standalone selling price using the market assessment approach considering market conditions and entity-specific factors including, but not limited to, features and functionality of the products and services, geographies, type of customer, and market conditions. The Company regularly reviews standalone selling prices and updates these estimates if necessary.

The following table presents revenue disaggregated by types and geography:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| | (in thousands) (unaudited) | |
| U.S. | | |
| Services | $21 | $— |
| Total U.S. revenue | 21 | — |
| | | |
| Outside of U.S. ("OUS") | | |
| Systems | 3,454 | 1,572 |
| Instruments and accessories | 1,111 | 277 |
| Services | 181 | 97 |
| Total OUS revenue | 4,746 | 1,946 |
| | | |
| Total | | |
| Systems | 3,454 | 1,572 |
| Instruments and accessories | 1,111 | 277 |
| Services | 202 | 97 |
| Total revenue | $4,767 | $1,946 |

The Company recognizes sales by geographic area based on the country in which the customer is based.

Transaction price allocated to remaining performance obligations relates to amounts allocated to products and services for which the revenue has not yet been recognized. A significant portion of this amount relates to service obligations performed under the Company's system sales contracts that will be invoiced and recognized as revenue in future periods. Transaction price allocated to remaining performance obligations was approximately $3.7 million as of March 31, 2018.

The Company invoices its customers based on the billing schedules in its sales arrangements. Contract assets for the periods presented primarily represent the difference between the revenue that was recognized based on the relative selling price of the related performance obligations and the contractual billing terms in the arrangements. Contract assets are included in accounts receivable and totaled $0.1 million and $0 as of March 31, 2018 and 2017, respectively. Deferred revenue for the periods presented was primarily related to service obligations, for which the service fees are billed up-front, generally annually. The associated deferred revenue is generally recognized ratably over the service period. The Company did not have any significant impairment losses on its contract assets for the periods presented. Revenue recognized for the three months ended March 31, 2018 and 2017, that was included in the deferred revenue balance at the beginning of each reporting period was $0.1 million and $0, respectively.

In connection with assets recognized from the costs to obtain a contract with a customer, the Company determined that the sales incentive programs for our sales team do not meet the requirements to be capitalized as the Company does not expect to generate future economic benefits from the related revenue from the initial sales transaction.

Cost of Revenue

Cost of revenue consists of contract manufacturing, materials, labor and manufacturing overhead incurred internally to produce the products. Shipping and handling costs incurred by the Company are included in cost of revenue.

Research and Development Costs

Research and development expenses primarily consist of engineering, product development and regulatory expenses, incurred in the design, development, testing and enhancement of our products. Research and development costs are expensed as incurred.

Stock-Based Compensation

The Company follows ASC 718 “Stock Compensation” and ASC 505-50 “Equity-Based Payments to Non-employees”, which provide guidance in accounting for share-based awards exchanged for services rendered and requires companies to expense the estimated fair value of these awards over the requisite service period. For awards granted to non-employees, the Company determines the fair value of the stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either (1) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty’s performance is complete.

The Company recognizes compensation expense for stock-based awards based on estimated fair values on the date of grant for awards granted to employees. The Company uses the Black-Scholes-Merton option pricing model to determine the fair value of stock options. The fair value of restricted stock units is determined by the market price of the Company’s common stock on the date of grant. The expense associated with stock-based compensation is recognized on a straight-line basis over the requisite service period of each award.

The Company records as expense the fair value of stock-based compensation awards, including stock options and restricted stock units. Compensation expense for stock-based compensation was approximately $1,834,000 and $2,139,000 for the three months ended March 31, 2018 and 2017, respectively.

Income Taxes

The Company accounts for income taxes using the asset and liability method, which requires the recognition of deferred tax assets or liabilities for the temporary differences between financial reporting and tax basis of the Company’s assets and liabilities, and for tax carryforwards at enacted statutory rates in effect for the years in which the asset or liability is expected to be realized. The effect on deferred taxes of a change in tax rates is recognized in income during the period that includes the enactment date. In addition, valuation allowances are established when necessary to reduce deferred tax assets and liabilities to the amounts expected to be realized.

On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Legislation”) was enacted into law, which reduced the US federal corporate income tax rate to 21% for tax years beginning after December 31, 2017. As a result of the newly enacted tax rate, the Company adjusted its U.S. deferred tax assets as of December 31, 2017, by applying the new 21% rate, which resulted in a decrease to the deferred tax assets and a corresponding decrease to the valuation allowance of approximately $36.1 million.

The Tax Legislation also implements a territorial tax system. Under the territorial tax system, in general, the Company's foreign earnings will no longer be subject to tax in the U.S. As part of transition to the territorial tax system the Tax Legislation includes a mandatory deemed repatriation of all undistributed foreign earnings that are subject to a U.S. income tax. The Company estimates that the deemed repatriation will not result in any additional U.S. income tax liability as it estimates it currently has no undistributed foreign earnings.

In accordance with Staff Accounting Bulletin ("SAB") No. 118, income tax effects of the Tax Legislation may be refined upon obtaining, preparing, or analyzing additional information during a measurement period, of one year. During the measurement period provisional amounts may be adjusted for the effects, if any, of interpretive guidance issued after December 31, 2017, by U.S. regulatory and standard-setting bodies.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources.

Segments

The Company operates in one business segment—the research, development and sale of medical device robotics to improve minimally invasive surgery. The Company's chief operating decision maker (determined to be the Chief Executive Officer) does not manage any part of the Company separately, and the allocation of resources and assessment of performance are based on the Company's consolidated operating results. Approximately 60% and 60% of the Company's total consolidated assets are located within the U.S. as of March 31, 2018 and December 31, 2017, respectively. The remaining assets are mostly located in Europe and are primarily related to the Company's facility in Italy, and include goodwill, intellectual property, other current assets, property and equipment, cash, accounts receivable and inventory of $99.2 million and $99.9 million at March 31, 2018 and December 31, 2017, respectively. Total assets outside of the U.S. excluding goodwill amounted to 31% and 31% of total consolidated assets at March 31, 2018 and December 31, 2017, respectively. The Company recognizes sales by geographic area based on the country in which the customer is based. For the three months ended March 31, 2018 and 2017, 100% of net revenue was generated in Europe.

Impact of Recently Issued Accounting Standards

In July 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. The amendments in this update are intended to simplify the accounting for certain equity-linked financial instruments and embedded features with down round features that result in the strike price being reduced on the basis of the pricing of future equity offerings. Under the new guidance, a down round feature will no longer need to be considered when determining whether certain financial instruments or embedded features should be classified as liabilities or equity instruments. That is, a down round feature will no longer preclude equity classification when assessing whether an instrument or embedded feature is indexed to an entity's own stock. In addition, the amendments clarify existing disclosure requirements for equity-classified instruments. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The adoption of this ASU should not have a material impact on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) which addresses changes to reduce the presentation diversity of certain cash receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and distributions received from equity method investees. The guidance became effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The new standard will be applied retrospectively, but may be applied prospectively if retrospective application would be impracticable. The adoption of this ASU did not have an impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company currently expects that upon adoption, ROU assets and lease liabilities will be recognized in the balance sheet in amounts that the Company does not expect will have a material impact on the consolidated financial statements based on the Company's current leases.

In February 2017, the FASB issued ASU No. 2017-05, Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) — Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The new standard clarifies the scope of guidance applicable to sales of nonfinancial assets and also provides guidance on accounting for partial sales of such assets. The adoption of this

ASU did not have an impact on the consolidated financial statements.

The Company adopted the New Revenue Standard in the first quarter of fiscal year 2018 using the modified retrospective method resulting in a cumulative catch-up adjustment to opening retained earnings. The Company applied the New Revenue Standard to all contracts and concluded that the timing and measurement of revenue recognition is materially consistent under the New Revenue Standard, except for the future billings related to future service included in its multi-year contracts that should be part of the consideration allocated to all performance obligations under the New Revenue Standard. Under the prior standard, future service billings were considered to be contingent revenue, and therefore, were not included in the consideration allocated. Accordingly, the amount of consideration allocated to the performance obligations identified in the Company's system arrangements is different under the New Revenue Standard than the amount allocated under the prior standard. In general, this will result in an acceleration of the amount of revenue recognized for system sales with multi-year service contracts. Due to limited sales to date, the Company recorded a $11,000 cumulative catch-up adjustment to retained earnings in the first quarter of fiscal year 2018, offset by reductions in accounts receivable of $4,000 and deferred revenue of $15,000. Under the prior standard, revenue would have been $8,000 greater in the first quarter of fiscal year 2018 than under the New Revenue Standard.

3. Acquisition of Senhance Surgical Robotic System

On September 21, 2015, the Company completed the strategic acquisition, through its wholly owned subsidiary TransEnterix International, from Sofar, of all of the assets, employees and contracts related to the advanced robotic system for minimally invasive laparoscopic surgery now known as the Senhance System and changed the name of the acquired company from Vulcanos S.r.l. to TransEnterix Italia S.r.l.

Under the terms of the Purchase Agreement, the consideration consisted of the issuance of 15,543,413 shares of the Company's common stock (the "Securities Consideration") and approximately $25.0 million U.S. Dollars and €27.5 million Euro in cash consideration (the "Cash Consideration"). The Securities Consideration was issued in full at the closing of the Senhance Acquisition; the Cash Consideration was or will be paid in four tranches, as follows:

(1) $25.0 million of the Cash Consideration, which was paid at closing.

(2) On December 30, 2016, the Company and Sofar entered into an Amendment to the Purchase Agreement (the "Amendment") to restructure the terms of the second tranche of the Cash Consideration (the "Second Tranche"). Under the Amendment, the Second Tranche was restructured to be paid through the (A) the issuance of 3,722,685 shares of the Company's common stock with an aggregate fair market value of €5.0 million and (B) the payment of €5.0 million in cash upon the occurrence of either (i) receipt of clearance from the FDA for the Senhance System; or (ii) the Company having cash on hand of at least $50.0 million, or (iii) successfully completing a financing, raising at least $50.0 million in gross proceeds after September 2015, exclusive of any financing proceeds related to the December 2016 purchase agreement between the Company and Lincoln Park Capital Fund, LLC; with payment of simple interest at a rate of 9.0% per annum beginning on December 31, 2016. The Five Million Euro (€ 5,000,000) cash payment began to accrue simple interest at a rate of 9% per annum beginning on December 31, 2016 and continued to accrue interest until November 15, 2017 when it was paid in full.

(3) The third tranche of the Cash Consideration (the "Third Tranche") of €15.0 million shall be payable upon achievement of trailing revenues from sales or services contracts of the Senhance System of at least €25.0 million over a calendar quarter.

