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

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**FORM 10-Q**

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

For the quarterly period ended December 31, 2016

Commission File No. 000-52082

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**CARDIOVASCULAR SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

No. 41-1698056  
(IRS Employer  
Identification No.)

1225 Old Highway 8 Northwest  
St. Paul, Minnesota 55112-6416  
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (651) 259-1600

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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. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares outstanding of the registrant's common stock as of January 27, 2017 was: Common Stock, \$0.001 par value per share, 32,602,902 shares.

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## PART I. — FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Cardiovascular Systems, Inc.**  
**Consolidated Balance Sheets**  
(Dollars in thousands, except per share and share amounts)  
(Unaudited)

	December 31, 2016	June 30, 2016
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 79,279	\$ 60,638
Accounts receivable, net	25,398	23,128
Inventories	16,169	17,440
Marketable securities	721	684
Prepaid expenses and other current assets	1,382	2,992
Total current assets	122,949	104,882
Property and equipment, net	31,204	32,471
Patents, net	4,503	5,013
Other assets	64	40
Total assets	\$ 158,720	\$ 142,406
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 7,616	\$ 8,506
Accrued expenses	24,762	26,993
Total current liabilities	32,378	35,499
Long-term liabilities		
Deferred revenue	10,000	—
Other liabilities	4,266	6,010
Total liabilities	46,644	41,509
Commitments and contingencies (see Note 6)		
	—	—
Common stock, \$0.001 par value; authorized 100,000,000 common shares at December 31, 2016 and June 30, 2016; issued and outstanding 32,582,902 at December 31, 2016 and 32,792,497 at June 30, 2016, respectively	33	33
Additional paid in capital	440,292	428,235
Accumulated other comprehensive income	77	40
Accumulated deficit	(328,326)	(327,411)
Total stockholders' equity	112,076	100,897
Total liabilities and stockholders' equity	\$ 158,720	\$ 142,406

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

**Cardiovascular Systems, Inc.**  
**Consolidated Statements of Operations**  
**(Dollars in thousands, except per share and share amounts)**  
**(Unaudited)**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net revenues	\$ 50,043	\$ 41,392	\$ 99,843	\$ 85,263
Cost of goods sold	9,163	8,071	18,629	16,842
Gross profit	40,880	33,321	81,214	68,421
Expenses:				
Selling, general and administrative	33,993	41,258	70,859	82,653
Research and development	5,805	7,206	11,140	14,147
Total expenses	39,798	48,464	81,999	96,800
Income (loss) from operations	1,082	(15,143)	(785)	(28,379)
Other (income) and expense, net	15	(3)	(18)	(1)
Income (loss) before income taxes	1,067	(15,140)	(767)	(28,378)
Provision for income taxes	24	23	48	46
Net income (loss)	\$ 1,043	\$ (15,163)	\$ (815)	\$ (28,424)
Basic earnings per share	\$ 0.03	\$ (0.47)	\$ (0.03)	\$ (0.88)
Diluted earnings per share	\$ 0.03	\$ (0.47)	\$ (0.03)	\$ (0.88)
Basic weighted average shares outstanding	32,189,981	32,553,991	32,060,973	32,382,433
Diluted weighted average shares outstanding	32,804,305	32,553,991	32,060,973	32,382,433

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

**Cardiovascular Systems, Inc.**  
**Consolidated Statements of Comprehensive Loss**  
**(Dollars in thousands)**  
**(Unaudited)**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net income (loss)	\$ 1,043	\$ (15,163)	\$ (815)	\$ (28,424)
Other comprehensive income (loss):				
Unrealized gain (loss) on available for sale securities	16	57	37	(42)
Comprehensive income (loss)	<u>\$ 1,059</u>	<u>\$ (15,106)</u>	<u>\$ (778)</u>	<u>\$ (28,466)</u>

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

**Cardiovascular Systems, Inc.**  
**Consolidated Statements of Cash Flows**  
**(Dollars in thousands)**  
**(Unaudited)**

	Six Months Ended December 31,	
	2016	2015
<b>Cash flows from operating activities</b>		
Net loss	\$ (815)	\$ (28,424)
Adjustments to reconcile net loss to net cash used in operations		
Depreciation of property and equipment	1,940	1,810
Amortization and write-off of patents	831	144
Provision for doubtful accounts	190	525
Stock-based compensation	5,933	7,219
Changes in assets and liabilities		
Accounts receivable	(2,460)	4,903
Inventories	1,271	(4,271)
Prepaid expenses and other assets	1,936	2,117
Accounts payable	(1,028)	(1,086)
Accrued expenses and other liabilities	(3,976)	(492)
Deferred revenue	10,000	—
Net cash provided by (used in) operating activities	13,822	(17,555)
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(481)	(2,792)
Issuance of convertible note receivable	—	(350)
Purchases of marketable securities	—	(37)
Costs incurred in connection with patents	(375)	(455)
Net cash used in investing activities	(856)	(3,634)
<b>Cash flows from financing activities</b>		
Proceeds from employee stock purchase plan	1,400	1,670
Exercise of stock options	4,275	1,006
Net cash provided by financing activities	5,675	2,676
Net change in cash and cash equivalents	18,641	(18,513)
<b>Cash and cash equivalents</b>		
Beginning of period	60,638	83,842
End of period	\$ 79,279	\$ 65,329

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

**CARDIOVASCULAR SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(For the Three and Six Months Ended December 31, 2016 and 2015 )**  
**(Dollars in thousands, except per share and share amounts)**  
**(Unaudited)**

**1. Business Overview**

***Company Description***

Cardiovascular Systems, Inc. (the “Company”) develops, manufactures and markets devices for the treatment of vascular diseases. The Company’s peripheral arterial disease (“PAD”) products, the Diamondback 360<sup>®</sup> Peripheral Orbital Atherectomy System (“OAS”) and the Stealth 360<sup>°</sup> Peripheral OAS, are catheter-based platforms capable of treating a broad range of plaque types, including calcified plaque, in leg arteries both above and below the knee, and address many of the limitations associated with other surgical, catheter and pharmacological treatment alternatives. These devices use small access sheaths that can provide procedural benefits and allow physicians to treat PAD patients in a variety of vessel sizes, including the small and tortuous vessels located below the knee through alternative access sites in the ankle and foot as well as in the groin.

In October 2013, the Company received premarket approval from the United States Food and Drug Administration to market the Diamondback 360<sup>®</sup> Coronary OAS as a treatment for severely calcified coronary arteries.

The Company is currently selling only in the United States. In June 2016, the Company submitted an application to Japan’s Pharmaceuticals and Medical Devices Agency for approval of its Diamondback 360<sup>®</sup> Coronary OAS Micro Crown. Pending approval, Japan would become the first international market for any of the Company’s products. In November 2016, the Company signed an exclusive distribution agreement with Medikit Co., Ltd. (“Medikit”) to sell its Diamondback 360<sup>®</sup> Coronary and Peripheral OAS in Japan. The Company is currently evaluating options for additional international expansion to maximize the coronary and peripheral market opportunities.

**2. Summary of Significant Accounting Policies**

***Interim Financial Statements***

The Company prepared the unaudited interim consolidated financial statements and related unaudited financial information in the footnotes in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements. The year-end consolidated balance sheet was derived from the Company’s audited consolidated financial statements, but does not include all disclosures as required by GAAP. These interim consolidated financial statements reflect all adjustments consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair statement of the Company’s consolidated financial position, the results of its operations and its cash flows for the interim periods. These interim consolidated financial statements should be read in conjunction with the consolidated annual financial statements and the notes thereto included in the Form 10-K filed by the Company with the SEC on August 25, 2016. The nature of the Company’s business is such that the results of any interim period may not be indicative of the results to be expected for the entire year.

***Use of Estimates***

The preparation of the Company’s consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

***Stock-Based Compensation***

The Company has stock-based compensation plans, which include stock options, nonvested share awards, and an employee stock purchase plan. Fair value of option awards is determined using option-pricing models, fair value of nonvested share awards with market conditions is determined using the Monte Carlo simulation, and fair value of nonvested share awards that vest based upon performance or service conditions is determined by the closing market price of the Company’s stock on the date of grant. Stock-based compensation expense is recognized ratably over the requisite service period for the awards expected to vest.

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### ***Revenue Recognition***

The Company sells its products almost exclusively via direct shipment to hospitals or clinics. The Company recognizes revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred; the sales price is fixed or determinable; and collectability is reasonably assured. The Company records estimated sales returns, discounts and rebates as a reduction of net sales.

Costs related to products delivered are recognized in the period revenue is recognized. Cost of goods sold consists primarily of raw materials, direct labor, and manufacturing overhead.

### ***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue From Contracts with Customers.” The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. ASU 2014-09 was initially to be effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period, using one of two prescribed retrospective methods. Early adoption was not to be permitted. In August 2015, the FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 by one year and allow early adoption for all entities but not before the original public entity effective date. The guidance is effective for the Company on July 1, 2018. The Company is evaluating the impact of the amended revenue recognition guidance on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.” The guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements. The entity must also provide certain disclosures if there is substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods thereafter. Early adoption is permitted. The guidance is effective for the Company as of June 30, 2017. The Company does not anticipate a material impact on its financial statements upon adoption.

In July 2015, the FASB issued ASU No. 2015-11, “Simplifying the Measurement of Inventory.” The guidance requires an entity to measure inventory within the scope of the ASU at the lower of cost and net realizable value. ASU 2015-11 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016 and should be applied prospectively. Early adoption is permitted. The guidance is effective for the Company on July 1, 2017. The Company does not anticipate a material impact on its financial statements upon adoption.

In November 2015, the FASB issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes.” The guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016 and can be applied either prospectively or retrospectively. Early adoption is permitted. The guidance is effective for the Company on July 1, 2017. The Company is currently evaluating the impact of the deferred tax guidance on its financial statements upon adoption.

In February 2016, the FASB issued ASU 2016-02, “Leases.” The guidance requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, and should be applied using a modified retrospective approach. Early adoption is permitted. The guidance is effective for the Company on July 1, 2019. The Company is currently evaluating the impact of the new lease guidance on its financial statements.

In March 2016, the FASB issued ASU 2016-09, “Stock Compensation.” The guidance simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes, classification on the statement of cash flows, forfeitures, and statutory withholding requirements. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted and transition requirements vary based on the amendments adopted. The guidance is effective for the Company on July 1, 2017. The Company is currently evaluating the impact of the stock compensation guidance on its financial statements.

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In April 2016, the FASB issued ASU 2016-10, "Identifying Performance Obligations and Licensing," which amends ASU 2014-09, "Revenue from Contracts with Customers." The guidance clarifies how entities would determine whether promised goods or services are separately identifiable from other promises in a contract and, therefore, would be accounted for separately. The guidance would also allow entities to disregard goods or services that are immaterial in the context of a contract and provides an accounting policy election to account for shipping and handling activities as fulfillment costs rather than as additional promised services. ASU 2016-10 has the same effective date and transition requirements as ASU 2014-09, as amended by 2015-14. The Company is currently evaluating the impact on its financial statements.

In May 2016, the FASB issued ASU No. 2016-12, "Narrow-Scope Improvements and Practical Expedients," which amends ASU 2014-09, "Revenue from Contracts with Customers," to address implementation issues relative to transition (adding a practical expedient for contract modifications and clarifying what constitutes a completed contract when employing ASU 2014-09's full or modified retrospective transition methods), collectability, noncash consideration, and the presentation of sales and other similar-type taxes (allowing entities to exclude sales-type taxes collected from transaction price). This ASU has the same effective date and transition requirements as ASU 2014-09, as amended by ASU 2015-14. The Company is currently evaluating the impact on its financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments," which revises guidance for the accounting for credit losses on financial instruments within its scope. The new standard introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The new approach to estimating credit losses (referred to as the current expected credit losses model) applies to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted and should be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The guidance is effective for the Company on July 1, 2020. The Company is currently assessing the impact of the credit loss guidance on its financial statements.