(4) The fourth tranche of the Cash Consideration of €2.5 million was payable in installments by December 31 of each year as reimbursement for certain debt payments made by Sofar under an existing Sofar loan agreement in such year, with payments beginning as of December 31, 2016. As of March 31, 2018, the Company had paid €1.8 million of the fourth tranche.

The Third Tranche would have been payable even if the Second Tranche was not then payable. In addition, the Third Tranche payments will be accelerated in the event that (i) the Company or TransEnterix International is acquired, (ii) the Company significantly reduces or suspends selling efforts of the Senhance System, or (iii) the Company acquires a business that offers alternative products that are directly competitive with the Senhance System.

Under the Purchase Agreement, 10% of the Securities Consideration was being held in escrow to support Sofar's representations and warranties under the Purchase Agreement. In accordance with a related escrow agreement, the escrowed shares were released in September 2016. The Company, a subsidiary and Sofar also entered into a Security Agreement, which provides that 10% of the membership interests of TransEnterix Italia have a lien placed thereon by and in favor of Sofar to support the Company's representations and warranties under the Purchase Agreement. The security interest period was twenty-four months after the closing of the Senhance Acquisition and expired on September 21, 2017.

The Purchase Agreement contains customary representations and warranties of the parties and the parties have customary indemnification obligations, which are subject to certain limitations described further in the Purchase

Agreement.

The Senhance Acquisition was accounted for as a business combination utilizing the methodology prescribed in ASC 805. The purchase price for the Senhance Acquisition was allocated to the assets acquired and liabilities assumed based on their estimated fair values.

4. Cash, Cash Equivalents, and Restricted Cash

Cash, cash equivalents and restricted cash consist of the following:

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| | (In thousands) | |
| | (unaudited) | |
| Cash | $3,959 | $ 4,039 |
| Money market | 83,675 | 87,178 |
| Total cash and cash equivalents | $87,634 | $ 91,217 |
| Restricted cash | $6,779 | $ 6,389 |
| Total | $94,413 | $ 97,606 |

Restricted cash at March 31, 2018 includes $6.0 million in a money market account, held in connection with the Company's notes payable and $779,000 in cash accounts held as collateral primarily under the terms of an office operating lease, credit card agreement and automobile leases. Restricted cash at December 31, 2017 includes $6.0 million in a money market account, held in connection with the Company's notes payable and $389,000 in cash accounts held as collateral primarily under the terms of an office operating lease, credit card agreement and automobile leases.

5. Fair Value

The Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis. These assets and liabilities include cash and cash equivalents, restricted cash, contingent consideration and warrant liabilities. ASC 820-10 ("Fair Value Measurement Disclosure") requires the valuation using a three-tiered approach, which requires that fair value measurements be classified and disclosed in one of three tiers. These tiers are: Level 1, defined as quoted prices in active markets for identical assets or liabilities; Level 2, defined as valuations based on observable inputs other than those included in Level 1, such as quoted prices for similar assets and liabilities in active markets, or other inputs that are observable or can be corroborated by observable input data; and Level 3, defined as valuations based on unobservable inputs reflecting the Company's own assumptions, consistent with reasonably available assumptions made by other market participants. The Company did not have any transfers of assets and liabilities between Level 1, Level 2, and Level 3 of the fair value hierarchy during the three months ended March 31, 2018 and the year ended December 31, 2017.

For assets and liabilities recorded at fair value, it is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data and therefore, are based primarily upon estimates, are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values. The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

As prescribed by U.S. GAAP, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures and based on various factors, it is possible that an asset or liability may be classified differently from period to period. However, the Company expects changes in classifications between levels will be rare.

The carrying values of accounts receivable, interest receivable, accounts payable, and certain accrued expenses at March 31, 2018 and December 31, 2017, approximate their fair values due to the short-term nature of these items. The Company’s notes payable balance also approximates fair value as of March 31, 2018 and December 31, 2017, as the interest rates on the notes payable approximate the rates available to the Company as of these dates.

The following are the major categories of assets measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

| | March 31, 2018 (In thousands) (unaudited) | | | |
|---|---|---|---|---|
| Description | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets measured at fair value | | | | |
| Cash and cash equivalents | $87,634 | $ — | $ — | $87,634 |
| Restricted cash | 6,779 | — | — | 6,779 |
| Total Assets measured at fair value | $94,413 | $ — | $ — | $94,413 |
| Liabilities measured at fair value | | | | |
| Contingent consideration | $— | $ — | $ 13,045 | $13,045 |
| Warrant liabilities | — | — | 11,745 | 11,745 |
| Total liabilities measured at fair value | $— | $ — | $ 24,790 | $24,790 |

| | December 31, 2017 (In thousands) | | | |
|---|---|---|---|---|
| Description | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets measured at fair value | | | | |
| Cash and cash equivalents | $91,217 | $ — | $ — | $91,217 |
| Restricted cash | 6,389 | — | — | 6,389 |
| Total Assets measured at fair value | $97,606 | $ — | $ — | $97,606 |
| Liabilities measured at fair value | | | | |
| Contingent consideration | $— | $ — | $ 12,418 | $12,418 |
| Warrant liabilities | — | — | 14,090 | 14,090 |
| Total liabilities measured at fair value | $— | $ — | $ 26,508 | $26,508 |

The Company’s financial liabilities consisted of contingent consideration potentially payable to Sofar related to the Senhance Acquisition in September 2015 (Note 3). This liability is reported as Level 3 as estimated fair value of the contingent consideration related to the acquisition requires significant management judgment or estimation and is calculated using the income approach, using various revenue and cost assumptions and applying a probability to each outcome. The change in fair value of the contingent consideration of $0.6 million for the three months ended March 31, 2018 and $1.2 million for the three months ended March 31, 2017 was primarily due to the effect of the passage of time on the fair value measurement and the impact of foreign currency exchange rates. Adjustments associated with the change in fair value of contingent consideration are included in the Company's consolidated statements of operations and comprehensive income (loss).

On April 28, 2017, the Company sold 24.9 million units (the "Units"), each consisting of one share of the Company's common stock, par value $0.001 per share (the "Common Stock"), a Series A warrant to purchase one share of Common Stock with an exercise price of $1.00 per share  (the "Series A Warrants"), and a Series B warrant to purchase 0.75 shares of Common Stock with an exercise price of $1.00 per share (the "Series B Warrants," together with the Series A Warrants, the "Warrants"), at an offering price of $1.00 per Unit. Each Series A Warrant was exercisable at any time beginning on the date of issuance, and from time to time thereafter, through and including the first anniversary of the issuance date, unless terminated earlier as provided in the Series A Warrant. Receipt of 510(k) clearance for the Senhance System on October 13, 2017, triggered the acceleration of the expiration date of the Series A Warrants to October 31, 2017. Each Series B Warrant may be exercised at any time beginning on the date of issuance and from time to time thereafter through and including the fifth anniversary of the issuance date.

The fair value of the Series A Warrants of $2.5 million at the date of issuance was estimated using the Black-Scholes Merton model which used the following inputs: term of 1 year, risk free rate of 1.07%, no dividends, volatility of 73.14%, and share price of $0.65 per share based on the trading price of the Company's common stock. All Series A Warrants were exercised as of December 31, 2017.

The change in fair value of warrants for the three months ended March 31, 2018 of $1.8 million was included in the Company's consolidated statement of operations and comprehensive income (loss). The following table presents the inputs and valuation methodologies used for the Company's fair value of the Series B warrants:

| Series B | March 31, 2018 | December 31, 2017 | April 28, 2017 (date of issuance) |
|---|---|---|---|
| Fair value | $11.7 million | $14.1 million | $6.2 million |
| Valuation methodology | Monte Carlo | Monte Carlo | Black-Scholes Merton |
| Term | 4.08 years | 4.33 years | 5 years |
| Risk free rate | 2.48% | 2.13% | 1.81% |
| Dividends | — | — | — |
| Volatility | 85.60% | 80.60% | 73.14% |
| Share price | $ 1.70 | $ 1.93 | $ 0.65 |
| Probability of additional financing | 25% in 2018 and 75% in 2019 | 25% in 2018 and 75% in 2019 | Not Applicable |

The following table presents quantitative information about the inputs and valuation methodologies used for the Company's fair value measurements classified in Level 3, with the exception of the warrant liability, which is explained above as of March 31, 2018 and December 31, 2017:

| | Valuation Methodology | Significant Unobservable Input | Weighted Average (range, if applicable) |
|---|---|---|---|
| Contingent consideration | Probability weighted income approach | Milestone dates | 2018 to 2020 |
| | | Discount rate | 7.5% to 12% |
| | | Probability of occurrence | 100% |

The following table summarizes the change in fair value, as determined by Level 3 inputs, for all assets and liabilities using unobservable Level 3 inputs for the three months ended March 31, 2018:

| | Fair Value Measurement at Reporting Date (Level 3) (In thousands) (unaudited) | |
|---|---|---|
| | Common stock warrants | Contingent consideration |
| Balance at December 31, 2017 | $14,090 | $ 12,418 |
| Exercise of warrants | (516 ) | — |
| Change in fair value | (1,829 ) | 627 |
| Balance at March 31, 2018 | $11,745 | $ 13,045 |
| Current portion | — | 760 |
| Long term portion | 11,745 | 12,285 |
| Balance at March 31, 2018 | $11,745 | $ 13,045 |

6. Accounts Receivable, Net

The following table presents the components of accounts receivable:

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| | (In thousands) (unaudited) | |
| Gross accounts receivable | $1,910 | $ 1,609 |
| Allowance for uncollectible accounts | (73 ) | (73 ) |
| Total accounts receivable, net | $1,837 | $ 1,536 |

7. Inventories

The components of inventories are as follows:

| | March 31, 2018 (unaudited) | December 31, 2017 |
|---|---|---|
| | (In thousands) | |
| Finished goods | $4,268 | $ 4,432 |
| Raw materials | 7,376 | 6,385 |
| Total inventories | $11,644 | $ 10,817 |

8. Other Current Assets

The following table presents the components of other current assets:

| | March 31, 2018 (unaudited) | December 31, 2017 |
|---|---|---|
| | (In thousands) | |
| Prepaid expenses | $1,442 | $ 1,519 |
| Advances to vendors | 6,738 | 6,403 |
| Other receivables | 124 | 1,422 |
| Total | $8,304 | $ 9,344 |

9. Property and Equipment

Property and equipment consisted of the following:

| | March 31, 2018 (unaudited) | December 31, 2017 |
|---|---|---|
| | (In thousands) | |
| Machinery, manufacturing and demonstration equipment | $11,189 | $ 10,866 |
| Computer equipment | 2,191 | 2,187 |
| Furniture | 603 | 598 |

| | | |
|---|---|---|
| Leasehold improvements | 2,248 | 2,237 |
| Total property and equipment | 16,231 | 15,888 |
| Accumulated depreciation and amortization | (9,825 ) | (9,218 ) |
| Property and equipment, net | $6,406 | $ 6,670 |

Depreciation expense was $660,000 and $532,000, for the three months ended March 31, 2018 and 2017, respectively.