### **3. Selected Consolidated Financial Statement Information**

#### *Accounts Receivable, Net*

Accounts receivable consists of the following:

	December 31, 2016	June 30, 2016
Accounts receivable	\$ 26,173	\$ 23,840
Less: Allowance for doubtful accounts	(775)	(712)
Accounts receivable, net	<u>\$ 25,398</u>	<u>\$ 23,128</u>

#### *Inventories*

Inventories consist of the following:

	December 31, 2016	June 30, 2016
Raw materials	\$ 6,992	\$ 7,439
Work in process	614	1,142
Finished goods	8,563	8,859
Inventories	<u>\$ 16,169</u>	<u>\$ 17,440</u>

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### *Property and Equipment, Net*

Property and equipment consists of the following:

	December 31, 2016	June 30, 2016
Land	\$ 500	\$ 500
Building	22,575	22,575
Equipment	15,638	14,141
Furniture	2,709	2,709
Leasehold improvements	86	86
Construction in progress	709	1,533
	<u>42,217</u>	<u>41,544</u>
Less: Accumulated depreciation	(11,013)	(9,073)
Property and equipment, net	<u>\$ 31,204</u>	<u>\$ 32,471</u>

On December 29, 2016, the Company entered into a Purchase and Sale Agreement, and on February 2, 2017, the Company entered into the First Amendment to Purchase and Sale Agreement (collectively, the “Sale Agreement”) with Krishna Holdings, LLC (the “Buyer”), providing for the sale to Buyer of the Company’s headquarters facility in St. Paul, Minnesota (the “Facility”), for an approximate cash purchase price of \$21,500. Under the Sale Agreement, the Company has agreed, concurrently with the closing of the sale of the Facility, to enter into a Lease Agreement (the “Lease Agreement”) with Buyer or an affiliate of Buyer, pursuant to which the Company will lease the Facility. The Lease Agreement will have an initial term of fifteen years, with four consecutive renewal options of five years each, with a base annual rent in the first year of \$1,638 and annual escalations of 3%. The closing of the sale of the Facility under the Sale Agreement is subject to completion of due diligence by Buyer and certain customary closing conditions. The Sale Agreement and the First Amendment to the Sale Agreement are filed as Exhibits 10.1 and 10.2, respectively, to this Quarterly Report on Form 10-Q.

### *Accrued Expenses*

Accrued expenses consist of the following:

	December 31, 2016	June 30, 2016
Salaries and bonus	\$ 6,076	\$ 4,305
Commissions	6,824	7,788
Accrued vacation	3,414	3,498
Accrued excise, sales and other taxes	3,509	3,372
Clinical studies	952	1,757
Legal settlement	1,775	3,872
Restructuring	613	1,337
Other accrued expenses	1,599	1,064
Total Accrued expenses	<u>\$ 24,762</u>	<u>\$ 26,993</u>

### *Legal Settlement*

On June 28, 2016, the Company entered into a Settlement Agreement (the “Settlement Agreement”) with the United States of America, acting through the Department of Justice (the “DOJ”) and on behalf of the Office of Inspector General of the Department of Health and Human Services, and Travis Thams, to resolve the investigation by the DOJ and the Civil Action underlying such investigation. Under the Settlement Agreement, the Company will pay \$8,000, as follows: an initial payment of \$3,000, which the Company paid on July 1, 2016, with the remaining \$5,000, which bears interest at 1.8% per annum, payable in 11 equal quarterly installments, beginning January 1, 2017. The amount payable within the next twelve months is included in accrued expenses as noted in the table above.

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### *Restructuring*

On March 31, 2016, the Company announced a restructuring to reduce costs as a part of its plan to progress towards profitability and positive cash flow. As a result, the Company recorded a restructuring expense of \$2,364 during the year ended June 30, 2016, which was comprised of severance and other employee related costs.

The following table provides information regarding the restructuring accrual:

	<b>Severance</b>
Restructuring accrual at June 30, 2016	\$ 1,521
Cash payments	(878)
Restructuring accrual at December 31, 2016	<u>\$ 643</u>

The Company anticipates that \$613 of the restructuring accrual at December 31, 2016 will be paid within the next twelve months and is therefore recorded in accrued expenses on the consolidated balance sheet. Estimated payments of \$30 are recorded in other liabilities on the consolidated balance sheet. The Company does not anticipate additional restructuring costs in the near-term future.

### *CEO Departure*

On February 29, 2016, the Company's former Chief Executive Officer ("CEO") resigned from his positions as President and CEO of the Company and as a director of the Company. The Company and the former CEO entered into a Separation Agreement with benefits consistent with the Company's Amended and Restated Executive Officer Severance Plan. The total expense related to the former CEO's departure was \$1,507 and was recorded in selling, general and administrative expenses for the year ended June 30, 2016. As of December 31, 2016, \$701 of the package benefits is recorded in accrued expenses (included in salaries and bonus in the table above) and \$76 is recorded in other liabilities (included in accrued severance in the table below) on the consolidated balance sheet, representing the long-term portion of the former CEO's benefits.

### *Other Liabilities*

Other non-current liabilities consist of the following:

	<b>December 31,</b>	<b>June 30,</b>
	<b>2016</b>	<b>2016</b>
Legal settlement	3,225	4,128
Deferred compensation	368	684
Accrued severance	105	610
Other liabilities	568	588
Total Other liabilities	<u>\$ 4,266</u>	<u>\$ 6,010</u>

### *Deferred Revenue*

In November 2016, the Company signed an exclusive distribution agreement with Medikit to sell its Diamondback 360<sup>®</sup> Coronary and Peripheral OAS in Japan. To secure exclusive distribution rights, Medikit made an upfront payment of \$10,000 to the Company, which is refundable based on the occurrence of certain events during the term of the agreement. The Company has classified the upfront payment as long-term based on its expectation of when revenue will be recognized which the Company is currently evaluating.

## **4. Deferred Compensation Plan**

The Company offers certain members of management and highly compensated employees the opportunity to defer up to 100% of their base salary (after 401(k), payroll tax and other deductions), performance bonus and discretionary bonus and elect to receive the deferred compensation at a fixed future date of participant's choosing. Each participant may, at the time of his or her deferral election, choose to allocate the deferred compensation into investment alternatives set by the Human Resources and Compensation Committee. The amount payable to each participant under the plan will change in value based upon the investment selected by that participant and is classified as current or long-term on the Company's balance sheet based on the disbursement elections made by the participants. As of December 31, 2016, \$353 of the amount payable is included in accrued

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liabilities and \$368 is included in other liabilities on the consolidated balance sheet. Future distribution dates are July 1, 2017 and January 1, 2020.

The available-for-sale marketable securities are primarily comprised of investments with a fixed income and equity investments and consist of the following:

	As of December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mutual funds	\$ 644	\$ 77	\$ —	\$ 721
Total short-term investments	\$ 644	\$ 77	\$ —	\$ 721

  

	As of June 30, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mutual funds	\$ 644	\$ 40	\$ —	\$ 684
Total short-term investments	\$ 644	\$ 40	\$ —	\$ 684

During the six months ended December 31, 2016 and 2015, there were \$0 and \$37, respectively, in purchases of available-for-sale securities. There were no sales or other-than-temporary impairments during the six months ended December 31, 2016 and 2015, respectively.

The following table provides information by level for the Company's available-for-sale marketable securities that were measured at fair value on a recurring basis:

	Fair Value	Fair Value Measurements as of December 31, 2016 Using Inputs Considered as		
		Level 1	Level 2	Level 3
Mutual funds	\$ 721	\$ 460	\$ 261	\$ —
Total short-term investments	\$ 721	\$ 460	\$ 261	\$ —

  

	Fair Value	Fair Value Measurements as of June 30, 2016 Using Inputs Considered as		
		Level 1	Level 2	Level 3
Mutual funds	\$ 684	\$ 425	\$ 259	\$ —
Total short-term investments	\$ 684	\$ 425	\$ 259	\$ —

The Company's marketable securities classified within Level 1 are valued using real-time quotes for transactions in active exchange markets. Marketable securities within Level 2 are valued using readily available pricing sources. There were no transfers of assets between Level 1 and Level 2 of the fair value measurement hierarchy during the six months ended December 31, 2016. Any transfers between levels would be recognized on the date of the event or when a change in circumstances causes a transfer.

## 5. Stock Options and Restricted Stock Awards

The Company maintains the 2014 Equity Incentive Plan (the "2014 Plan") for the purpose of granting equity awards to employees, directors and consultants. The 2014 Plan was approved by the Company's stockholders and became effective in November 2014 and was subsequently amended in May 2015. The 2014 Plan replaced the 2007 Equity Incentive Plan (the "2007 Plan"), and no further equity awards may be granted under the 2007 Plan. The Company also maintains one other terminated plan, the 2003 Stock Option Plan (the "2003 Plan") (the 2014 Plan, the 2007 Plan, and the 2003 Plan are collectively referred to as the "Plans").

### *Stock Options*

All options granted under the Plans become exercisable over periods established at the date of grant. The option exercise price is generally not less than the estimated fair market value of the Company's common stock at the date of grant, as determined by the Company's management and Board of Directors. In addition, the Company has granted nonqualified stock options to a

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director outside of the Plans. An employee's vested options must be exercised at or within 90 days of termination to avoid forfeiture. As of December 31, 2016, all outstanding options were fully vested.

Stock option activity for the six months ended December 31, 2016 is as follows:

	Number of Options <sup>(a)</sup>	Weighted Average Exercise Price
Options outstanding at June 30, 2016	606,879	\$ 10.14
Options exercised	(416,458)	\$ 10.51
Options expired	(9,381)	\$ 8.83
Options outstanding at December 31, 2016	<u>181,040</u>	\$ 9.38

(a) Includes the effect of options granted, exercised, forfeited or expired from the 2003 Plan and 2007 Plan, and options granted outside such plans.

### *Restricted Stock*

For restricted stock awards which vest solely based on time, the fair value of each restricted stock award is equal to the fair market value of the Company's common stock at the date of grant. Vesting of restricted stock awards generally ranges from one to three years. The estimated fair value of restricted stock awards, including the effect of estimated forfeitures, is recognized on a straight-line basis over the restricted stock's vesting period.

On August 8, 2016 and August 17, 2016, the Company granted restricted stock awards to its executives and management. These awards included grants of an aggregate maximum 336,826 shares that vest based on the Company's total shareholder return relative to total shareholder return of the Company's peer group, as measured by the closing prices of the stock of the Company and the peer group members for the 90 trading days preceding July 1, 2016 compared to the closing prices of the stock of the Company and the peer group members for the 90 trading days preceding July 1, 2019. Vesting of these awards will be determined on the date that the Company's Annual Report on Form 10-K for the fiscal year ending June 30, 2019 is filed.

To calculate the estimated fair value of these restricted stock awards with market conditions, the Company uses a Monte Carlo simulation, which uses the expected average stock prices to estimate the expected number of shares that will vest. The Monte Carlo simulation resulted in a fair value of approximately \$4,032, which the Company will recognize as expense using the straight-line method over the period that the awards are expected to vest. Stock-based compensation expense related to an award with a market condition will be recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided.

Restricted stock award activity for the six months ended December 31, 2016 is as follows:

	Number of Shares	Weighted Average Fair Value
Restricted stock awards outstanding at June 30, 2016	957,689	\$ 22.99
Restricted stock awards granted - time based	240,238	\$ 21.57
Restricted stock awards granted - market conditions	336,826	\$ 11.97
Restricted stock awards forfeited	(382,050)	\$ 12.14
Restricted stock awards vested	(242,861)	\$ 23.45
Restricted stock awards outstanding at December 31, 2016	<u>909,842</u>	\$ 18.63

## **6. Commitment and Contingencies**

### *Operating Leases*

The Company leases manufacturing and other space, as well as equipment, under lease agreements that expire at various dates through March 2020. Rental expenses were \$149 and \$299 for the three months ended December 31, 2016 and 2015, respectively, and \$321 and \$641 for the six months ended December 31, 2016 and 2015, respectively.

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Future minimum lease payments under the agreements as of December 31, 2016 are as follows:

Six months ended June 30, 2017	\$	302
Fiscal 2018		523
Fiscal 2019		471
Fiscal 2020		353
	\$	<u>1,649</u>

### ***Stockholder Securities Litigation***

With respect to Shoemaker v. Cardiovascular Systems, Inc. et al., 0:16-cv-00568 (D. Minn.) described in Note 9 of the notes to the consolidated annual financial statements included in the Form 10-K filed by the Company with the SEC on August 25, 2016, the Company filed a motion to dismiss the complaint in this action on August 29, 2016. A hearing was held on the motion to dismiss on December 2, 2016, but the court has not issued a ruling as of the date of this quarterly report.

### ***Stockholder Derivative Action***

With respect to the stockholder derivative action described in Note 9 of the notes to the consolidated annual financial statements, included in the Form 10-K filed by the Company with the SEC on August 25, 2016, the parties filed with the court a stipulated order dismissing the derivative action without prejudice on November 17, 2016. The stipulated order of voluntary dismissal came after plaintiff had filed a notice of dismissal on October 19, 2016 and defendants filed a conditional opposition. Defendants had sought to have the court impose additional restrictions on plaintiff as a condition for granting the request for dismissal. The parties then engaged in discussions and resolved the issues, with the defendants withdrawing their opposition and an agreement being reached to have the case dismissed. On November 18, 2016, the court entered the order dismissing the action. Accordingly, the stockholder derivative action is no longer pending.

### ***Other Matters***

In the ordinary conduct of business, the Company is subject to various lawsuits and claims covering a wide range of matters including, but not limited to, employment claims and commercial disputes. While the outcome of these matters is uncertain, the Company does not believe there are any significant matters as of December 31, 2016 that are probable or estimable, for which the outcome could have a material adverse impact on its consolidated balance sheets or statements of operations.

## **7. Earnings Per Share**

The following table presents a reconciliation of the numerators and denominators used in the basic and diluted earnings per common share computations (in thousands except share and per share amounts):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
<b>Numerator</b>				
Net income (loss)	\$ 1,043	\$ (15,163)	\$ (815)	\$ (28,424)
Undistributed earnings allocated to participating unvested time-based restricted stock awards	(18)	—	—	—
Net income (loss) available to common stockholders	<u>\$ 1,025</u>	<u>\$ (15,163)</u>	<u>\$ (815)</u>	<u>\$ (28,424)</u>
<b>Denominator</b>				
Weighted average common shares outstanding – basic	32,189,981	32,553,991	32,060,973	32,382,433
Effect of dilutive stock options <sup>(1)</sup>	111,874	—	—	—
Effect of dilutive restricted stock units <sup>(2)</sup>	313,820	—	—	—
Effect of performance-based restricted stock awards <sup>(3)</sup>	188,630	—	—	—
Weighted average common shares outstanding – diluted	<u>32,804,305</u>	<u>32,553,991</u>	<u>32,060,973</u>	<u>32,382,433</u>
Earnings per common share – basic	\$ 0.03	\$ (0.47)	\$ (0.03)	\$ (0.88)
Earnings per common share – diluted	\$ 0.03	\$ (0.47)	\$ (0.03)	\$ (0.88)

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- (1) At December 31, 2016 and 2015, 181,040 and 606,879 stock options, respectively were outstanding. The effect of the shares that would be issued upon exercise of these options has been excluded from the calculation of diluted loss per share for the three months ended December 31, 2015 and the six months ended December 31, 2016 and 2015 because those shares are anti-dilutive.
- (2) At December 31, 2016 and 2015, 350,771 and 305,031 additional shares of common stock, respectively, were issuable upon the settlement of outstanding restricted stock units. The effect of the shares that would be issued upon settlement of these restricted stock units has been excluded from the calculation of diluted loss per share for the three months ended December 31, 2015 and the six months ended December 31, 2016 and 2015 because those shares are anti-dilutive.
- (3) At December 31, 2016, 336,826 performance-based restricted stock awards were outstanding. The effect of the shares that would be issued upon vesting of these awards has been excluded from the calculation of diluted loss per share for the three months ended December 31, 2015 and the six months ended December 31, 2016 and 2015 because those shares are anti-dilutive.

Unvested time-based restricted stock awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings attributable to the Company are allocated between common stockholders and the participating awards, as if the awards were a second class of stock. During periods of net income, the calculation of earnings per share excludes the income attributable to participating securities in the numerator and the dilutive impact of these securities from the denominator. In the event of a net loss, undistributed earnings are not allocated to participating securities and the denominator excludes the dilutive impact of these securities as they do not share in the losses of the Company. During the three months ended December 31, 2016, undistributed earnings allocated to participating securities were based on 573,016 shares of time-based restricted stock awards.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes appearing under Item 1 of Part I of this Quarterly Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this quarterly report, including information with respect to our plans and strategy for our business and expected financial results, includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" discussed in our Form 10-K for the year ended June 30, 2016 and subsequent reports on Form 10-Q for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

**OVERVIEW**

We are a medical device company focused on developing and commercializing innovative solutions for vascular and coronary disease. Our peripheral arterial disease ("PAD") products, the Diamondback 360<sup>®</sup> Peripheral Orbital Atherectomy System ("OAS") ("Diamondback 360 Peripheral"), the Diamondback 360 60cm Peripheral OAS, the Diamondback 360 4 French 1.25 Peripheral OAS, the Diamondback 360 1.50 Peripheral OAS, the Diamondback 360 2.00 Peripheral OAS, and the Stealth 360<sup>®</sup> Peripheral OAS ("Stealth 360"), are catheter-based platforms capable of treating a broad range of plaque types in leg arteries both above and below the knee, including calcified plaque, and address many of the limitations associated with existing surgical, catheter and pharmacological treatment alternatives. The micro-invasive devices use small access sheaths that can provide procedural benefits and allow physicians to treat PAD patients in even the small and tortuous vessels located below the knee through alternative access sites in the ankle and foot as well as in the groin. We refer to each of the products above in this report as the "Peripheral OAS."

Our coronary arterial disease ("CAD") product, Diamondback 360<sup>®</sup> Coronary OAS ("Coronary OAS"), is marketed as a treatment for severely calcified coronary arteries. The Coronary OAS is a catheter-based platform designed to facilitate stent delivery in patients with CAD who are acceptable candidates for percutaneous transluminal coronary angioplasty or stenting due to de novo, severely calcified coronary artery lesions. The Coronary OAS design is similar to technology used in our Peripheral OAS, customized specifically for the coronary application.

From 1989 to 1997, we engaged in research and development on several different product concepts. From 1997 to 2007, we have devoted substantially all of our resources to the development of the Peripheral OAS and also, since 2007, to the development of our Coronary OAS.

In 2006, we obtained an investigational device exemption from the U.S. Food and Drug Administration ("FDA") to conduct our pivotal OASIS PAD clinical trial, which was completed in January 2007. The OASIS clinical trial was a prospective 20-center study that involved 124 patients with 201 lesions.

In August 2007, the FDA granted us 510(k) clearance for the use of the Diamondback 360 Peripheral as a therapy in patients with PAD. We commenced commercial introduction of the Diamondback 360 Peripheral in the United States in September 2007. We were granted 510(k) clearance of the Predator 360 in March 2009 and Stealth 360 in March 2011. We no longer market the Predator 360. We received 510(k) clearance of the Diamondback 360 60cm Peripheral OAS in March 2014; in April 2015, we received 510(k) clearance of the Diamondback 360 4 French 1.25 Peripheral OAS; and in October 2015, we received 510(k) clearance of the Diamondback 360 1.50 and 2.00 Peripheral OAS.

We have developed modified versions of the Peripheral OAS to treat coronary arteries. A coronary application required us to conduct a clinical trial and file a premarket approval ("PMA") application and obtain approval from the FDA. In March 2013, we completed submission of our PMA application to the FDA for our orbital atherectomy system to treat calcified coronary arteries. In October 2013, we received PMA from the FDA to market the Coronary OAS as a treatment for severely calcified coronary arteries. We commenced a commercial launch of our Coronary OAS following receipt of PMA.

We market the Peripheral and Coronary OAS in the United States through a direct sales force and expend significant capital on our sales and marketing efforts to expand our customer base and utilization per customer. At our facilities, we assemble the saline infusion pump and the single-use catheter used in the Peripheral OAS and Coronary OAS with components purchased from third-party suppliers, as well as with components manufactured in-house. Supplemental products are purchased from third-party suppliers.

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In October 2014, we received CE Mark for our Stealth 360 device and are currently evaluating the timing and structure of our plans to commercialize our products in Europe.

In July 2016, we submitted an application to Japan's Pharmaceuticals and Medical Devices Agency ("PMDA") for approval of our Diamondback 360<sup>®</sup> Coronary OAS Micro Crown, our second generation coronary device. Pending approval, Japan would become the first international market for any CSI product. In November 2016, we signed an exclusive distribution agreement with Medikit Co., Ltd. ("Medikit") to sell our Diamondback 360<sup>®</sup> Coronary and Peripheral OAS in Japan.

### CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

Our management's discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires us to make estimates, assumptions and judgments that affect amounts reported in those statements. Our estimates, assumptions and judgments, including those related to revenue recognition, allowance for doubtful accounts, excess and obsolete inventory, and stock-based compensation, are updated as appropriate at least quarterly. We use authoritative pronouncements, our technical accounting knowledge, cumulative business experience, judgment and other factors in the selection and application of our accounting policies. While we believe that the estimates, assumptions and judgments that we use in preparing our consolidated financial statements are appropriate, these estimates, assumptions and judgments are subject to factors and uncertainties regarding their outcome. Therefore, actual results may materially differ from these estimates.

Some of our significant accounting policies require us to make subjective or complex judgments or estimates. An accounting estimate is considered to be critical if it meets both of the following criteria: (1) the estimate requires assumptions about matters that are highly uncertain at the time the accounting estimate is made, and (2) different estimates that reasonably could have been used, or changes in the estimate that are reasonably likely to occur from period to period, would have a material impact on the presentation of our financial condition, results of operations, or cash flows.

Our critical accounting policies are identified in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016 in Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading "Critical Accounting Policies and Significant Judgments and Estimates." There were no significant changes to our critical accounting policies during the six months ended December 31, 2016.

### RESULTS OF OPERATIONS

The following table sets forth our results of operations expressed as dollar amounts (in thousands) and the changes between the specified periods expressed as percent increases or decreases:

	Three Months Ended December 31,			Six Months Ended December 31,		
	2016	2015	Percent Change	2016	2015	Percent Change
Net revenues	\$ 50,043	\$ 41,392	20.9 %	\$ 99,843	\$ 85,263	17.1 %
Cost of goods sold	9,163	8,071	13.5	18,629	16,842	10.6
Gross profit	40,880	33,321	22.7	81,214	68,421	18.7
Expenses:						
Selling, general and administrative	33,993	41,258	(17.6)	70,859	82,653	(14.3)
Research and development	5,805	7,206	(19.4)	11,140	14,147	(21.3)
Total expenses	39,798	48,464	(17.9)	81,999	96,800	(15.3)
Income (loss) from operations	1,082	(15,143)	(107.1)	(785)	(28,379)	(97.2)
Other (income) and expense, net	15	(3)	(600.0)	(18)	(1)	1,700.0
Income (loss) before income taxes	1,067	(15,140)	(107.0)	(767)	(28,378)	(97.3)
Provision for income taxes	24	23	4.3	48	46	4.3
Net income (loss)	\$ 1,043	\$ (15,163)	(106.9)	\$ (815)	\$ (28,424)	(97.1)

***Comparison of Three Months Ended December 31, 2016 with Three Months Ended December 31, 2015***

*Net revenues.* Net revenues increased by \$8.6 million, or 20.9% , from \$41.4 million for the three months ended December 31, 2015 to \$50.0 million for the three months ended December 31, 2016 . This increase was attributable to higher sales of both our PAD and CAD Systems. CAD System revenues increased approximately \$4.1 million, or 52.4%, due to 53.2% more devices sold in the three months ended December 31, 2016 than during the three months ended December 31, 2015 . Sales of our PAD Systems also increased \$3.8 million, or 12.6%, due to 13.9% more devices sold in the three months ended December 31, 2016 than during the three months ended December 31, 2015 . Other product revenue increased by \$706,000, or 21.4%, primarily driven by increased sales of our PAD and CAD Systems, which the other products support.