10. Goodwill, In-Process Research and Development and Intellectual Property

Goodwill

Goodwill of $93.8 million was recorded in connection with the Merger, as described in Note 1, and goodwill of $38.3 million was recorded in connection with the Senhance Acquisition, as described in Note 3. The carrying value of goodwill and the change in the balance for the three months ended March 31, 2018 is as follows:

| | Goodwill (In thousands) (unaudited) |
|---|---|
| Balance at December 31, 2017 | $ 71,368 |
| Foreign currency translation impact | 586 |
| Balance at March 31, 2018 | $ 71,954 |

Accumulated impairment of goodwill as of March 31, 2018 and December 31, 2017 was $61.8 million. No impairment was recorded as of March 31, 2018 and December 31, 2017.

During the second quarter of 2017, the Company's stock price experienced a significant decline. The Company performed a Step 1 goodwill impairment test as of the second quarter and determined that no charge to goodwill for impairment was required during the second quarter of 2017. As of December 31, 2017, the Company elected to bypass the qualitative assessment and calculated the fair value of the Company's reporting unit, which exceeded the carrying amount. Accordingly, no charge for goodwill impairment was required as of December 31, 2017. No impairment indicators were noted during the three months ended March 31, 2018.

In-Process Research and Development

As described in Note 3, on September 21, 2015, the Company acquired all of the assets related to the Senhance System and recorded $17.1 million of IPR&D. The estimated fair value of the IPR&D was determined using a probability-weighted income approach, which discounts expected future cash flows to present value. The projected cash flows were based on certain key assumptions, including estimates of future revenue and expenses, taking into account the stage of development of the technology at the acquisition date and the time and resources needed to complete development. The Company used a discount rate of 45% and cash flows that have been probability adjusted to reflect the risks of product commercialization, which the Company believes are appropriate and representative of market participant assumptions.

On October 13, 2017, upon receipt of regulatory clearance to commercialize the products associated with the IPR&D assets in the United States, the assets were deemed definite-lived, transferred to developed technology and are amortized based on their estimated useful lives.

Intellectual Property

As described in Note 3, on September 21, 2015, the Company acquired all of the developed technology related to the Senhance System and recorded $48.5 million of intellectual property. The estimated fair value of the intellectual property was determined using a probability-weighted income approach, which discounts expected future cash flows to present value. The projected cash flows were based on certain key assumptions, including estimates of future revenue and expenses, taking into account the stage of development of the technology at the acquisition date and the time and resources needed to complete development. The Company used a discount rate of 45% and cash flows that have been probability adjusted to reflect the risks of product commercialization, which the Company believes are appropriate and representative of market participant assumptions.

In November 2016, the Company agreed to enter into a technology and patents purchase agreement with Sofar to acquire from Sofar certain technology and intellectual property rights related to the Senhance Acquisition, and formerly licensed by the Company. The technology and patents were acquired in 2017 at an acquisition price of $400,000.

The components of gross intellectual property, accumulated amortization, and net intellectual property as of March 31, 2018 and December 31, 2017 are as follows:

| | March 31, 2018 (In thousands) | | | | December 31, 2017 (In thousands) | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Foreign currency translation impact | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Foreign currency translation impact | Net Carrying Amount |
| Developed technology | 66,413 | (22,539) | 6,939 | 50,813 | 66,413 | (19,724) | 5,529 | 52,218 |
| Technology and patents purchased | 400 | (42) | 62 | 420 | 400 | (30) | 50 | 420 |
| Total intellectual property | $66,813 | $ (22,581) | $ 7,001 | $51,233 | $66,813 | $ (19,754) | $ 5,579 | $52,638 |

The weighted average remaining useful life of the developed technology and technology and patents purchased was 4.5 years and 9.1 years, respectively as of March 31, 2018 and 4.8 years and 9.3 years, respectively as of December 31, 2017.

11. Income Taxes

Income taxes have been accounted for using the asset and liability method in accordance with ASC 740 "Income Taxes". The Company computes its interim provision for income taxes by applying the estimated annual effective tax rate method. The Company estimated an annual effective tax rate of 8.1% for the year ending December 31, 2018. This rate does not include the impact of any discrete items. The Company incurred losses for the three month periods ended March 31, 2018 and is forecasting additional losses through the year, resulting in an estimated net loss for both financial statement and tax purposes for the year ending December 31, 2018. Due to the Company's history of losses, there is not sufficient evidence to record a net deferred tax asset associated with the U.S., Luxembourg, Swiss, and Asian operations. Accordingly, a full valuation allowance has been recorded related to the net deferred tax asset in that jurisdiction. Deferred tax assets and liabilities related to the TransEnterix Italia subsidiary have been recorded as a component of purchase accounting as of the acquisition date. The deferred tax benefit during the three months ended March 31, 2018 and 2017, was approximately $0.9 million and $0.9 million, respectively.

There is no net deferred tax asset recorded in relation to TransEnterix Italia and accordingly no valuation allowance has been recorded in that jurisdiction.

The Company's effective tax rate for each of the three month periods ended March 31, 2018 and 2017 was 50.2% and 5.3%, respectively. At March 31, 2018, the Company had no unrecognized tax benefits that would affect the Company's effective tax rate.

At December 31, 2017, the Company's accounting for the 2017 Tax Cuts and Jobs Act was incomplete; however, it expects to complete the accounting by December 2018. Updates to the Company's calculations may result in changes to the provisional adjustments recorded at year-end.

12. Accrued Expenses

The following table presents the components of accrued expenses:

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| | (In thousands) | |
| | (unaudited) | |
| Taxes and other assessments | $3,221 | $ 3,192 |
| Compensation and benefits | 2,959 | 4,533 |
| Other | 739 | 504 |
| Deferred rent | 526 | 595 |
| Consulting and other vendors | 208 | 1,414 |
| Interest and final payment fee | 394 | 309 |
| Legal and professional fees | 175 | 386 |
| Royalties | — | 41 |
| Total | $8,222 | $ 10,974 |

13. Notes Payable

On May 10, 2017, the Company and its domestic subsidiaries, as co-borrowers, entered into a Loan and Security Agreement (the “Innovatus Loan Agreement”) with Innovatus Life Sciences Lending Fund I, LP, as Lender and Collateral Agent (the “Lender”). Under the Innovatus Loan Agreement, the Lender agreed to make certain term loans in the aggregate principal amount of up to $17,000,000. Funding of the first $14,000,000 tranche occurred on May 10, 2017. The Company cannot currently draw on the Second Tranche of $3,000,000. So long as the Company meets each Interest-Only Milestone (as defined below), the Company is entitled to make interest-only payments for up to twenty-four (24) months. At the end of the interest-only period, the Company will be required to repay the term loans over a two-year period, based on a twenty-four (24) month amortization schedule, with a final maturity date occurring on the fourth anniversary of the initial funding date. However, the interest-only period will end if the Company fails to meet any Interest-Only Milestone, subject to certain cure provisions. Commencing on the first day of the month following such failure to achieve an Interest-Only Milestone, the Company will be required to repay the term loans over a two year period, based on a twenty-four (24) month amortization schedule. The Interest-Only Milestones require the Company to (i) achieve certain twelve month revenue targets, measured quarterly, commencing with the quarter ending March 31, 2018, (ii) meet a minimum capital raising threshold through the sale and issuance of equity securities during the period from April 10, 2017 through May 31, 2018 and (iii) obtain clearance for commercialization of the Senhance System by the FDA (“Senhance Clearance”) by May 30, 2018 (each such milestone, an “Interest-Only Milestone”).

The term loans bear interest at a fixed rate equal to 11% per annum, of which 2.5% can be paid in-kind and added to the outstanding principal amount of the term loans until the earlier of (i) the first anniversary following the funding date and (ii) the Company's failure to achieve an Interest-Only Milestone. The Company will be required to repay the term loans if they are accelerated following an event of default. In addition, the Company is permitted to prepay the term loans in full at any time upon five (5) business days' written notice to the Lender. Upon the earliest to occur of the maturity date, acceleration of the term loan, or prepayment of the term loan, the Company is required to make a final payment equal to the total term loan commitment multiplied by four percent (4%) (the "Final Fee"); provided, however, that in the event the Company refinances its obligations with the Lender after Senhance Clearance, no Final Fee or Prepayment Fee (as defined below) will be due thereunder; and provided, further, that if the Company elects to refinance its obligations prior to the funding of the Second Tranche, the Final Fee with respect to the Second Tranche shall be paid in full on the date of such refinancing. Any prepayment of the term loans in full, whether mandatory or voluntary, must include (i) the Final Fee, (ii) interest at the default rate (which is the rate otherwise applicable plus five percent (5%)) with respect to any amounts past due, (iii) the Lender's expenses and all other obligations that are due and payable to the Lender and (iv) a prepayment fee of three percent (3%) if the term loan is paid in full on or before the first anniversary of the effective date, two percent (2%) if paid off after the first anniversary but on or before the second anniversary of the effective date and one percent (1%) if paid off after the second anniversary but on or before the third anniversary of the effective date (the "Prepayment Fee").

In connection with the funding, the Company paid a facility fee of $170,000 on the date of funding of the first tranche and incurred additional debt issuance costs of approximately $1.2 million, recorded as debt discount. In addition, the Company issued warrants to the Lender to purchase shares of the Company's common stock. Additional warrants will be issued on the funding date of each subsequent tranche and will expire five (5) years from such issue date. The warrants issued in connection with funding of the first tranche entitle the Lender to purchase up to 1,244,746 shares of the Company's common stock at an exercise price of $1.00 per share. The Company estimated the fair value of the warrants to be $300,000. The value of the warrants was classified as equity and recorded as a discount to the loan. The debt discount is amortized as interest expense using the effective interest method over the life of the loan. As of March 31, 2018 and December 31, 2017, the unamortized debt discount was $857,000 and $1.0 million, respectively.