Currently, all of our revenues are in the United States; however, we intend to sell internationally in the future and have commenced the process of seeking approval to do so in both Japan and Europe. In July 2016, we submitted an application to Japan’s PMDA for approval of our Diamondback 360<sup>®</sup> Coronary OAS Micro Crown, and in November 2016, we signed an exclusive distribution agreement with Medikit to sell our Diamondback 360<sup>®</sup> Coronary and Peripheral OAS in Japan. In October 2014, we received CE Mark for the Stealth 360 and are currently evaluating the timing and structure of our plans to commercialize products in Europe. We expect our revenue to increase as we continue to increase the number of physicians using the devices, increase the usage per physician, introduce new and improved products, generate additional clinical data, and expand into new geographies.

*Cost of Goods Sold.* Cost of goods sold increased \$1.1 million, or 13.5% , from \$8.1 million for the three months ended December 31, 2015 to \$9.2 million for the three months ended December 31, 2016 . Cost of goods sold represents the cost of materials, labor and overhead for single-use catheters, guidewires, saline pumps, and other ancillary products. Cost of goods sold for the three months ended December 31, 2016 and 2015 includes \$175,000 and \$189,000, respectively, for stock-based compensation. The increase in cost of goods sold was primarily due to increased sales levels, partially offset by lower costs per unit driven by manufacturing efficiencies and cost reductions. Gross margin increased to 81.7% for the three months ended December 31, 2016 from 80.5% for the three months ended December 31, 2015 due to lower costs per unit discussed above. We expect that gross margin in the third quarter of fiscal 2017 will be slightly lower than gross margin in the three months ended December 31, 2016 . Quarterly margin fluctuations could occur based on production volumes, timing of new product introductions, sales mix, pricing changes, or other unanticipated circumstances.

*Selling, General and Administrative Expenses.* Our selling, general and administrative expenses decreased by \$7.3 million, or 17.6% , from \$41.3 million for the three months ended December 31, 2015 to \$34.0 million for the three months ended December 31, 2016 . The decrease was primarily due to lower payroll-related expenses from an 11.4% decrease in headcount from the three months ended December 31, 2015 , lower commissions expense, the timing of tradeshow events, and a reduction in medical device excise tax expense due to the suspension of the tax effective January 1, 2016. Partially offsetting the decreases was an increase in incentive compensation expense due to performance. Selling, general and administrative expenses for the three months ended December 31, 2016 and 2015 includes \$2.1 million and \$2.5 million, respectively, for stock-based compensation. We expect our selling, general and administrative expenses to increase in the third quarter of fiscal 2017 as compared to amounts incurred for the three months ended December 31, 2016 primarily due to an increase in payroll taxes related to the beginning of a new tax year and increase in incentive compensation related to performance, and an increase in sales and marketing programs and meeting costs.

*Research and Development Expenses.* Research and development expenses decreased by \$1.4 million, or 19.4% , from \$7.2 million for the three months ended December 31, 2015 to \$5.8 million for the three months ended December 31, 2016 . Research and development expenses relate to specific projects to develop new products or expand into new markets, such as the development of new versions of the PAD and CAD Systems, shaft designs and crown designs, and to PAD and CAD clinical trials. The decrease primarily related to the completion of enrollment in several of our clinical studies, as well as lower payroll-related expenses from a 9.0% decrease in headcount from the three months ended December 31, 2015. Research and development expenses for the three months ended December 31, 2016 and 2015 includes \$252,000 and \$449,000, respectively, for stock-based compensation. We expect research and development expenses in the third quarter of fiscal 2017 to be higher than amounts incurred for the three months ended December 31, 2016 due to the timing of projects and studies. Fluctuations could occur based on the number of projects and studies and the timing of expenditures.

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### ***Comparison of Six Months Ended December 31, 2016 with Six Months Ended December 31, 2015***

***Net revenues.*** Net revenues increased by \$14.6 million, or 17.1% , from \$85.3 million for the six months ended December 31, 2015 to \$99.8 million for the six months ended December 31, 2016 . This increase was attributable to higher sales of both our PAD and CAD Systems. CAD System revenues increased approximately \$6.8 million, or 42.5%, due to 42.2% more devices sold in the six months ended December 31, 2016 than during the six months ended December 31, 2015 . Sales of our PAD Systems also increased \$6.5 million, or 10.3%, due to 9.7% more devices sold in the six months ended December 31, 2016 than during the six months ended December 31, 2015 . Other product revenue increased by \$1.3 million, or 20.6%, primarily driven by increased sales of our PAD and CAD Systems, which the other products support.

***Cost of Goods Sold.*** Cost of goods sold increased \$1.8 million, or 10.6% , from \$16.8 million for the six months ended December 31, 2015 to \$18.6 million for the six months ended December 31, 2016 . Cost of goods sold represents the cost of materials, labor and overhead for single-use catheters, guidewires, saline pumps, and other ancillary products. Cost of goods sold for the six months ended December 31, 2016 and 2015 includes \$375,000 and \$404,000, respectively, for stock-based compensation. The increase in cost of goods sold was primarily due to increased sales levels, partially offset by lower costs per unit driven by manufacturing efficiencies and cost reductions. Gross margin increased to 81.3% for the six months ended December 31, 2016 from 80.2% for the six months ended December 31, 2015 due to lower costs per unit.

***Selling, General and Administrative Expenses.*** Our selling, general and administrative expenses decreased by \$11.8 million, or 14.3% , from \$82.7 million for the six months ended December 31, 2015 to \$70.9 million for the six months ended December 31, 2016 . The decrease was primarily due to lower payroll-related and travel expenses from an 11.4% decrease in headcount from the six months ended December 31, 2015, lower commissions expense, and a reduction in medical device excise tax expense due to the suspension of the tax effective January 1, 2016. Partially offsetting the decreases was an increase in incentive compensation expense due to performance and higher legal fees related to stockholder litigation. Selling, general and administrative expenses for the six months ended December 31, 2016 and 2015 includes \$5.0 million and \$6.0 million, respectively, for stock-based compensation, which decreased due to the reduction in headcount.

***Research and Development Expenses.*** Research and development expenses decreased by \$3.0 million, or 21.3% , from \$14.1 million for the six months ended December 31, 2015 to \$11.1 million for the six months ended December 31, 2016 . Research and development expenses relate to specific projects to develop new products or expand into new markets, such as the development of new versions of the PAD and CAD Systems, shaft designs and crown designs, and to PAD and CAD clinical trials. The decrease primarily related to the completion of enrollment in several of our clinical studies and lower payroll-related expenses from a 9.0% decrease in headcount from the six months ended December 31, 2015. Research and development expenses for the six months ended December 31, 2016 and 2015 includes \$541,000 and \$822,000, respectively, for stock-based compensation, which decreased due to the reduction in headcount.

## **LIQUIDITY AND CAPITAL RESOURCES**

We had cash and cash equivalents of \$79.3 million and \$60.6 million at December 31, 2016 and June 30, 2016 , respectively. During the six months ended December 31, 2016 , net cash provided by operations amounted to \$13.8 million . As of December 31, 2016 , we had an accumulated deficit of \$328.3 million . We have historically funded our operating losses primarily from the issuance of common and preferred stock, convertible promissory notes, and debt.

### ***Changes in Liquidity***

***Cash and Cash Equivalents.*** Cash and cash equivalents were \$79.3 million at December 31, 2016 and \$60.6 million at June 30, 2016 . The increase is primarily attributable to net cash provided by operations and financing activities during the six months ended December 31, 2016 .

***Operating Activities.*** Net cash provided by (used in) operations was \$13.8 million and \$(17.6) million for the six months ended December 31, 2016 and 2015 , respectively. For the six months ended December 31, 2016 and 2015 , we had a net loss of \$815,000 and \$28.4 million , respectively. Significant changes in working capital during these periods included:

- Cash (used in) provided by accounts receivable of \$(2.5) million and \$4.9 million during the six months ended December 31, 2016 and 2015 , respectively, was primarily due to the amount and timing of revenue and collections during the six months ended December 31, 2016 and 2015 .

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- Cash provided by (used in) inventories was \$1.3 million and \$(4.3) million during the six months ended December 31, 2016 and 2015, respectively. For the six months ended December 31, 2016, the amount of cash provided by inventories was primarily due to lower inventory levels from better inventory management. For the six months ended December 31, 2015, the amount of cash used in inventories was primarily due to higher levels of finished goods for future sales.
- Cash provided by prepaid expenses and other current assets was \$1.9 million and \$2.1 million during the six months ended December 31, 2016 and 2015, respectively, primarily due to payment timing of vendor deposits and other expenditures.
- Cash used in accounts payable was \$1.0 million and \$1.1 million during the six months ended December 31, 2016 and 2015, respectively, due to the amount and timing of purchases and vendor payments.
- Cash used in accrued expenses and other liabilities was \$4.0 million and \$492,000 during the six months ended December 31, 2016 and 2015, respectively. For the six months ended December 31, 2016, the change in accrued expenses was primarily due to the initial \$3.0 million Department of Justice settlement payment (discussed below), reduction of clinical accruals, severance payments, and the amount and timing of compensation payments. For the six months ended December 31, 2015, the change in accrued expenses and other liabilities was primarily due to the amount and timing of compensation payments and clinical study expense accruals.
- Cash provided by deferred revenue was \$10.0 million during the six months ended December 31, 2016. In connection with the exclusive distribution agreement with Medikit to sell our Diamondback 360<sup>®</sup> Coronary and Peripheral OAS in Japan, Medikit made an upfront payment of \$10.0 million to us, which is refundable based on the occurrence of certain events during the term of the agreement.

*Investing Activities*. Net cash used in investing activities was \$856,000 and \$3.6 million for the six months ended December 31, 2016 and 2015, respectively. During the six months ended December 31, 2016, cash was used primarily for the purchase of property and equipment and patents. Cash used during the six months ended December 31, 2015 related to the purchase of property and equipment and patents, as well as for the issuance of a convertible note receivable.

*Financing Activities*. Net cash provided by financing activities was \$5.7 million and \$2.7 million for the six months ended December 31, 2016 and 2015, respectively, due to proceeds from employee stock purchases and the exercise of stock options.

Our future liquidity and capital requirements will be influenced by numerous factors, including the extent and duration of future operating losses, the level and timing of future sales and expenditures, the results and scope of ongoing research and product development programs, working capital required to support our business operations, the receipt of and time required to obtain regulatory clearances and approvals, our sales and marketing programs, the continuing acceptance of our products in the marketplace, competing technologies, market and regulatory developments, ongoing facility requirements, potential strategic transactions (including the potential acquisition of businesses, technologies and products), international expansion, and the existence, defense and resolution of legal proceedings. As of December 31, 2016, we believe our current cash and cash equivalents will be sufficient to fund working capital requirements, capital expenditures and operations for the foreseeable future, including at least the next twelve months, as well as to fund payments related to the Department of Justice settlement, expenses relating to implementation and compliance with our Corporate Integrity Agreement, and payments related to our restructuring and departure of our former CEO. We also believe we have the potential ability to finance our new Minnesota facility, as described below, and obtain debt financing, which could further supplement funds. We intend to retain any future earnings to support operations and to finance the growth and development of our business. We do not anticipate paying any dividends in the foreseeable future.

### *Legal Settlement*

As previously discussed in our Annual Report on Form 10-K, filed with the SEC on August 25, 2016, on June 28, 2016, we entered into a Settlement Agreement with the Department of Justice, pursuant to which we will pay \$8.0 million as follows: an initial payment of \$3.0 million, which we paid in July 2016, with the remaining \$5.0 million, which bears interest at 1.8% per annum, payable in 11 equal quarterly installments, beginning in January 2017.

In connection with the resolution of this matter, we entered into a five-year corporate integrity agreement (the “Corporate Integrity Agreement”) with the Office of Inspector General of the Department of Health and Human Services. The Corporate Integrity Agreement requires that we maintain our existing compliance programs and imposes certain expanded compliance-related requirements during the term of the Corporate Integrity Agreement, including establishment of specific procedures and requirements regarding consulting activities, co-marketing activities and other interactions with healthcare professionals and healthcare institutions and the sale and marketing of our products; ongoing monitoring, reporting, certification and training

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obligations; and the engagement of an independent review organization to perform certain auditing and reviews and prepare certain reports regarding our compliance with federal health care programs. In the event of a breach of the Corporate Integrity Agreement, we could become liable for payment of certain stipulated penalties or could be excluded from participation in federal health care programs. The Corporate Integrity Agreement will require us to invest additional amounts in our compliance program and pay fees and expenses of the independent review organization.

### *Restructuring*

In March 2016, we announced a broad-based restructuring to reduce costs as a part of our plan to progress towards profitability and positive cash flow. As a result, we recorded a restructuring expense of \$2.4 million during the year ended June 30, 2016, which was comprised of severance and other employee related costs. Approximately \$613,000 is payable over the next twelve months and \$30,000 payable in subsequent periods. We do not anticipate additional restructuring costs. See Note 3 to our Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q for additional discussion.

### *CEO Departure*

In February 2016, our former Chief Executive Officer (“CEO”) resigned from his positions as President and CEO of the Company and as a director of the Company. The Company and the former CEO entered into a Separation Agreement with benefits consistent with our Amended and Restated Executive Officer Severance Plan, which requires payments of approximately \$701,000 that will be paid within the next twelve months and estimated payments of \$76,000 primarily payable in the subsequent twelve months. See Note 3 to our Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q for additional discussion.

### *Facility Financing*

On December 29, 2016, we entered into a Purchase and Sale Agreement, and on February 2, 2017, we entered into the First Amendment to Purchase and Sale Agreement (collectively, the “Sale Agreement”) with Krishna Holdings, LLC (the “Buyer”), providing for the sale to Buyer of our headquarters facility in St. Paul, Minnesota (the “Facility”), for an approximate cash purchase price of \$21.5 million. Under the Sale Agreement, we have agreed, concurrently with the closing of the sale of the Facility, to enter into a Lease Agreement (the “Lease Agreement”) with Buyer or an affiliate of Buyer, pursuant to which we will lease the Facility. The Lease Agreement will have an initial term of fifteen years, with four consecutive renewal options of five years each, with a base annual rent in the first year of \$1.6 million and annual escalations of 3%. The closing of the sale of the Facility under the Sale Agreement is subject to completion of due diligence by Buyer and certain customary closing conditions. The Sale Agreement and the First Amendment to the Sale Agreement are filed as Exhibits 10.1 and 10.2, respectively, to this Quarterly Report on Form 10-Q.

## **NON-GAAP FINANCIAL INFORMATION**

To supplement our consolidated financial statements prepared in accordance with GAAP, our management uses a non-GAAP financial measure referred to as “Adjusted EBITDA.” The following table sets forth, for the periods indicated, a reconciliation of Adjusted EBITDA to the most comparable U.S. GAAP measure expressed as dollar amounts (in thousands):

	Six Months Ended December 31,	
	2016	2015
Net loss	\$ (815)	\$ (28,424)
Less: Other (income) and expense, net	(18)	(1)
Less: Provision for income taxes	48	46
Loss from operations	(785)	(28,379)
Add: Stock-based compensation	5,933	7,219
Add: Depreciation and amortization	2,056	1,921
Adjusted EBITDA	\$ 7,204	\$ (19,239)

Adjusted EBITDA improved as compared to the prior year period due to the lower loss from operations as a result of higher revenues and lower costs, as well as higher depreciation expense, slightly offset by lower stock-based compensation as a result of reduced headcount.

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### *Use and Economic Substance of Non-GAAP Financial Measures Used and Usefulness of Such Non-GAAP Financial Measures to Investors*

We use Adjusted EBITDA as a supplemental measure of performance and believe this measure facilitates operating performance comparisons from period to period and company to company by factoring out potential differences caused by depreciation and amortization expense and non-cash charges such as stock-based compensation. Our management uses Adjusted EBITDA to analyze the underlying trends in our business, assess the performance of our core operations, establish operational goals and forecasts that are used to allocate resources and evaluate our performance period over period and in relation to our competitors' operating results. Additionally, our management is partially evaluated on the basis of Adjusted EBITDA when determining achievement of their incentive compensation performance targets.

We believe that presenting Adjusted EBITDA provides investors greater transparency to the information used by our management for its financial and operational decision-making and allows investors to see our results "through the eyes" of management. We also believe that providing this information better enables our investors to understand our operating performance and evaluate the methodology used by our management to evaluate and measure such performance. The following is an explanation of each of the items that management excluded from Adjusted EBITDA and the reasons for excluding each of these individual items:

- *Stock-based compensation.* Our management believes that excluding this item from our non-GAAP results is useful to investors to understand the application of stock-based compensation guidance and its impact on our operational performance and ability to make additional investments in the Company, and it allows for greater transparency to certain line items in our financial statements.
- *Depreciation and amortization expense.* Our management believes that excluding these items from our non-GAAP results is useful to investors to understand our operational performance and ability to make additional investments in the company.

### *Material Limitations Associated with the Use of Non-GAAP Financial Measures and Manner in Which We Compensate for these Limitations*

Non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for our financial results prepared in accordance with GAAP. Some of the limitations associated with our use of these non-GAAP financial measures are:

- Items such as stock-based compensation do not directly affect our cash flow position; however, such items reflect economic costs to us and are not reflected in our Adjusted EBITDA, and therefore these non-GAAP measures do not reflect the full economic effect of these items.
- Non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles and therefore other companies may calculate similarly titled non-GAAP financial measures differently than we do, limiting the usefulness of those measures for comparative purposes.
- Our management exercises judgment in determining which types of charges or other items should be excluded from the non-GAAP financial measures we use.

We compensate for these limitations by relying primarily upon our GAAP results and using non-GAAP financial measures only supplementally.

## **INFLATION**

We do not believe that inflation had a material impact on our business and operating results during the periods presented.

## **OFF-BALANCE SHEET ARRANGEMENTS**

Since inception, we have not engaged in any off-balance sheet activities as defined in Item 303(a)(4) of Regulation S-K.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

For a description of recent accounting pronouncements, see Note 2 to the Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

## PRIVATE SECURITIES LITIGATION REFORM ACT

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. Such “forward-looking” information is included in this Form 10-Q and in other materials filed or to be filed by us with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by us). Forward-looking statements include all statements based on future expectations. This Form 10-Q contains forward-looking statements that involve risks and uncertainties, including (i) the expectation of selling our products internationally in the future and the timing and structure of our plans to do so; (ii) regulatory approval of our devices in Japan; (iii) the closing of the sale of our headquarters facility, the timing of such closing, and the Lease Agreement; (iv) our plan to progress toward to profitability and positive cash flow; (v) the stockholder litigation; (vi) our expectation that our revenue will increase; (vii) our expectation of increased selling, general and administrative expenses in the third quarter of fiscal 2017; (viii) our expectation that gross margin in the third quarter of fiscal 2017 will be slightly lower than gross margin in the three months ended December 31, 2016; (ix) our expectation that we will incur research and development expenses in the third quarter of fiscal 2017 higher than the amounts incurred for the three months ended December 31, 2016; (x) our anticipation that we will not incur additional charges related to restructuring activities in the near term future; (xi) our belief that our current cash and cash equivalents will be sufficient to fund working capital requirements, capital expenditures and operations for the foreseeable future, as well as to fund certain other anticipated expenses; (xii) our intention to retain any future earnings to support operations and to finance the growth and development of our business; (xiii) our dividend expectations; (xiv) our belief that we have the potential ability to finance our new Minnesota facility and obtain debt financing, which could further supplement funds if warranted; and (xv) the anticipated impact of adoption of recent accounting pronouncements on our financial statements.

In some cases, you can identify forward-looking statements by the following words: “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “ongoing,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would,” or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management’s beliefs and assumptions, which in turn are based on their interpretation of currently available information.

These statements involve known and unknown risks, uncertainties and other factors that may cause our results or our industry’s actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. These factors include, but are not limited to, regulatory developments in the U.S., Japan and other foreign countries; FDA and similar Japanese and other foreign clearances and approvals; approval of our products for distribution in Japan and other foreign countries; approval of products for reimbursement and the level of reimbursement in the U.S., Japan and other foreign countries; dependence on market growth; agreements with third parties to sell their products; our ability to maintain our relationship with our distribution partner in Japan; the experience of physicians regarding the effectiveness and reliability of our products; the reluctance of physicians, hospitals and other organizations to accept new products; the potential for unanticipated delays in enrolling medical centers and patients for clinical trials; actual clinical trial and study results; the impact of competitive products and pricing; unanticipated developments affecting our estimates regarding expenses, future revenues and capital requirements; the results of the due diligence conducted by the Buyer in connection with potential sale of the Facility; the satisfaction of the closing conditions under the Sale Agreement; unanticipated delays or failure in satisfying closing conditions under the Sale Agreement; changes in interest rates, market conditions and the condition of the Buyer; the difficulty of successfully managing operating costs; our ability to manage our sales force strategy; actual research and development efforts and needs; our ability to obtain and maintain intellectual property protection for product candidates; our actual financial resources and our ability to obtain additional financing; fluctuations in results and expenses based on new product introductions, sales mix, unanticipated warranty claims, and the timing of project expenditures; our ability to manage costs; our actual financial resources and our ability to obtain additional financing; investigations or litigation threatened or initiated against us; and general economic conditions. These and additional risks and uncertainties are described more fully in our Form 10-K filed with the SEC on August 25, 2016. Copies of filings made with the SEC are available through the SEC’s electronic data gathering analysis and retrieval system (EDGAR) at [www.sec.gov](http://www.sec.gov).

You should read these risk factors and the other cautionary statements made in this Form 10-Q as being applicable to all related forward-looking statements wherever they appear in this Form 10-Q. We cannot assure you that the forward-looking statements in this Form 10-Q will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. You should read this Form 10-Q completely. Other than as required by law, we undertake no obligation to update these forward-looking statements, even though our situation may change in the future.

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

The primary objective of our investment activity is to preserve our capital for the purpose of funding operations, while at the same time maximizing the income we receive from our investments without significantly increasing risk or decreasing availability. To achieve these objectives, our investment policy allows us to maintain a portfolio of cash equivalents and investments in a variety of marketable securities, including money market funds, U.S. government securities, and certain bank obligations. Our cash and cash equivalents as of December 31, 2016 include liquid money market accounts. Due to the short-term nature of these investments, we believe that there is no material exposure to interest rate risk.

Additionally, we have acquired certain available-for-sale marketable securities under our deferred compensation plan. See Note 4 to our Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q for additional information on these available-for-sale marketable securities and the related risks.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer, referred to collectively herein as the Certifying Officers, are responsible for establishing and maintaining our disclosure controls and procedures. The Certifying Officers have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act")) as of December 31, 2016. Based on that review and evaluation, which included inquiries made to certain other employees of the Company, the Certifying Officers have concluded that, as of the end of the period covered by this Report, the Company's disclosure controls and procedures, as designed and implemented, are effective.

#### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

[Table of Contents](#)**PART II. — OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS***Stockholder Securities Litigation*

Refer to Part I, Item 3 (Legal Proceedings) of the Company's Form 10-K for the year ended June 30, 2016, as filed with the SEC on August 25, 2016 and Part II, Item 1 (Legal Proceedings) of the Company's Form 10-Q for the quarter ended September 30, 2016, as filed with the SEC on November 4, 2016. The Company's prior disclosures therein regarding Shoemaker v. Cardiovascular Systems, Inc. et al., 0:16-cv-00568 (D. Minn.) are incorporated herein by reference. The Company filed a motion to dismiss the complaint in this action on August 29, 2016. A hearing was held on the motion to dismiss on December 2, 2016, but the court has not issued a ruling as of the date of this quarterly report.

*Stockholder Derivative Action*

Refer to Part I, Item 3 (Legal Proceedings) of the Company's form 10-K for the year ended June 30, 2016, as filed with the SEC on August 25, 2016 and Part II, Item 1 (Legal Proceedings) of the Company's Form 10-Q for the quarter ended September 30, 2016, as filed with the SEC on November 4, 2016. As previously disclosed, on May 10, 2016, a stockholder derivative action (the "Derivative Action") was filed in the United States District Court for the District of Minnesota (the "Court") naming us as nominal defendant and certain of our current and former executive officers and directors as defendants. The complaint alleged that these current and former executive officers and directors breached their fiduciary duties and unjustly enriched themselves by failing to oversee our business, operations, and prospects, relating to the alleged off-label promotion of medical devices and alleged kickbacks to health care providers. The plaintiff, Caroline Paradis, subsequently amended her complaint on September 19, 2016. On November 17, 2016, the parties filed with the Court a stipulated order dismissing the Derivative Action without prejudice. The stipulated order of voluntary dismissal came after plaintiff Paradis had filed a notice of dismissal on October 19, 2016 and defendants filed a conditional opposition. Defendants had sought to have the Court impose additional restrictions on plaintiff as a condition for granting the request for dismissal. The parties then engaged in discussions and resolved the issues, with the defendants withdrawing their opposition and an agreement being reached to have the case dismissed. On November 18, 2016, the Court entered the order dismissing the action. Accordingly, the Derivative Action is no longer pending.