The Company's obligations under the Innovatus Loan Agreement are secured by a security interest in all of the assets of the Company and its current and future domestic and material foreign subsidiaries, including a security interest in the intellectual property. The Innovatus Loan Agreement contains customary representations and covenants that, subject to exceptions, restrict the Company's ability to do the following things: declare dividends or redeem or repurchase equity interests; incur additional liens; make loans and investments; incur additional indebtedness; engage in mergers, acquisitions, and asset sales; transact with affiliates; undergo a change in control; add or change business locations; and engage in businesses that are not related to its existing business. Under the terms of the Innovatus Loan Agreement, the Company is required to maintain minimum unrestricted cash in an amount equal to (x) six million dollars ($6,000,000), at all times prior to Senhance Clearance; and (y) at all times thereafter, the least of (i) $6,000,000, (ii) the Company's trailing three (3) months' cash used to fund operating activities, as determined as of the most recent month end and (iii) the then outstanding principal amount of the term loans, together with accrued but unpaid interest.

In connection with its entrance into the Innovatus Loan Agreement, the Company repaid its existing credit facility with Silicon Valley Bank and Oxford Finance LLC (the "Prior Lenders"), which loan and security agreement, as subsequently amended and restated is referred to as the "SVB Loan Agreement." The Company recognized a loss of $308,000 on the extinguishment of notes payable which is included in interest expense on the consolidated statements of operations and comprehensive loss for the year ended December 31, 2017. The Company paid $1.3 million in final payment obligations and $255,000 in facility fees under the SVB Loan Agreement upon repayment.

The SVB Loan Agreement was initially entered into on January 17, 2012 by TransEnterix Surgical. In connection with the Merger, the Company assumed and became the borrower under the SVB Loan Agreement.

On August 14, 2015, the Company entered into the First Amendment to the SVB Loan Agreement (the "First Amendment") with the Prior Lenders. The first tranche of the First Amendment increased the Company's borrowings at August 14, 2015 from $10,000,000 to $20,000,000. The First Amendment allowed for interest-only payments at 7.5% per annum through April 30, 2016 and had a maturity date of October 1, 2018.

On September 18, 2015, in connection with entry into the Purchase Agreement with Sofar S.p.A. (see Note 3 for a description of the related transactions), the Company and the Prior Lenders entered into the Consent and Second Amendment (the "Second Amendment") to the SVB Loan Agreement. The Second Amendment modified the period in which the Company could make interest-only payments at 7.5% per annum on the term loans until January 31, 2016. The Second Amendment had a maturity date of July 1, 2018.

In addition, in connection with the borrowings under the SVB Loan Agreement, the Company issued warrants to the Prior Lenders to purchase shares of the Company's common stock amounting to an aggregate of 430,815 warrants under the SVB Loan Agreement. The warrants expire seven years from their respective issue date.

In accordance with ASC 470-50 Debt – Modifications and Extinguishments, it was determined that a debt refinancing of the SVB Loan Agreement on September 26, 2014, was considered to be a debt modification. Accordingly, the Company recorded approximately $129,000 of debt discount, consisting of the $75,000 facility fee and the relative fair value of warrants on the issue date of $54,000. Additionally, approximately $30,000 of legal fees was recorded as a result of the transaction. The debt discount and deferred financing costs were amortized over the life of the new debt agreement using the effective interest method into interest expense, net, until the debt was extinguished in May 2017.

In accordance with ASC 470-50 Debt – Modifications and Extinguishments, it was determined that debt refinancings of the SVB Loan Agreement on August 14, 2015, September 18, 2015, April 19, 2016 and September 7, 2016 were considered to be debt modifications. The Company recorded a debt discount of approximately $210,000 for these amendments. Accordingly, the unamortized debt discount was presented as a reduction of the related debt liability in the Company's consolidated balance sheet. The debt discount was amortized over the life of the new debt agreement using the effective interest method into interest expense, net, until the debt was extinguished in May 2017.

In connection with the issuance of the notes payable and amendments under the SVB Loan Agreement, the Company incurred approximately $371,000 in debt issuance costs paid to the Prior Lenders and third parties and $280,000 in debt issuance costs related to issuance of warrants to the Prior Lenders. The unamortized balance of $107,000 as of December 31, 2016, was amortized using the effective interest method, until the debt was extinguished in May 2017. At the time of extinguishment in May 2017, $63,000 of unamortized debt issuance costs were included in the loss on extinguishment of notes payable.

14. Warrants

The following table summarizes the change in warrants for the three months ended March 31, 2018:

| | Number of Warrants | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Weighted Average Fair Value |
|---|---|---|---|---|
| Outstanding at December 31, 2017 | 13,162,668 | $ 1.08 | 4.5 | $ 0.39 |
| Exercised | (1,182,857 ) | 1.44 | — | — |
| Cancelled | (95,600 ) | 1.65 | — | — |
| Outstanding at March 31, 2018 | 11,884,211 | 1.03 | 4.5 | $ 0.34 |

In February 2018, the Company terminated its relationship with a vendor who had been issued warrants to acquire 950,000 shares of common stock (the "Service Warrants") with staggered vesting requirements. As part of the termination agreement, the Company accelerated the full vesting of the Service Warrants.

15. Purchase Agreement, Controlled Equity Offering and Public Offering of Common Stock

On April 28, 2017, the Company sold 24.9 million units, each consisting of one share of the Company's common stock, a Series A warrant to purchase one share of common stock, and a Series B warrant to purchase 0.75 shares of common stock, at a public offering price of $1.00 per unit for aggregate gross proceeds of $24.9 million in an underwritten firm commitment public offering. Net proceeds after issuance costs were $23.2 million, assuming no exercise of the warrants. The closing of the public offering occurred on May 3, 2017.

On December 16, 2016, the Company entered into a purchase agreement (the "LPC Purchase Agreement") with Lincoln Park Capital Fund, LLC, ("Lincoln Park"), pursuant to which the Company had the right to sell to Lincoln Park up to an aggregate of $25.0 million in shares of the Company's common stock, (the "Common Stock"), subject to certain limitations and conditions set forth in the LPC Purchase Agreement. The Company issued to Lincoln Park 345,421 shares of Common Stock as commitment shares in consideration for the LPC Purchase Agreement through April 27, 2017. Sales under the LPC Purchase Agreement for the year ended December 31, 2016 were 300,000 shares, with gross proceeds of $412,500 and net proceeds of $392,500. Sales under the LPC Purchase Agreement for the year ended December 31, 2017 were 3,972,741 shares, with gross and net proceeds of $5,304,000. Effective April 27, 2017, the Company terminated the LPC Purchase Agreement. The LPC Purchase Agreement provided the Company with an election to terminate the Purchase Agreement for any reason or for no reason by delivering a notice to Lincoln Park, and the Company did not incur any early termination penalties in connection with the termination of the LPC Purchase Agreement.

On August 31, 2017, the Company entered into an At-the-Market Equity Offering Sales Agreement (the "2017 Sales Agreement") with Stifel, Nicolaus & Company, Incorporated ("Stifel"), as sales agent, pursuant to which the Company can sell through Stifel, from time to time, up to $50.0 million in shares of common stock in an at-the-market offering. The Company pays Stifel a commission of approximately 3% of the aggregate gross proceeds received from all sales of common stock under the 2017 Sales Agreement. Unless otherwise terminated earlier, the 2017 Sales Agreement continues until all shares available under the Sales Agreement have been sold.

The following table summarizes the total sales under the 2017 Sales Agreement for the periods indicated (in thousands, except per share amounts):

| | 2017 Sales Agreement Year Ended December 31, 2017 |
|---|---|
| Total shares of common stock sold | 15,998.5 |
| Average price per share | $ 3.13 |
| Gross proceeds | $ 50,000 |
| Commissions earned by Stifel | $ 1,500 |
| Other issuance costs | $ 97 |

16. Basic and Diluted Net Loss per Share

Basic net loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed giving effect to all dilutive potential common shares that were outstanding during the period. Diluted potential common shares consist of incremental shares issuable upon exercise of stock options, warrants and restricted stock units. In computing diluted net loss per share for the three months ended March 31, 2018 and 2017, no adjustment has been made to the weighted average outstanding common shares as the assumed exercise of outstanding options, warrants and restricted stock units would be anti-dilutive.

17. Related Person Transactions

On September 18, 2015, TransEnterix Italia entered into a services agreement for receipt of administrative services from Sofar and payment of rent to Sofar, a stockholder that owned approximately 9.6% and 16% of the Company’s common stock at March 31, 2018 and 2017, respectively. Expenses for administrative services were approximately $0 and $52,000 for the three months ended March 31, 2018 and 2017, respectively. The services agreement terminated in 2017.

As discussed in Note 3, in September 2015, the Company completed the Senhance Acquisition using a combination of cash, stock and potential post-acquisition milestone payments. On December 30, 2016, the Company entered into an Amendment to the Senhance Acquisition purchase agreement with Sofar to restructure the terms of the Second Tranche of the Cash Consideration. Under the Amendment, the Second Tranche was restructured to reduce the contingent cash consideration by €5.0 million in exchange for the issuance of 3,722,685 shares of the Company's common stock with an aggregate fair market value of €5.0 million. On January 4, 2017, the Company issued to Sofar 3,722,685 shares of the common stock with a fair value of €5.0 million. The price per share was $1.404 and was calculated based on the average of the closing prices of the Company's common stock on ten consecutive trading days ending one day before the execution of the Amendment.

In March 2018, TransEnterix Europe entered into a Service Supply Agreement with 1Med S.A. for certain regulatory consulting services. Andrea Biffi, a current member of the Company's Board of Directors, owns a non-controlling interest in 1Med S.A.

18. Commitments and Contingencies

Contingent Consideration

As discussed in Note 3, in September 2015, the Company completed the Senhance Acquisition using a combination of cash, stock and potential post-acquisition milestone payments. These milestone payments may be payable in the future, depending on the achievement of certain regulatory and commercial milestones. On December 30, 2016, the Company entered into an Amendment to restructure the terms of the Second Tranche of the Cash Consideration. Under the Amendment, the Second Tranche was restructured to reduce the contingent cash consideration by €5.0 million in exchange for the issuance of 3,722,685 shares of the Company's common stock with an aggregate fair market value of €5.0 million. As of December 31, 2017, the fair value of the contingent consideration was $12.4 million. On March 31, 2018, the fair value of the contingent consideration was $13.0 million.

Legal Proceedings

No liability or related charge was recorded to earnings in the Company's consolidated financial statements for legal contingencies for the three months ended March 31, 2018 or the year ended December 31, 2017, as all pending litigation, including two putative derivative claims were dismissed in 2017 with prejudice in the Company's favor.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes to our consolidated financial statements included in this report. The following discussion contains forward-looking statements. See cautionary note regarding "Forward-Looking Statements" at the beginning of this report.