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, including the important information in the section entitled "Private Securities Litigation Reform Act," you should carefully consider the "Risk Factors" discussed in our Form 10-K for the year ended June 30, 2016 filed with the SEC on August 25, 2016 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in this report and materially adversely affect our financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial might materially adversely affect our actual business, financial condition and/or operating results.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***Issuer Repurchases of Equity Securities*

Period	Total number of shares purchased	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 plans or programs
October 1, 2016 - October 31, 2016	—	—	—	—
November 1, 2016 - November 30, 2016	4,133 <sup>(1)</sup>	\$24.19 <sup>(1)</sup>	—	—
December 1, 2016 - December 31, 2016	—	—	—	—
Total	4,133 <sup>(1)</sup>	\$24.19 <sup>(1)</sup>		

(1) These shares were delivered to the Company as payment of the exercise price for the exercise of stock options, as allowed by the 2007 Equity Incentive Plan. The Company did not pay cash to repurchase these shares. The repurchase was also not part of a publicly announced plan or program.

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**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

On February 2, 2017, the Company entered into the First Amendment to Purchase and Sale Agreement (the “Amendment”) with Krishna Holdings, LLC (the “Buyer”), which amends the Purchase and Sale Agreement with Buyer, dated December 29, 2016. Pursuant to the Amendment, the cash purchase price of the Company’s headquarters facility in St. Paul, Minnesota (the “Facility”) has been amended to \$21.5 million. The closing of the sale of the Facility remains subject to completion of due diligence by Buyer and certain customary closing conditions. The Amendment is filed as Exhibit 10.2 to this Quarterly Report on Form 10-Q.

**ITEM 6. EXHIBITS**

(a) Exhibits — See Exhibit Index on page following signatures

**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.

Dated: February 3, 2017

CARDIOVASCULAR SYSTEMS, INC.

By /s/ Scott R. Ward  
Scott R. Ward  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

By /s/ Laurence L. Betterley  
Laurence L. Betterley  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

EXHIBIT INDEX  
CARDIOVASCULAR SYSTEMS, INC.  
FORM 10-Q

<b>Exhibit No.</b>	<b>Description</b>
10.1*	Purchase and Sale Agreement by and between Cardiovascular Systems, Inc. and Krishna Holdings, LLC dated December 29, 2016.
10.2*	First Amendment to Purchase and Sale Agreement, by and between Cardiovascular Systems, Inc. and Krishna Holdings, LLC, dated February 2, 2017.
10.3*	Amendment to Purchasing Agreement between Cardiovascular Systems, Inc. and Healthtrust Purchasing Group, L.P.
31.1*	Certification of Chairman, President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chairman, President and 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	Financial statements from the quarterly report on Form 10-Q of the Company for the quarter ended December 31, 2016, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Loss, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Financial Statements.

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\* Filed herewith.

\*\* Furnished herewith.

## PURCHASE AND SALE AGREEMENT

**THIS PURCHASE AND SALE AGREEMENT** (this “Agreement”) is made and entered into as of December 29, 2016 (“Effective Date”), by and between **CARDIOVASCULAR SYSTEMS, INC.**, a Delaware corporation (“Seller”), and **KRISHNA HOLDINGS, LLC**, a Minnesota limited liability company and its assigns (“Purchaser”). Except as otherwise expressly defined herein, capitalized terms will have the meanings set forth on Exhibit A attached hereto and incorporated herein by this reference. For and in consideration of the mutual covenants and promises hereinafter set forth, the parties hereby mutually covenant and agree as follows:

### ARTICLE I

#### PURCHASE OF PROPERTY

**Section 1.01. Agreement to Purchase**. Purchaser agrees to purchase, and Seller agrees to sell, in accordance with the terms, conditions and stipulations set forth in this Agreement (the “Transaction”), all of Seller’s right, title and interest in and to the parcel of real property, as more particularly described on Exhibit B attached hereto (the “Real Property”); any and all improvements thereon and fixtures and appurtenances thereto and the following interests with respect to the Real Property: any occupancy agreements other than the Lease Agreement; permits solely related to the ownership of Property, to the extent transferable; and all plans, specifications, warranties and operating manuals (collectively the “Property”); provided, however, that Seller shall (i) retain the right to acquire from the City of New Brighton, Minnesota certain real estate parcels adjacent to the Property pursuant to that certain Contract for Private Redevelopment dated June 10, 2014 and (ii) remain the beneficiary under all warranties and have the right to enforce all warranties until the expiration or earlier termination of this Agreement.

**Section 1.02. Purchase Price**. The aggregate purchase price to be paid by Purchaser to Seller for the Property is \$22,000,000.00 (the “Purchase Price”). The Purchase Price shall be paid by Purchaser in immediately available federal funds at Closing.

**Section 1.03. Lease of Property**. On or before the Closing Date, Seller and Purchaser shall execute a lease agreement pursuant to which Purchaser shall lease the Property back to Seller, at the rent and pursuant to the terms and conditions contained in the form attached hereto as Exhibit C (the “Lease Agreement”).

**Section 1.04. Prorations**. In view of the subsequent lease of the Property to Seller pursuant to the Lease Agreement and Seller’s obligations thereunder, there shall be no proration of insurance, taxes, special assessments, utilities or any other costs related to the Property between Seller and Purchaser at Closing.

**Section 1.05. Transaction Costs**. Subject to Section 6.02 of this Agreement, whether or not the Transaction closes, Seller and Purchaser shall each be responsible for the payment of the fees and expenses of their respective legal counsel, accountants and other professional advisers (“Professional Fees”).

- (a) Seller shall be responsible for the payment of:
    - (i) the cost to prepare the Title Commitment and the UCC Search;
-

- (ii) all stamp taxes or transfer taxes due on the conveyance of the Property including without limitation, State of Minnesota deed tax;
  - (iii) one half of all escrow closing fees of the Title Company; and
  - (iv) one half of all recording fees.
- (b) Purchaser shall be responsible for the payment of:
- (i) the cost of the premium of the standard Title Policy and any extended coverage and endorsements relating to the Title Policy that Purchaser may request;
  - (ii) one half of all escrow closing fees of the Title Company;
  - (iii) one half of all recording fees;
  - (iv) the cost of the Inspections; and
  - (v) the cost of any other diligence reports ordered by Purchaser.

Except as otherwise expressly provided above, each party shall be responsible for the payment of all other Transactions Costs incurred by such party in connection with the Transaction.

The provisions of this Section shall survive Closing or termination of this Agreement for any reason.

**Section 1.06. Earnest Money Deposit .**

(a) On the Effective Date, Purchaser shall deposit with the Title Company the sum of \$150,000.00 (the “ Initial Deposit ”). The Initial Deposit shall be non-refundable upon the expiration of the Inspection Period.

(b) Within one (1) business day following expiration of the Inspection Period (defined Section 2.03 below), Purchaser shall deposit with the Title Company an additional \$150,000.00 (the “ Additional Deposit ”), provided Purchaser does not elect to terminate this Agreement on or before the date that the Inspection Period expires (the Initial Deposit, the Additional Deposit, and all interest accrued thereon (if any), collectively, the “ Earnest Money Deposit ”). In the event Purchaser fails to deliver the Additional Deposit to the Title Company in accordance with the foregoing, such failure will constitute a default by Purchaser hereunder, Seller shall be entitled to retain the Initial Deposit, and all accrued interest thereon, as liquidated damages as set forth below in this Agreement and there will be no further obligation or liability on either of the parties hereto, except as specifically provided herein.

(c) The Earnest Money Deposit shall be held by the Title Company and shall be applied against the Purchase Price at Closing or disbursed as provided herein; *provided, however*, at Purchaser’s direction and expense (if any), the Earnest Money Deposit shall be placed in an interest-bearing account by the Title Company.

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## ARTICLE II

### DUE DILIGENCE

#### Section 2.01. Title Insurance .

(a) **Title Commitment and Title Policy** . Seller, at Seller's expense, shall obtain and deliver to Purchaser an owner's title insurance commitment (collectively, the "Title Commitment") with respect to the Property issued by the Title Company, for ALTA Owner's Extended Coverage Title Insurance Policies (the "Title Policy") within twenty (20) days from the Effective Date. The Title Commitment shall include an appropriate UCC search (the "UCC Search"). All costs related to the Title Policy, escrow fees and other closing costs shall be payable as set forth in Section 1.05.

(b) **Title Company** . The Title Company is hereby employed by the parties to act as escrow agent in connection with this Transaction. This Agreement shall be used as instructions to the Title Company, as escrow agent, which may provide its standard conditions of acceptance of escrow; *provided, however*, that in the event of any inconsistency between such standard conditions of acceptance and the terms of this Agreement, the terms of this Agreement shall prevail.

(c) **Title Company Actions** . The Title Company is authorized to pay, from any funds held by it for each party's respective credit, all amounts necessary to procure the delivery of any documents and to pay, on behalf of Purchaser and Seller, all charges and obligations payable by them hereunder, respectively. Seller and Purchaser will pay all charges payable by them to the Title Company. The Title Company shall not cause the Transaction to close unless and until it has received written instructions from Purchaser and Seller to do so. The Title Company is authorized, in the event any conflicting demand is made upon it concerning these instructions or the escrow, at its election, to hold any documents and/or funds deposited hereunder until an action shall be brought in a court of competent jurisdiction to determine the rights of Seller and Purchaser or to interplead such documents and/or funds in an action brought in any such court. Deposit by the Title Company of such documents and funds, after deducting therefrom its reasonable charges, expenses and attorneys' fees incurred in connection with any such court action, shall relieve the Title Company of all further liability and responsibility for such documents and funds.

(d) **Title Objections** .

(i) Within twenty (20) days after the Purchaser's receipt of both the Title Commitment and an existing survey of the Property, if in Seller's possession (the "Existing Survey"), Purchaser shall notify Seller in writing of Purchaser's objection to any exceptions or other title matters shown on the Title Commitment or the Existing Survey that render title unmarketable (the "Title Objections"). If any of the Title Objections is not removed or resolved by Seller to Purchaser's satisfaction within ten (10) days following Seller's receipt of the Title Objections, then Purchaser shall have the option, as its sole remedy, upon written notice to Seller no later than fifteen (15) days following Seller's receipt of the Title Objections, to terminate this Agreement, in which event the Initial Deposit shall be promptly returned to Purchaser and neither party will have any further obligations or liability hereunder, except for those obligations expressly stated to survive such termination.

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Purchaser may, at Purchaser's sole cost and expense, cause the Existing Survey to be updated or obtain a current ALTA survey for the Property, provided the foregoing shall not delay or otherwise affect the timing or deadlines herein provided.

(ii) Purchaser's failure to timely deliver the Title Objections shall be deemed Purchaser's acceptance of the matters disclosed by the Title Commitment and the Existing Survey. If Purchaser does not terminate this Agreement by reason of any of the Title Objections, as provided in this Section 2.01, then such Title Objection shall be deemed waived and approved by Purchaser and shall thereafter be deemed a Permitted Encumbrance.

**Section 2.02. Seller Documents** . With reasonable promptness, but in no event later than fifteen (15) days following the Effective Date, Seller shall deliver to Purchaser true and accurate copies of the documents listed on Exhibit D hereto with respect to the Property (collectively, the "Seller Documents"). Seller makes no representation or warranty regarding the accuracy of the Seller Documents. If this Agreement is terminated or the Transaction does not otherwise close, then Purchaser shall promptly return the Seller Documents to Seller. Purchaser shall treat any financial information delivered by Seller hereunder on a confidential basis and shall not disclose such financial information to any third parties without Seller's prior written consent.

**Section 2.03. Inspections** . From the date that Seller delivers the last of the Seller Documents to Purchaser, and for a period of forty-five (45) days thereafter (the "Inspection Period"), Purchaser may perform whatever investigations, tests and inspections (collectively, the "Inspections") with respect to the Property that Purchaser deems reasonably appropriate, including a Phase I environmental investigation of the Property. The cost of the Inspections shall be at Purchaser's sole cost and expense. Any invasive or intrusive testing of the Property shall be subject to such reasonable conditions and restrictions as Seller may require. Purchaser shall repair any damage to any Property caused by Purchaser's Inspections and return such Property to its original condition. Purchaser shall indemnify, defend and hold harmless Seller from and against any and all Losses of any nature arising from or connected with the Inspections. Seller shall, at all reasonable times upon reasonable prior notice from Purchaser, provide Purchaser and Purchaser's officers, employees, agents, advisors, attorneys, accountants, architects, and engineers with access to the Property. Purchaser shall (i) provide to Seller copies of any Inspection reports promptly after Purchaser's receipt of any such Inspection Reports and (ii) conduct the Inspections in a manner that does not unreasonably interfere with Seller's business operations at the Property. In the event that Purchaser's Phase I environmental site assessment recommends further Phase II site investigation, then Purchaser shall have the right, upon delivery of written notice to Seller prior to the expiration of the Inspection Period, to extend the Inspection Period for an additional thirty (30) days to enable Purchaser to obtain a Phase II site investigation, subject to conditions set forth in this Section 2.03. If Purchaser's Phase II site investigation discloses conditions that necessitate Purchaser obtaining a Non Association Determination ("NAD") from the Minnesota Pollution Control Agency ("MPCA"), then the Purchaser shall have the option to either terminate this Agreement prior to the expiration of the Inspection Period in accordance with Section 2.04 hereof, or if Purchaser does not elect to terminate this Agreement, then Purchaser shall promptly submit a request to the MPCA for a NAD, and the receipt of the NAD by Purchaser shall be a condition of Closing, subject to the terms set forth in Section 2.04.

**Section 2.04. Purchaser's Right to Terminate** . Notwithstanding any provision contained herein, in addition to its right to terminate this Agreement as set forth in Section 2.01(d), Purchaser

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shall have the right to terminate this Agreement if (i) Purchaser determines that the Inspections are not satisfactory to Purchaser as described in Section 2.03; (ii) the appraisal that Purchaser's lender obtains values the Property at less than the Purchase Price; or (iii) pursuant to Section 2.03 hereof, Purchaser is unable to obtain a NAD on or before the Closing Date. To exercise such a right of termination, Purchaser must deliver written notice of termination to Seller prior to the expiration of the Inspection Period. Upon Purchaser's timely exercise of its right to terminate this Agreement, the Initial Deposit shall be promptly returned to Purchaser and neither party will have any further obligations or liability hereunder, except for those obligations expressly stated to survive such termination. Purchaser's right to terminate this Agreement pursuant to this Section 2.04 shall be deemed waived if Purchaser fails to deliver written notice of termination to Seller on or before expiration of the Inspection Period.

**Section 2.05. *Financial Information*** . Upon a request from Purchaser, Seller agrees to meet with Purchaser's CFO & Treasurer during the Inspection Period to discuss Seller's financial statements. Purchaser acknowledges that any financial information that Seller provides to Purchaser in whatever form or manner is and will remain confidential and Purchaser agrees not to disclose any such financial information to third parties without obtaining Seller's prior written consent, which consent may be withheld in Seller's sole discretion.

### ARTICLE III

#### CLOSING

**Section 3.01. *Closing Date*** . Subject to the provisions of Article V of this Agreement, the closing date of the Transaction contemplated by this Agreement (the "Closing") shall be a mutually agreeable date no later than thirty (30) days after the expiration of the Inspection Period (the "Closing Date"). The parties shall deposit with the Title Company all documents (including without limitation, the executed Transaction Documents) as necessary to comply with the parties' respective obligations hereunder on or before the Closing Date or as otherwise mutually agreed upon by the parties. The parties shall deposit all funds required hereunder with the Title Company on or before the Closing Date.

### ARTICLE IV

#### REPRESENTATIONS WARRANTIES AND COVENANTS

**Section 4.01. *Seller*** . Seller hereby makes the following representations and warranties to Purchaser:

(a) ***Organization and Authority*** . Seller is duly organized or formed, validly existing and in good standing under the State of Delaware, and is authorized to conduct business in the State of Minnesota. Seller has all requisite power and authority to own and operate the Property (and does own and operate the Property), to execute, deliver and perform its obligations under this Agreement and all of the other Transaction Documents, and to carry out the Transaction. The Person who has executed this Agreement on behalf of Seller has been duly authorized to do so.

(b) ***Enforceability of Documents*** . Upon execution by Seller, this Agreement and the other Transaction Documents to which it is a party, shall constitute the legal, valid and binding obligations of Seller, enforceable against Seller in accordance with their

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respective terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, arrangement, moratorium, or other similar laws relating to or affecting the rights of creditors generally, or by general equitable principles.

(c) **Litigation.** There are no actions or proceedings pending against or involving the Property before any Governmental Authority which in any way adversely affects or may adversely affect Seller or Seller's ability to perform under this Agreement and the other Transaction Documents to which it is a party.

(d) **No Violations.** The authorization, execution, delivery and performance of this Agreement and the other Transaction Documents will not (i) violate any provisions of the organizational or other charter documents of Seller, (ii) result in a violation of or a conflict with, or constitute a default (or an event which, with or without due notice or lapse of time, or both, would constitute a default) under any other material document, instrument or agreement to which Seller is a party or by which Seller, the Property or any of the property of Seller are subject or bound, (iii) result in the creation or imposition of any Lien, restriction, charge or limitation of any kind, upon Seller or the Property, or (iv) violate any law, statute, regulation, rule, ordinance, code, rule or order of any court or Governmental Authority applicable to Seller or the Property.

(e) **Compliance with Anti-Terrorism, Embargo, Sanctions and Anti-Money Laundering Laws.** Seller is not currently identified on the OFAC List, and is not a Person with whom a citizen of the United States is prohibited from engaging in transactions by any trade embargo, economic sanction, or other prohibition of United States law, regulation, or executive order of the President of the United States.

(f) **Condemnation.** No condemnation or eminent domain proceedings or other zoning, land use or environmental proceeding affecting the Property are pending or, to Seller's knowledge, are contemplated.

(g) **Sewage Treatment System.** For purposes of satisfying the requirements of Minnesota Statute Section 115.55, Seller certifies, to Seller's knowledge, there is no "individual sewage treatment system" on or serving the Property. Seller certifies that sewage generated on the Property goes to a facility permitted by the Minnesota Pollution Control Agency.

(h) **Tanks.** To Seller's knowledge, no aboveground storage tanks or underground tanks (within the meaning of Minnesota Statute Section 116.46) are located in or on the Property.

(i) **Methamphetamine Production.** For the purposes of satisfying any applicable requirements of Minnesota Statute Section 152.0275, Seller discloses and certifies that, to its knowledge, methamphetamine production has not occurred on the Property.

(j) **Wells.** Seller does not know of any "wells" on the Property within the meaning of Minnesota Statute Section 103I. This representation is intended to satisfy the requirements of that statute.

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(k) **Flood Zone** . To the best of its knowledge, the Property is not in a Special Flood Hazard Area as regulated by the Federal Emergency Management Agency.

(l) **Environmental** . To Seller's knowledge, the Property is not currently in violation of any Hazardous Materials Laws.

(m) **Seller Documents** . The Seller Documents delivered to Purchaser are true and correct copies, have not been amended or modified (except as noted when provided to Purchaser), are in full force and effect and free from default or notice of default, and there are no oral agreements modifying, amending, extending, altering or in any way affecting the Seller Documents.

(n) **No Notices** . Seller, to the best of its knowledge, has not received any notice of current violation of any building codes, fire codes, health codes, zoning codes, environmental laws, or other laws or regulations currently affecting the Property or the use thereof, or any proposals to rezone or recharacterize the Property.

(o) **Proceedings** . Seller is not aware of any action, proceeding or investigation pending or threatened which might materially adversely affect the Property or the ability of Seller to perform its obligations under this Agreement; and

(p) **Other Agreements** . Except for the Lease Agreement, the Permitted Encumbrances and any contracts assumed by Purchaser, Seller and the Property are not subject to any commitment, obligation, or agreement, including, but not limited to, any lease, right of first refusal, or option to purchase, granted to a third party, that will prevent the consummation of the transaction contemplated herein or that will bind Purchaser subsequent to consummation of this Agreement.

All representations and warranties of Seller made in this Agreement shall be true as of the date of this Agreement, shall be deemed to have been made again at and as of the Closing Date, shall be true in all material respects at and as of the Closing Date, except as may be modified by Seller in writing to Purchaser, and together with the covenants made by Seller herein that by their nature survive the Closing, shall survive Closing for a period of one (1) year.

**Section 4.02. Purchaser** . Purchaser represents and warrants to, and covenants with, Seller as follows:

(a) **Organization and Authority** . Purchaser is duly organized, validly existing and in good standing under the laws of its state of formation. Purchaser has all requisite power and authority to execute, deliver and perform its obligations under this Agreement and all of the other Transaction Documents to which it is a party and to carry out the Transaction. The Person who has executed this Agreement on behalf of Purchaser has been duly authorized to do so.

(b) **Enforceability of Documents** . Upon execution by Purchaser, this Agreement and the other Transaction Documents to which it is a party, shall constitute the legal, valid and binding obligations of Purchaser, enforceable against Purchaser in accordance with their respective terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, arrangement, moratorium, or other similar laws relating to or affecting the rights of creditors generally, or by general equitable principles.

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(c) **Litigation** . There are no actions or proceedings pending against or involving Purchaser before any Governmental Authority which in any way adversely affect or may adversely affect Purchaser or Purchaser's ability to perform under this Agreement and the other Transaction Documents to which it is a party.

(d) **No Violations** . The authorization, execution, delivery and performance of this Agreement and the other Transaction Documents will not (i) violate any provisions of the organizational or other charter documents of Purchaser, (ii) result in a violation of or a conflict with, or constitute a default (or an event which, with or without due notice or lapse of time, or both, would constitute a default) under any other document, instrument or agreement to which Purchaser is a party or by which Purchaser is subject or bound, (iii) result in the creation or imposition of any Lien, restriction, charge or limitation of any kind, upon Purchaser, or (iv) violate any law, statute, regulation, rule, ordinance, code, rule or order of any court or Governmental Authority applicable to Purchaser.

(e) **Compliance with Anti-Terrorism, Embargo, Sanctions and Anti-Money Laundering Laws** . Purchaser is not currently identified on the OFAC List, and is not a Person with whom a citizen of the United States is prohibited from engaging in transactions by any trade embargo, economic sanction, or other prohibition of United States law, regulation, or executive order of the President of the United States.

All representations and warranties of Purchaser made in this Agreement shall be true as of the date of this Agreement, shall be deemed to have been made again at and as of the Closing Date, shall be true in all material respects at and as of the Closing Date, and, together with the covenants made by Purchaser herein that by their nature survive the Closing, shall survive Closing for a period of one (1) year.

## ARTICLE V

### CLOSING DOCUMENTS AND DELIVERIES

#### Section 5.01. Seller's Closing Documents.

- (a) Seller, as appropriate, shall deliver to the Title Company, in escrow, the following items:
- (i) The Deed;
  - (ii) a bring down certificate that confirms the accuracy of the Seller's representations and warranties set forth in Section 4.01 as of the Closing Date or noting any changes thereof;
  - (iii) a Standard Seller's Affidavit provided by the Title Company to enable the Title Company to issue the Title Policy;
  - (iv) Such documents evidencing the legal status and good standing of Seller that may be required by the Title Company for issuance of the Title Policy, including, without limitation, certificates of good standing;
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(v) A fully executed original of (a) the Lease Agreement, together with a fully executed original of memorandum thereof for the Property (the “Memorandum of Lease”), and (b) all of the other Transaction Documents;

(vi) the SNDA and the Estoppel;

(vii) Certificates evidencing the insurance coverage, limits and policies to be carried by Seller under and pursuant to the terms of the Lease (“Lease Proof of Insurance”);

(viii) A duly executed affidavit stating that Seller is not a “foreign person” as defined in the Federal Foreign Investment in Real Property Tax Act of 1980 and 1984 Tax Reform Act;

(ix) Closing settlement statements approved by Seller and Purchaser to reflect the credits, prorations, and adjustments contemplated by or specifically provided for in this Agreement; and

(x) All documents required to be delivered by this Agreement and the other Transaction Documents and as may otherwise be required in order to fully and legally close this Transaction.