### Overview

TransEnterix is a medical device company that is digitizing the interface between the surgeon and the patient to improve minimally invasive surgery by addressing the clinical and economic challenges associated with current laparoscopic and robotic options in today's value-based healthcare environment. The Company is focused on the commercialization of the Senhance™ System, which digitizes laparoscopic minimally invasive surgery. The Senhance System allows for robotic precision, haptic feedback, surgeon camera control via eye sensing and improved ergonomics while offering responsible economics.

The Senhance System has been granted a CE Mark in Europe for laparoscopic abdominal and pelvic surgery, as well as limited thoracic operations excluding cardiac and vascular surgery. In April 2017, the Company submitted a 510(k) application to the FDA for the Senhance System. On October 13, 2017, the Company received 510(k) clearance from the FDA for use in laparoscopic colorectal and gynecologic surgery. These indications cover 23 procedures, including benign and oncologic procedures. We anticipate expanding the indications for use in the middle of 2018. The Senhance System is available for sale in the U.S., the EU and select other countries.

The Senhance System is a multi-port robotic surgery system which allows multiple robotic arms to control instruments and a camera. The system features advanced technology to enable surgeons with haptic feedback and the ability to move the camera via eye movement. The system replicates laparoscopic motion that is familiar to experienced surgeons, and integrates three-dimensional high definition vision technology. The Senhance System also offers responsible economics to hospitals by offering robotic technology with reusable instruments thereby reducing additional costs per surgery when compared to other robotic solutions.

The Company has also developed the SurgiBot System, a single-port, robotically enhanced laparoscopic surgical platform. On December 18, 2017, the Company announced that it had entered into an agreement with GBIL to advance the SurgiBot System towards global commercialization. The agreement transfers ownership of the SurgiBot System assets, while the Company retains the option to distribute or co-distribute the SurgiBot System outside of China. GBIL intends to have the SurgiBot System manufactured in China and obtain Chinese regulatory clearance from the CFDA while entering into a nationwide distribution agreement with CSIMC for the Chinese market. The agreement provides the Company with proceeds of at least $29 million, of which $7.5 million was received in December 2017 and an additional $7.5 million including a $3.0 million equity investment at $2.33 per share of common stock, was received at the second closing in March 2018. The remaining $14.0 million, representing minimum royalties, will be paid beginning at the earlier of receipt of Chinese regulatory approval or five years after the second closing.

We believe that future outcomes of minimally invasive surgery will be enhanced through our combination of more advanced tools and robotic functionality, which are designed to: (i) empower surgeons with improved precision, dexterity and visualization; (ii) improve patient satisfaction and enable a desirable post-operative recovery; and (iii) provide a cost-effective robotic system, compared to existing alternatives today, for a wide range of clinical applications. Our strategy is to focus on the commercialization and further development of the Senhance System.

From our inception, we devoted a substantial percentage of our resources to research and development and start-up activities, consisting primarily of product design and development, clinical studies, manufacturing, recruiting qualified personnel and raising capital.

Since inception, we have been unprofitable. As of March 31, 2018, we had an accumulated deficit of $448.5 million.

We expect to continue to invest in research and development and sales and marketing and increase selling, general and administrative expenses as we grow. As a result, we will need to generate significant revenue in order to achieve profitability.

Debt Refinancing

On May 10, 2017, the Company and its domestic subsidiaries, as co-borrowers, entered into a Loan and Security Agreement with Innovatus Life Sciences Lending Fund I, LP, as Lender and Collateral Agent.  Under the Innovatus Loan Agreement, the Lender has agreed to make certain term loans in the aggregate principal amount of up to $17,000,000. Funding of the first $14,000,000 tranche occurred on May 10, 2017. The Company cannot currently draw on the Second Tranche of $3,000,000. So long as the Company meets each Interest-Only Milestone (as defined below), the Company is entitled to make interest-only payments for up to twenty-four (24) months. At the end of the interest-only period, the Company will be required to repay the term loans over a two-year period, based on a twenty-four (24) month amortization schedule, with a final maturity date occurring on the fourth anniversary of the initial funding date. However, the interest-only period will end if the Company fails to meet any Interest-Only Milestone, subject to certain cure provisions. Commencing on the first day of the month following such failure to achieve an Interest-Only Milestone, the Company will be required to repay the term loans over a two year period, based on a twenty-four (24) month amortization schedule. The Interest-Only Milestones require the Company to (i) achieve certain twelve month revenue targets, measured quarterly, commencing with the quarter ending March 31, 2018, (ii) meet a minimum capital raising threshold through the sale and issuance of equity securities during the period from April 10, 2017 through May 31, 2018 and (iii) obtain clearance for commercialization of the Senhance System by the U.S. Food and Drug Administration by May 30, 2018. Each such milestone is referred to as an Interest-Only Milestone. In connection with its entrance into the Innovatus Loan Agreement, the Company repaid its then-existing credit facility with Silicon Valley Bank and Oxford Finance LLC under the SVB Loan Agreement.

The term loans bear interest at a fixed rate equal to 11% per annum, of which 2.5% can be paid in-kind and added to the outstanding principal amount of the term loans until the earlier of (i) the first anniversary following the funding date and (ii) the Company's failure to achieve an Interest-Only Milestone. The Company will be required to repay the term loans if they are accelerated following an event of default. In addition, the Company is permitted to prepay the term loans in full at any time upon five (5) business days' written notice to the Lender. Upon the earliest to occur of the maturity date, acceleration of the term loan, or prepayment of the term loan, the Company is required to make a final payment equal to the total term loan commitment multiplied by four percent (4%); provided, however, that in the event the Company refinances its obligations with the Lender after Senhance Clearance, no final fee or prepayment fee described below will be due; and provided, further, that if the Company elects to refinance its obligations prior to the funding of the second tranche, the final fee with respect to the second tranche shall be paid in full on the date of such refinancing. Any prepayment of the term loans in full, whether mandatory or voluntary, must include (i) the final fee, (ii) interest at the default rate (which is the rate otherwise applicable plus five percent (5%)) with respect to any amounts past due, (iii) the Lender's expenses and all other obligations that are due and payable to the Lender and (iv) a prepayment fee of three percent (3%) if the term loan is paid in full on or before the first anniversary of the effective date, two percent (2%) if paid off after the first anniversary but on or before the second anniversary of the effective date and one percent (1%) if paid off after the second anniversary but on or before the third anniversary of the effective date.

In connection with the funding, the Company paid a facility fee of $170,000 on the date of funding of the first tranche. In addition, the Company issued warrants to the Lender to purchase shares of the Company's common stock. Additional warrants will be issued on the funding date of each subsequent tranche and will expire five (5) years from such issue date. The warrants issued in connection with funding of the first tranche entitle the Lender to purchase up to 1,244,746 shares of the Company's common stock at an exercise price of $1.00 per share.

The Company's obligations under the Innovatus Loan Agreement are secured by a security interest in all of the assets of the Company and its current and future domestic and material foreign subsidiaries, including a security interest in the intellectual property. The Innovatus Loan Agreement contains customary representations and covenants that, subject to exceptions, restrict the Company's ability to do the following things: declare dividends or redeem or repurchase equity interests; incur additional liens; make loans and investments; incur additional indebtedness; engage in mergers, acquisitions, and asset sales; transact with affiliates; undergo a change in control; add or change business locations; and engage in businesses that are not related to its existing business. Under the terms of the Innovatus Loan Agreement, the Company is required to maintain minimum unrestricted cash in an amount equal to (x) six million dollars ($6,000,000) at all times prior to Senhance Clearance; and (y) at all times thereafter, the lesser of (i) $6,000,000, (ii) the Company's trailing three (3) months' cash used to fund operating activities, as determined as of the most recent month end and (iii) the then outstanding principal amount of the term loans, together with accrued but unpaid interest.

Public Offering of Units

On April 28, 2017, we entered into an underwriting agreement with Stifel, Nicolaus & Company, Incorporated, or the Underwriter, relating to an underwritten public offering of an aggregate of 24,900,000 Units, each consisting of one share of the Company's Common Stock, a Series A Warrant to purchase one share of Common Stock and a Series B Warrant to purchase 0.75 shares of Common Stock at an offering price to the public of $1.00 per Unit. Certain of the Company's officers, directors and existing stockholders purchased approximately $2.5 million of Units in the public offering. The closing of the public offering occurred on May 3, 2017.

Each Series A Warrant had an initial exercise price of $1.00 per share and was able to be exercised at any time beginning on the date of issuance, and from time to time thereafter, through and including the first anniversary of the issuance date, unless terminated earlier as provided in the Series A Warrant. Receipt of 510(k) clearance for the Senhance System on October 13, 2017, triggered the acceleration of the expiration date of the Series A Warrants to October 31, 2017. As of December 31, 2017, all of the Series A Warrants had been exercised.

Each Series B Warrant has an initial exercise price of $1.00 per share and may be exercised at any time beginning on the date of issuance and from time to time thereafter through and including the fifth anniversary of the issuance date, or by May 3, 2022. As of March 31, 2018, Series B Warrants representing approximately 9.27 million shares had been exercised.

The exercise prices and the number of shares issuable upon exercise of the outstanding Series B Warrants are subject to adjustment upon the occurrence of certain events, including, but not limited to, stock splits or dividends, business combinations, sale of assets, similar recapitalization transactions, or other similar transactions. The Series B Warrants are subject to adjustment in the event that the Company issues or is deemed to issue shares of common stock for less than the then applicable exercise price of the Series B Warrants. The exercisability of the Series B Warrants may be limited if, upon exercise, the holder or any of its affiliates would beneficially own more than 4.99% of our common stock. If, at any time Series B Warrants are outstanding, any fundamental transaction occurs, as described in the Series B Warrants and generally including any consolidation or merger into another corporation, the consummation of a transaction whereby another entity acquires more than 50% of the Company's outstanding voting stock, or the sale of all or substantially all of its assets, the successor entity must assume in writing all of the obligations to the Series B Warrant holders. Additionally, in the event of a fundamental transaction, each Series B Warrant holder will have the right to require the Company, or its successor, to repurchase the Series B Warrants for an amount of cash equal to the Black-Scholes value of the remaining unexercised portion of such Series B Warrants.

The underwriting agreement contains customary representations, warranties and agreements by the Company, customary conditions to closing, indemnification obligations of the Company and the Underwriters, including for liabilities under the Securities Act of 1933, as amended, other obligations of the parties and termination provisions. The representations, warranties and covenants contained in the underwriting agreement were made only for purposes of such agreement and as of specific dates, were solely for the benefit of the parties to such agreement, and may be subject to limitations agreed upon by the contracting parties.

The net proceeds to the Company from the offering were approximately $23.2 million, prior to any exercise of the Series A Warrants or Series B Warrants, after deducting underwriting discounts and commissions and estimated offering expenses paid by the Company. The net proceeds to the Company from the exercise of all of the Series A Warrants and the Series B Warrants exercised prior to March 31, 2018 were approximately $34.0 million.

The Units were issued pursuant to a prospectus supplement dated April 28, 2017 and an accompanying base prospectus dated June 22, 2016 that form a part of the registration statement on Form S-3 that the Company filed with the SEC on November 7, 2014 and was declared effective on December 19, 2014 (File No. 333-199998), and post-effectively amended pursuant to Post-Effective Amendment No. 1 on Form S-3, as filed with the SEC on March 8, 2016 and declared effective on June 22, 2016 and a related registration statement filed pursuant to Rule 462(b) promulgated under the Securities Act of 1933.

On December 15, 2017, we filed a registration statement on Form S-3 (File No. 333-222103) to register shares of common stock underlying outstanding Series B Warrants previously issued as part of the Company's May 3, 2017 public offering. The new registration statement replaced the registration statement on Form S-3 that expired on December 19, 2017 with respect to these securities. On January 26, 2018, we filed an Amendment No. 1 to such registration statement on Form S-3 to update the information, in the registration statement. The registration statement covers up to 9,579,884 shares of common stock underlying the outstanding Series B Warrants. This registration statement on Form S-3 was declared effective on January 29, 2018.

Lincoln Park Purchase Agreement

On December 16, 2016, we entered into a purchase agreement, or the LPC Purchase Agreement, with Lincoln Park Capital Fund, LLC, an Illinois limited liability company, or Lincoln Park, pursuant to which we had the right to sell to Lincoln Park up to an aggregate of $25,000,000 in shares of our common stock, subject to certain limitations and conditions set forth in the LPC Purchase Agreement. Effective April 27, 2017, we terminated the LPC Purchase Agreement. The LPC Purchase Agreement provided us with an election to terminate the Purchase Agreement for any reason or for no reason by delivering a notice to Lincoln Park, and we did not incur any early termination penalties in connection with the termination of the LPC Purchase Agreement. Prior to termination, we sold shares of our common stock to Lincoln Park under the LPC Purchase Agreement for gross proceeds of approximately $5.7 million.

At-the-Market Offerings

On February 9, 2016, we entered into a Controlled Equity Offering SM Sales Agreement, or the 2016 Sales Agreement, with Cantor Fitzgerald & Co., or Cantor, under which we could offer and sell, through Cantor, up to approximately $43.6 million in shares of common stock in an at-the market offering, or the 2016 ATM Offering. The 2016 Sales Agreement was terminated, effective September 10, 2017. We paid Cantor a commission of approximately 3% of the aggregate gross proceeds received from all sales of common stock under the 2016 Sales Agreement.

On August 31, 2017, we entered into an At-the-Market Equity Offering Sales Agreement, or the 2017 Sales Agreement, with Stifel, Nicolaus & Company, Incorporated, or Stifel, under which we could offer and sell, through Stifel, up to approximately $50.0 million in shares of common stock in an at-the-market offering, or the 2017 ATM Offering. All sales of shares were made pursuant to an effective shelf registration statement on Form S-3 filed with the SEC. We paid Stifel a commission of approximately 3% of the aggregate gross proceeds received from all sales of common stock under the 2017 Sales Agreement. As of October 31, 2017, the 2017 ATM Offering was completed.

The following table summarizes the total sales under the 2016 Sales Agreement and 2017 Sales Agreement for the periods indicated (in thousands, except per share amounts):

| | 2017 Sales Agreement Year Ended December 31, 2017 | 2016 Sales Agreement Year Ended December 31, 2016 |
|---|---|---|
| Total shares of common stock sold | 15,998.5 | 8,763.4 |
| Average price per share | $ 3.13 | $ 4.70 |
| Gross proceeds | $ 50,000 | $ 41,156 |
| Commissions earned by Stifel or Cantor | $ 1,500 | $ 1,235 |
| Other issuance costs | $ 97 | $ 185 |

Senhance Acquisition and Related Transactions

Membership Interest Purchase Agreement and Amendment

On September 21, 2015, the Company announced that it had entered into a Membership Interest Purchase Agreement, dated September 18, 2015 with Sofar S.p.A., as the Seller, Vulcanos S.r.l., as the acquired company, and TransEnterix International, Inc., a wholly owned subsidiary of the Company as the Buyer. The closing of the transactions contemplated by the Purchase Agreement occurred on September 21, 2015. The Buyer acquired all of the membership interests of the acquired company from the Seller, and changed the name of the acquired company to TransEnterix Italia S.r.l. On the closing date, pursuant to the Purchase Agreement, the Company completed the strategic acquisition from Sofar S.p.A. of all of the assets, employees and contracts related to the advanced robotic system for minimally invasive laparoscopic surgery now known as the Senhance System, or the Senhance Acquisition.

Under the terms of the Purchase Agreement, the consideration consisted of the issuance of 15,543,413 shares of the Company’s common stock, or the Securities Consideration, and approximately $25,000,000 U.S. Dollars and €27,500,000 Euro in cash consideration, or the Cash Consideration. The Securities Consideration was issued in full at closing of the acquisition; the Cash Consideration was or will be paid in four tranches, with US $25,000,000 paid at closing and the remaining Cash Consideration of €27,500,000 to be paid in three additional tranches based on achievement of negotiated milestones. On December 30, 2016, the Company and Sofar entered into an Amendment to the Purchase Agreement to restructure the terms of the second tranche of the Cash Consideration. Under the Amendment, the second tranche was restructured to reduce the contingent cash consideration by €5.0 million in exchange for the issuance of 3,722,685 shares of the Company's common stock with an aggregate fair market value of €5.0 million, which were issued on January 4, 2017. The price per share was $1.404 and was calculated based on the average of the closing prices of the Company's common stock on ten consecutive trading days ending one day before the execution of the Amendment.

The issuance of the initial Securities Consideration was effected as a private placement of securities under Section 4(a)(2) of the Securities Act, and Regulation D promulgated thereunder. The issuance of the additional shares in January 2017 was made under an existing shelf registration statement on Form S-3.

As of March 31, 2018, the Company has paid all Cash Consideration due under the second tranche.

The Purchase Agreement contains customary representations and warranties of the parties and the parties have customary indemnification obligations, which are subject to certain limitations described further in the Purchase Agreement.

Registration Rights and Lock-Up Agreements

In connection with the Senhance Acquisition, we also entered into a Registration Rights Agreement, dated as of September 21, 2015, with the Seller, pursuant to which we agreed to register the Securities Consideration shares for resale following the end of the lock-up periods described below. The resale Registration Statement has been filed and is effective.

In connection with the Senhance Acquisition, Sofar entered into a Lock-Up Agreement with us pursuant to which Sofar agreed, subject to certain exceptions, not to sell, transfer or otherwise convey any of the Securities Consideration over a two-year period following the Closing Date. As of September 21, 2017, all of the Securities Consideration was released from the lock-up restrictions and is eligible to be resold under the effective resale registration statement.

Results of Operations

Revenue

In the first quarter of 2018, our revenue consisted of product revenue resulting from the sale of a total of two Senhance Systems in Europe, and related instruments, accessories and services for systems sold in the current and prior periods. In the first quarter of 2017, our revenue consisted of product and service revenue resulting from the sale in Europe of a Senhance System, instruments and accessories, and related services.

We expect to experience some unevenness in the number and trend, and average selling price, of units sold on a quarterly basis given the early stage of commercialization of our products.

Product and service revenue for the three months ended March 31, 2018 increased to $4.8 million compared to $1.9 million for the three months ended March 31, 2017. The $2.9 million increase was the result of the revenue recognized on the sale of two Senhance Systems.

Cost of Revenue

Cost of revenue consists primarily of costs related to contract manufacturing, materials, and manufacturing overhead. We expense all inventory provisions as cost of revenue. The manufacturing overhead costs include the cost of quality assurance, material procurement, inventory control, facilities, equipment depreciation and operations supervision and management. We expect overhead costs as a percentage of revenues to become less significant as our production volume increases. We expect cost of revenue to increase in absolute dollars to the extent our revenues grow and as we continue to invest in our operational infrastructure to support anticipated growth.

Cost of revenue for the three months ended March 31, 2018 increased to $2.6 million as compared to $1.3 million for the three months ended March 31, 2017. This increase over the prior year period was the result of increased sales and costs for manufacturing overhead and field service.

Research and Development

Research and development, or R&D expenses primarily consist of engineering, product development and regulatory expenses incurred in the design, development, testing and enhancement of our products and legal services associated with our efforts to obtain and maintain broad protection for the intellectual property related to our products. In future periods, we expect R&D expenses to remain consistent or be modestly lower as we continue to transition our investments into commercial activities. R&D expenses are expensed as incurred.

R&D expenses for the three months ended March 31, 2018 decreased 23% to $5.3 million as compared to $6.9 million for the three months ended March 31, 2017. The $1.6 million decrease resulted primarily from decreased contract engineering services, consulting and other outside services of $0.5 million, decreased personnel costs of $0.4 million, decreased preclinical lab expense of $0.4 million, decreased supplies expense of $0.2 million, and decreased other costs of $0.1 million.

Sales and Marketing

Sales and marketing expenses include costs for sales and marketing personnel, travel, demonstration product, market development, physician training, tradeshows, marketing clinical studies and consulting expenses. We expect sales and marketing expenses to increase significantly in 2018 in support of our Senhance System commercialization.

Sales and marketing expenses for the three months ended March 31, 2018 increased 62% to $6.0 million compared to $3.7 million for the three months ended March 31, 2017. The $2.3 million increase was primarily related to increased personnel related costs of $1.9 million, increased consulting and outside service costs of $0.3 million, increased depreciation expense $0.2 million, and increased other costs of $0.2 million, offset by decreased tradeshow costs of $0.3 million, as we increased our U.S. sales and marketing team following receipt of 510(k) clearance for the Senhance System.

General and Administrative

General and administrative expenses consist of personnel costs related to the executive, finance and human resource functions, as well as professional service fees, legal fees, accounting fees, insurance costs, and general corporate expenses. In future periods, we expect general and administrative expenses to increase to support our sales, marketing, and research and development efforts.

General and administrative expenses for the three months ended March 31, 2018 decreased 10% to $2.7 million compared to $3.0 million for the three months ended March 31, 2017. The $0.3 million decrease was primarily due to decreased outsourced services expense of $0.3 million and decreased personnel costs of $0.1 million, offset by increased other costs of $0.1 million.

Gain From Sale of SurgiBot Assets, Net

The gain from the sale of SurgiBot assets, net to GBIL was $12.0 million for the three months ended March 31, 2018.

Amortization of Intangible Assets

Amortization of intangible assets for the three months ended March 31, 2018 increased to $2.8 million compared to $1.6 million for the three months ended March 31, 2017. The $1.2 million increase was primarily the result of amortization of developed technology related to the acquisition of the Senhance System on September 21, 2015 and the amortization of in-process research and development transferred to intellectual property in October 2017.

Change in Fair Value of Contingent Consideration

The change in fair value of contingent consideration in connection with the Senhance Acquisition was $0.6 million for the three months ended March 31, 2018 compared to $1.2 million for the three months ended March 31, 2017. The $0.6 million decrease was primarily related to the change in the effect of the passage of time on the fair value measurement and the impact of foreign currency exchange rates.

Change in Fair Value of Warrant Liabilities

The change in fair value of Series A Warrants and Series B Warrants issued in April 2017 was $1.8 million for the three months ended March 31, 2018. The change in fair value includes remeasurement associated with the warrants exercised during the quarter ending March 31, 2018 and the outstanding warrants at March 31, 2018. The remeasurement related to the warrants exercised was primary the result of the difference in the stock price at the date of exercise and December 31, 2017. The expense related to the warrants outstanding at March 31, 2018 was primarily the result of the difference between the stock price at March 31, 2018 and December 31, 2017.

Interest Expense, Net

Interest expense for the three months ended March 31, 2018 increased to $0.4 million compared to $0.3 million for the three months ended March 31, 2017. The $0.1 million increase was primarily related to the increase in interest rate on refinanced notes payable.

Income Tax Benefit

Income tax benefit consists primarily of taxes related to the amortization of purchase accounting intangibles in connection with the Italian taxing jurisdiction for TransEnterix Italia as a result of the acquisition of the Senhance

System. We recognized $0.9 million and $0.9 million of income tax benefit for the three months ended March 31, 2018 and 2017, respectively.

Liquidity and Capital Resources

Sources of Liquidity

Since our inception we have incurred significant losses and, as of March 31, 2018, we had an accumulated deficit of $448.5 million. We have not yet achieved profitability and we cannot assure investors that we will achieve profitability with our existing capital resources. As of March 31, 2018, the Company's cash and restricted cash balance was approximately $94.4 million. We believe that our existing cash and cash equivalents, together with cash received from sales of our products, will be sufficient to fund operations through at least the next 12 months. We expect to continue to fund sales and marketing, research and development and general and administrative expenses at similar to current or higher levels and, as a result, we will need to generate significant revenues to achieve profitability. Our principal sources of cash to date have been proceeds from public offerings of common stock, private placements of common and preferred stock, incurrence of debt and the sale of equity securities held as investments.

We currently have one effective shelf registration statement on file with the SEC, which registers up to $150.0 million of debt securities, common stock, preferred stock, or warrants, or any combination thereof for future financing transactions. The shelf registration statement was declared effective by the SEC on May 19, 2017. We have raised $50.0 million in gross proceeds and approximately $48.5 in net proceeds under such shelf registration statement through the sale of all the shares available under the 2017 ATM Offering. As of March 31, 2018, we had $100.0 million available for future financings under such shelf registration statement.

Consolidated Cash Flow Data

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| (in millions) | | |
| Net cash (used in) provided by | | |
| Operating activities | $(12.3) | $(13.9) |
| Investing activities | 4.3 | (0.5) |
| Financing activities | 4.7 | 3.3 |
| Effect of exchange rate changes on cash and cash equivalents | 0.1 | — |
| Net decrease in cash, cash equivalents and restricted cash | $(3.2) | $(11.1) |

Operating Activities

For the three months ended March 31, 2018, cash used in operating activities of $12.3 million consisted of net loss of $0.9 million increased by cash used for working capital of $2.9 million and non-cash items of $8.5 million. The non-cash items primarily consisted of $1.8 million of stock-based compensation expense, $0.7 million of depreciation, $3.1 million of amortization, and $0.6 million change in fair value of contingent consideration, offset by $12.0 million gain on sale of SurgiBot assets, $1.8 million change in fair value of warrant liabilities and $0.9 million deferred income tax benefit. The decrease in cash from changes in working capital included $2.9 million decrease in accrued expenses, $0.6 million increase in inventories, $0.2 million decrease in accounts payable, $0.3 million increase in accounts receivable and $0.1 million decrease in deferred revenue offset by $1.2 million decrease in other current and long term assets.

Investing Activities

For the three months ended March 31, 2018, net cash provided by investing activities was $4.3 million. This amount primarily consists of $4.5 million proceeds related to the sale of the SurgiBot assets, offset by $0.2 million purchases of property and equipment.

Financing Activities

For the three months ended March 31, 2018, net cash provided by financing activities was $4.7 million. This amount was primarily related to $1.8 million in proceeds from the exercise of warrants and $3.0 million received for shares issued related to the sale of the SurgiBot assets.

Operating Capital and Capital Expenditure Requirements

We believe that our existing cash and cash equivalents, together with cash received from sales of our products, will be sufficient to meet our anticipated cash needs through at least the next 12 months. We intend to spend substantial amounts on commercial activities, on research and development activities, including product development, regulatory and compliance, clinical studies in support of our future product offerings, the enhancement and protection of our intellectual property, on notes payable payments as they come due, and on contingent consideration payments in connection with the acquisition of the Senhance System. We will need to obtain additional financing to pursue our business strategy, to respond to new competitive pressures or to take advantage of opportunities that may arise. To meet our capital needs, we are considering multiple alternatives, including, but not limited to, additional equity financings, debt financings, strategic collaborations and other funding transactions. There can be no assurance that we will be able to complete any such transaction on acceptable terms or otherwise. If we are unable to obtain the necessary capital, we will need to pursue a plan to license or sell our assets, seek to be acquired by another entity, cease operations and/or seek bankruptcy protection.

Cash and cash equivalents held by our foreign subsidiaries totaled $1.6 million at March 31, 2018, including restricted cash. We do not intend or currently foresee a need to repatriate cash and cash equivalents held by our foreign subsidiaries. If these funds are needed in the U.S., we believe that the potential U.S. tax impact to repatriate these funds would be immaterial.

Innovatus Loan Agreement

On May 10, 2017, the Company and its domestic subsidiaries, as co-borrowers, entered into the Innovatus Loan Agreement with Innovatus Life Sciences Lending Fund I, LP, as Lender and Collateral Agent. Please see the description of the Innovatus Loan Agreement above in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations Debt Refinancing.”

SVB Loan Agreement

In connection with its entrance into the Innovatus Loan Agreement on May 10, 2017, the Company repaid its existing credit facility with Silicon Valley Bank and Oxford Finance LLC, or the Prior Lenders, under the SVB Loan Agreement, initially entered into in January 2012, as subsequently amended or amended and restated, or, collectively, the SVB Loan Agreement. A number of the amendments related to the Senhance Acquisition or the growth of our business in non-U.S. jurisdictions. Under the SVB Loan Agreement, our borrowing capacity was $20.0 million, all of which was borrowed under term loans. We had periods of interest-only payments during the SVB Loan Agreement, and had been making principal payments since January 2016. The maturity date of the term loans was July 1, 2018.

In connection with the entry into the Innovatus Loan Agreement, the proceeds of which were used to repay the SVB Loan, we were obligated to pay final payment and facility fees under the SVB Loan Agreement. The final payment fee obligation was $1.3 million and was paid during the year ended December 31, 2017.

Off-Balance Sheet Arrangements

As of March 31, 2018, the Company did not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations set forth above under the headings “Results of Operations” and “Liquidity and Capital Resources” have been prepared in accordance with U.S. GAAP and should be read in conjunction with our financial statements and notes thereto appearing in the Fiscal 2017 Form 10-K. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our critical accounting policies and estimates, including identifiable intangible assets and goodwill, contingent consideration, warrant liabilities, stock-based compensation, inventory, and revenue recognition. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. A more detailed discussion on the application of these and other accounting policies can be found in Note 2 in the Notes to the Financial Statements in the Fiscal 2017 Form 10-K. Actual results may differ from these estimates under different assumptions and conditions.

While all accounting policies impact the financial statements, certain policies may be viewed as critical. Critical accounting policies are those that are both most important to the portrayal of financial condition and results of operations and that require management’s most subjective or complex judgments and estimates. Our management believes the policies that fall within this category are the policies on accounting for identifiable intangible assets and goodwill, in-process research and development, contingent consideration, warrants liabilities, stock-based compensation, inventory and revenue recognition.

Identifiable Intangible Assets and Goodwill

Identifiable intangible assets consist of purchased patent rights recorded at cost and developed technology acquired as part of a business acquisition recorded at estimated fair value. Intangible assets are amortized over 5 to 10 years. We periodically evaluate identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Indefinite-lived intangible assets, such as goodwill, are not amortized. We test the carrying amounts of goodwill for recoverability on an annual basis or when events or changes in circumstances indicate evidence of potential impairment exists by performing either a qualitative evaluation or a quantitative test. The qualitative evaluation is an assessment of factors, including industry, market and general economic conditions, market value, and future projections to determine whether it is more likely than not that the fair value of a reporting unit is less than it’s carrying amount, including goodwill.

As of December 31, 2017, we elected to bypass the qualitative assessment and calculated the fair value of our reporting unit, which exceeded the carrying amount. Accordingly, no charge for goodwill impairment was required as of December 31, 2017.

A significant amount of judgment is involved in determining if an indicator of goodwill impairment has occurred. Such indicators may include, among others: a significant decline in expected future cash flows; a sustained, significant decline in the Company's stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse assessment or action by a regulator; and unanticipated competition. Key assumptions used in the annual goodwill impairment test are highly judgmental and include: selection of comparable companies and amount of control premium. Any change in these indicators or key assumptions could have a significant negative impact on the Company's financial condition, impact the goodwill impairment analysis or cause the Company to perform a goodwill impairment analysis more frequently than once per year.

Contingent Consideration

Contingent consideration is recorded as a liability and measured at fair value using a discounted cash flow model utilizing significant unobservable inputs including the probability of achieving each of the potential milestones and an estimated discount rate associated with the risks of the expected cash flows attributable to the various milestones. Significant increases or decreases in any of the probabilities of success or changes in expected timelines for achievement of any of these milestones would result in a significantly higher or lower fair value of these milestones, respectively, and commensurate changes to the associated liability. The fair value of the contingent consideration at each reporting date will be updated by reflecting the changes in fair value in our statements of operations and comprehensive income (loss).

Warrant Liabilities

For the Series B Warrants, the warrants are recorded as liabilities and are revalued at each reporting period. The change in fair value is recognized in the consolidated statements of operations and comprehensive income (loss). The selection of the appropriate valuation model and the inputs and assumptions that are required to determine the valuation requires significant judgment and requires management to make estimates and assumptions that affect the reported amount of the related liability and reported amounts of the change in fair value. Actual results could differ from those estimates, and changes in these estimates are recorded when known. As the warrant liability is required to be measured at fair value at each reporting date, it is reasonably possible that these estimates and assumptions could change in the near term.

Stock-Based Compensation

We recognize as expense, the grant-date fair value of stock options and other stock based compensation issued to employees and non-employee directors over the requisite service periods, which are typically the vesting periods. We use the Black-Scholes-Merton model to estimate the fair value of our stock-based payments. The volatility assumption used in the Black-Scholes-Merton model is based on the calculated historical volatility based on an analysis of reported data for a peer group of companies as well as the Company’s historical volatility. The expected term of options granted by us has been determined based upon the simplified method, because we do not have sufficient historical information regarding our options to derive the expected term. Under this approach, the expected term is the mid-point between the weighted average of vesting period and the contractual term. The risk-free interest rate is based on U.S. Treasury rates whose term is consistent with the expected life of the stock options. We have not paid and do not anticipate paying cash dividends on our shares of common stock; therefore, the expected dividend yield is assumed to be zero. We estimate forfeitures based on our historical experience and adjust the estimated forfeiture rate based upon actual experience.

Inventory

Inventory, which includes material, labor and overhead costs, is stated at the lower of cost, determined on a first-in, first-out basis, or net realizable value. We record reserves, when necessary, to reduce the carrying value of inventory to its net realizable value. At the point of loss recognition, a new, lower-cost basis for that inventory is established, and any subsequent improvements in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Revenue Recognition

Our revenue consists of product revenue resulting from the sale of systems, system components, instruments and accessories, and service revenue. We account for a contract with a customer when there is a legally enforceable contract between the Company and the customer, the rights of the parties are identified, the contract has commercial substance, and collectability of the contract consideration is probable. Our revenues are measured based on consideration specified in the contract with each customer, net of any sales incentives and taxes collected from customers that are remitted to government authorities.

Our system sale arrangements generally contain multiple products and services. For these bundled sale arrangements, we account for individual products and services as separate performance obligations if they are distinct, which is if a product or service is separately identifiable from other items in the bundled package, and if a customer can benefit from it on its own or with other resources that are readily available to the customer. Our system sale arrangements include a combination of the following performance obligations: system(s), system components, instruments, accessories, and system service. Our system sale arrangements generally include a five-year period of service. The first year of service is generally free and included in the system sale arrangement and the remaining four years are generally included at a stated service price. We consider the service terms in the arrangements that are legally enforceable to be performance obligations. Other than service, we generally satisfy all of the performance obligations up-front. System components, system accessories, instruments, accessories, and service are also sold on a standalone basis.

We recognizes revenues as the performance obligations are satisfied by transferring control of the product or service to a customer. We generally recognize revenue for the performance obligations at the following points in time:

- System sales. For systems and system components sold directly to end customers, revenue is recognized when we transfer control to the customer, which is generally at the point when acceptance occurs that indicates customer acknowledgment of delivery or installation, depending on the terms of the arrangement. For systems sold through distributors, with the distributors responsible for installation, revenue is recognized generally at the time of shipment. Our system arrangements generally do not provide a right of return. The systems are generally covered by a one-year warranty. Warranty costs were not material for the periods presented.
- Instruments and accessories. Revenue from sales of instruments and accessories is recognized when control is transferred to the customers, which generally occur at the time of shipment, but also occur at the time of delivery depending on the customer arrangement. Accessory products include sterile drapes used to help ensure a sterile field during surgery, vision products such as replacement endoscopes, camera heads, light guides, and other items that facilitate use of the Senhance Surgical System.
- Service. Service revenue is recognized ratably over the term of the service period as the customers benefit from the service throughout the service period. Revenue related to services performed on a time-and-materials basis is recognized when performed.

For multiple-element arrangements, revenue is allocated to each performance obligation based on its relative standalone selling price. Standalone selling prices are based on observable prices at which we separately sell the products or services. Due to limited sales to date, standalone selling prices are not yet directly observable. We estimate the standalone selling price using the market assessment approach considering market conditions and entity-specific factors including, but not limited to, features and functionality of the products and services, geographies, type of customer, and market conditions. We regularly review standalone selling prices and update these estimates if necessary. Transaction price allocated to remaining performance obligations relates to amounts allocated to products and services for which the revenue has not yet been recognized. A significant portion of this amount relates to service obligations performed under our system sales contracts that will be invoiced and recognized as revenue in future periods.

We invoice our customers based on the billing schedules in our sales arrangements. Contract assets for the periods presented primarily represent the difference between the revenue that was recognized based on the relative selling price of the related performance obligations and the contractual billing terms in the arrangements. Deferred revenue for the periods presented was primarily related to service obligations, for which the service fees are billed up-front, generally annually. The associated deferred revenue is generally recognized ratably over the service period.

In connection with assets recognized from the costs to obtain a contract with a customer, we have determined that sales incentive programs for our sales team do not meet the requirements to be capitalized as we do not expect to generate future economic benefits from the related revenue from the initial sales transaction.

Recent Accounting Pronouncements

See "Note 2. Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in the Company's Fiscal 2017 Form 10-K, as well as the notes to the consolidated financial statements above, for a full description of recent accounting pronouncements including the respective expected dates of adoption and effects on Consolidated Balance Sheets and Consolidated Statements of Operations and Comprehensive Income (Loss).

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

We have limited exposure to market risks from instruments that may impact the Balance Sheets, Statements of Operations and Comprehensive Income (Loss), and Statements of Cash Flows. Such exposure is due primarily to changing interest rates and foreign currency exchange rates.

Interest Rates

The primary objective for our investment activities is to preserve principal while maximizing yields without significantly increasing risk. This is accomplished by investing excess cash in money market funds and Treasury securities. As of March 31, 2018, approximately 100% of the investment portfolio was in cash equivalents with very short term maturities and therefore not subject to any significant interest rate fluctuations.

Foreign Currency Exchange Rate Risk

We conduct operations in several different countries, including the U.S. and throughout Europe, and portions of our revenues, expenses, assets and liabilities are denominated in U.S. dollars, Euros or other currencies. Since our consolidated financial statements are presented in U.S. dollars, we must translate revenues, income and expenses, as well as assets and liabilities, into U.S. dollars at exchange rates in effect during or at the end of each reporting period. We have not historically hedged our exposure to foreign currency fluctuations. Accordingly, increases or decreases in the value of the U.S. dollar against the Euro and other currencies could materially affect our net operating revenues, operating income and the value of balance sheet items denominated in foreign currencies.

During the three months ended March 31, 2018, 99.6% of our revenue and approximately 35.8% of our operating expenses, excluding the offsetting impact of the gain on sale of SurgiBot assets, were denominated in currencies other than the U.S. dollar, most notably the Euro. Based on actual results over the past year, a hypothetical 10% increase or decrease in the U.S. dollar against the Euro would have increased or decreased revenue by approximately $0.5 million and operating expenses by approximately $0.6 million.

## ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2018. We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for 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 management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2018, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls Over Financial Reporting

There were no changes in the Company’s internal control over financial reporting during the last quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1 Legal Proceedings
None.

Item 1A Risk Factors.
Reference is made to the Risk Factors included in our Fiscal 2017 Form 10-K.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds.
The following table summarizes the Company's purchases of its common stock for the quarter ended March 31, 2018:

| | Issuer Purchases of Equity Securities | | | |
|---|---|---|---|---|
| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs |
| January 1 - 31, 2018 | — | $ — | — | — |
| February 1 - 28, 2018 | 174,385 | 1.53 | — | — |
| March 1 - 31, 2018 | — | — | — | — |
| Total | 174,385 | $ 1.53 | — | — |

(1) These amounts consist of 174,385 shares we acquired from employees associated with the withholding of shares to pay certain withholding taxes upon the vesting of stock-based compensation in accordance with the terms of our equity compensation plan that were previously approved by our stockholders and disclosed in our proxy statements. We purchased these shares at their fair market value, as determined by reference to the closing price of our common stock on the day prior to the vesting date.

Item 3 Defaults Upon Senior Securities.
None.

Item 4 Mine Safety Disclosures.
Not applicable.

Item 5 Other Information
None.

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ITEM 6. EXHIBITS

| Exhibit No. | Description |
|---|---|
| 10.5 + | Amended and Restated Employment Agreement, dated March 6, 2018, and effective as of March 1, 2018, by and between the Registrant and Todd M. Pope (filed as Exhibit 10.5 to our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 8, 2018 and incorporated by reference herein). |
| 10.6 + | Employment Agreement, dated March 6, 2018, and effective as of March 1, 2018, by and between the Registrant and Joseph P. Slattery (filed as Exhibit 10.6 to our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 8, 2018 and incorporated by reference herein). |
| 10.7 + | Employment Agreement, dated March 6, 2018, and effective as of March |

| | |
|---|---|
| | 1, 2018, by and between the Registrant and Anthony Fernando (filed as Exhibit 10.7 to our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 8, 2018 and incorporated by reference herein). |
| 31.1 * | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a). |
| 31.2 * | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a). |
| 32.1 * | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 * | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS * | XBRL Instance Document. |
| 101.SCH * | XBRL Taxonomy Extension Schema Document. |
| 101.CAL * | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF * | |

| | |
|---|---|
| | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB * | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE * | XBRL Taxonomy Extension Presentation Linkbase Document. |

+A management contract, compensatory plan or arrangement required to be separately identified.
*Filed herewith.

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.

| | |
|---|---|
| | TransEnterix, Inc. |
| Date: May 8, 2018 | By: /s/ Todd M. Pope<br>Todd M. Pope<br>President and Chief Executive Officer |
| Date: May 8, 2018 | By: /s/ Joseph P. Slattery<br>Joseph P. Slattery<br>Executive Vice President and Chief Financial Officer |