#### **Section 5.02. Purchaser’s Closing Documents.**

(a) Purchaser shall deliver to the Title Company the following items:

(i) the Purchase Price, as adjusted pursuant to the requirements of this Agreement;

(ii) Fully executed originals of all Transaction Documents, including without limitation, the Lease Agreement, together with the Memorandum of Lease, and the SNDA;

(iii) Closing settlement statements approved by Seller and Purchaser that reflect the credits, prorations, and adjustments contemplated by or specifically provided for in this Agreement; and

(iv) All documents required to be delivered by this Agreement and the other Transaction Documents and as may otherwise be required in order to fully and legally close this Transaction.

**Section 5.03. Other Closing Requirements.** Purchaser's obligation to close the Transaction is hereby conditioned on the Title Company confirming in writing that it is prepared to issue the Title Policy in the form required by Purchaser's mortgage lender, subject only to the Permitted Encumbrances.

## **ARTICLE VI**

### **DEFAULTS; REMEDIES**

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**Section 6.01. Default .** Each of the following shall be deemed an event of default (each, an “ Event of Default ”):

- (a) If any representation or warranty of Seller or Purchaser set forth in this Agreement or any other Transaction Document is false in any material respect or if Seller renders any false statement;
- (b) If Seller or Purchaser fails to perform any of its obligations under this Agreement; or
- (c) If any Insolvency Event shall occur with respect to Seller or Purchaser.

**Section 6.02. Remedies .** Upon any Event of Default, the non-defaulting party shall be entitled to exercise, at its option and as its sole and exclusive remedy, one of the following remedies:

(a) If Seller is the defaulting party, then Purchaser may either commence an action for specific performance in Minnesota state district court, or terminate this Agreement by giving written notice to Seller and recover from Seller all reasonable and verified out-of-pocket costs and expenses incurred by Purchaser hereunder (including without limitation, the Transaction Costs), in which event the Earnest Money Deposit shall be promptly returned to Purchaser and neither party will have any further obligations or liability hereunder, except for those obligations expressly stated to survive such termination. Notwithstanding the foregoing, in the event Seller is the defaulting party, Seller’s responsibility hereunder for all reasonable and verified out-of-pocket costs and expenses incurred by Purchaser hereunder (including without limitation, the Transaction Costs) shall be capped at \$50,000.00;

(b) If Purchaser is the defaulting party, then Seller may terminate this Agreement by giving written notice to Purchaser, in which event the Earnest Money Deposit shall be promptly paid to Seller and neither party will have any further obligations or liability hereunder, except for those obligations expressly stated to survive such termination, and Seller may recover from Purchaser all reasonable and verified out-of-pocket costs and expenses incurred by Seller hereunder (including without limitation, the Transaction Costs). Notwithstanding the foregoing, in the event Purchaser is the defaulting party, Purchaser’s responsibility hereunder for all reasonable and verified out-of-pocket costs and expenses incurred by Seller hereunder (including without limitation, the Transaction Costs) shall be capped at \$50,000.

(c) The non-defaulting party may waive the Event of Default and proceed with the Closing.

## **ARTICLE VII**

### **MISCELLANEOUS**

**Section 7.01. Transaction Characterization .** The parties intend that the conveyance of the Property to Purchaser be an absolute conveyance in effect as well as form, and that the instruments of conveyance to be delivered at Closing shall not serve or operate as a mortgage, equitable mortgage, deed of trust, security agreement, trust conveyance or financing or trust arrangement of any kind, nor as a preference or fraudulent conveyance against any creditors of

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Seller. After the execution and delivery of the Deed, Seller will have no legal or equitable interest or any other claim or interest in the Property, other than the interest, if any, set forth in the Lease Agreement. The parties also intend for the Lease Agreement to be a true lease and not a transaction creating a financing lease, capital lease, equitable mortgage, mortgage, deed of trust, security interest or other financing arrangement, and the economic realities of the Lease Agreement are those of a true lease. Notwithstanding the existence of the Lease Agreement, neither party shall contest the validity, enforceability or characterization of the sale and purchase of the Property by Purchaser pursuant to this Agreement as an absolute conveyance, and both parties shall support the intent expressed herein that the purchase of the Property by Purchaser pursuant to this Agreement provides for an absolute conveyance and does not create a joint venture, partnership, equitable mortgage, trust, financing device or arrangement, security interest or the like, if, and to the extent that, any challenge occurs.

**Section 7.02. Risk of Loss .**

(a) **Condemnation** . If, prior to Closing, action is initiated to take the Property, or any portion thereof, by eminent domain proceedings or by deed in lieu thereof, Purchaser may elect at or prior to Closing, to (i) terminate this Agreement, in which event the Earnest Money Deposit shall be promptly returned to Purchaser and neither party will have any further obligations or liability hereunder, except for those obligations expressly stated to survive such termination, or (ii) proceed to close, in which event all of Seller's assignable right, title and interest in and to the award of the condemning authority shall be assigned to Purchaser at the Closing and there shall be no reduction in the Purchase Price.

(b) **Casualty** . Seller assumes all risks and liability for damage to or injury occurring to the Property by fire, storm, accident, or any other casualty or cause until the Closing has been consummated. If the Property, or any part thereof, suffers any damage prior to the Closing from fire or other casualty, which Seller, at its sole option, does not elect to fully repair, Purchaser may elect at or prior to Closing, to (i) terminate this Agreement, in which event the Earnest Money Deposit shall be promptly returned to Purchaser and neither party will have any further obligations or liability hereunder, except for those obligations expressly stated to survive such termination, or (ii) consummate the Closing, in which event all of Seller's right, title and interest in and to the proceeds of any insurance covering such damage (less an amount equal to any expense and costs reasonably incurred by Seller to repair or restore the Property, which shall be payable to Seller upon Seller's delivery to Purchaser of satisfactory evidence thereof) shall be assigned to Purchaser at Closing.

(c) **Maintenance of the Property and Insurance** . From the Effective Date until Closing, Seller shall continue to maintain the Property or cause the Property to be maintained in good condition and repair, and shall continue to maintain or cause to be maintained all insurance for the Property in the same or greater amounts, with the same or greater coverage, and subject to the same or lower deductibles as in existence as of the Effective Date.

**Section 7.03. Notices** . All notices, demands, designations, certificates, requests, offers, consents, approvals, appointments and other instruments given pursuant to this Agreement (collectively called "Notices") shall be in writing and given by (a) hand delivery, (b) express overnight delivery service or (c) certified or registered mail, return receipt requested, and shall be deemed

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to have been delivered upon (i) receipt, if hand delivered, (ii) the next Business Day, if delivered by a reputable express overnight delivery service, or (iii) the third Business Day following the day of deposit of such notice with the United States Postal Service, if sent by certified or registered mail, return receipt requested. Notices shall be provided to the parties and addresses specified below:

If to Seller: Cardiovascular Systems, Inc.  
1225 Old Highway 8 NW  
New Brighton, MN 55112  
Attn: Corporate Controller

With copies to: Cardiovascular Systems, Inc.  
1225 Old Highway 8 NW  
New Brighton, MN 55112  
Attn: General Counsel

Fredrikson & Byron, P.A.  
200 South Sixth Street, Suite 4000  
Minneapolis, MN 55402  
Attn: Christopher J. Dolan, Esq.

If to Purchaser: Krishna Holdings, LLC  
2110 Lyndale Avenue South, Suite C  
Minneapolis, MN 55405  
Attention: Chief Manager

With a copy to: Hinshaw & Culbertson LLP  
333 South Seventh Street, Suite 2000  
Minneapolis, MN 55402  
Attention: Michael T. Hatting

or to such other address or such other Person as either party may from time to time hereafter specify to the other party in a notice delivered in the manner provided above. Whenever in this Agreement the giving of Notice is required, the giving thereof may be waived in writing at any time by the Person or Persons entitled to receive such Notice.

A copy of any Notice delivered pursuant to this Section shall also contemporaneously be delivered in the manner herein specified to any mortgagee or assignee of Purchaser's interest which shall have duly notified Seller in writing of its name and address.

**Section 7.04. Assignment .** Purchaser may assign its rights under this Agreement in whole or in part at any time to an Affiliate of Purchaser. Upon any unconditional assignment of Purchaser's entire right and interest hereunder to an Affiliate of Purchaser, including an assumption of Purchaser's obligations hereunder, Purchaser shall automatically be relieved, from and after the date of such assignment, of liability for the performance of any obligation of Purchaser contained

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herein. Seller shall not, without the prior written consent of Purchaser, which consent may not be unreasonably withheld, sell, assign or transfer any of Seller's rights under this Agreement.

**Section 7.05. Indemnity .**

(a) Seller shall indemnify, defend and hold harmless Purchaser and its Affiliates, and their respective officers, directors, shareholders, managers, members, employees, representatives, successors and assigns, as applicable from and against any and all Losses arising from or connected with breach of any of the representations, warranties, covenants, agreements or obligations of Seller set forth in this Agreement. The obligations under this Section 7.05(a) shall survive Closing.

(b) Purchaser shall indemnify, defend and hold harmless Seller and its Affiliates, and their respective officers, directors, shareholders, managers, members, employees, representatives, successors and assigns, as applicable from and against any and all Losses arising from or connected with breach of any of the representations, warranties, covenants, agreements or obligations of Purchaser set forth in this Agreement. The obligations under this Section 7.05(b) shall survive Closing.

Notwithstanding the foregoing, the total liability of each party relating to the indemnification obligations under this Section 7.05 shall not, in the aggregate, exceed the Purchase Price.

**Section 7.06. Brokerage Commission .** Each of the parties represents and warrants to the other that neither party has dealt with, negotiated through or communicated with any broker in connection with this Transaction, except for Colliers International whose commission shall be paid by Seller pursuant to a separate agreement between Seller and such broker. Each party shall indemnify, defend and hold harmless the other party from and against any and all claims, loss, costs and expenses, including reasonable attorneys' fees, resulting from any claims that may be made against the indemnified party by any broker claiming a commission or fee by, through or under such indemnifying party. The parties' respective obligations under this Section 7.06 shall survive Closing or termination of this Agreement.

**Section 7.07. Reporting Requirements .** The parties agree to comply with any and all reporting requirements applicable to the Transaction which are set forth in any law, statute, ordinance, rule, regulation, order or determination of any Governmental Authority, and further agree upon request, to furnish the other party with evidence of such compliance.

**Section 7.08. Disclosures .** Except as expressly set forth in Section 7.07 and this Section 7.08 and as required by law or judicial action, prior to Closing neither Seller nor Purchaser will make any public disclosure of this Agreement or the other Transaction Documents, the Transaction or the provisions of the Transaction Documents without the prior consent of the other party hereto. The parties further agree that, notwithstanding any provision contained in this Agreement, any party (and each employee, representative or other agent of any party) may disclose to any and all Persons, without limitation of any kind, any matter required to be disclosed under applicable law, including, without limitation, under the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations of the Securities and Exchange Commission promulgated thereunder, and stock exchange requirements, including the filing of this agreement in its entirety with such public disclosures, and any subsequent disclosures in other public filings

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and announcements consistent with any such prior disclosures (including in earnings press releases).

**Section 7.09. Time is of the Essence** . The parties hereto expressly agree that time is of the essence with respect to this Agreement.

**Section 7.10. Non-Business Days** . If the Closing Date or the date for delivery of a notice or performance of some other obligation of a party falls on a Saturday, Sunday or legal holiday in the state in which the Property is located, then the Closing Date or such notice or performance shall be postponed until the next Business Day.

**Section 7.11. Waiver and Amendment** . No provision of this Agreement shall be deemed waived or amended except by a written instrument unambiguously setting forth the matter waived or amended and signed by the party against which enforcement of such waiver or amendment is sought. Waiver of any matter shall not be deemed a waiver of the same or any other matter on any future occasion.

**Section 7.12. Limitation on Liability** . Notwithstanding anything to the contrary provided in this Agreement, it is specifically understood and agreed, such agreement being a primary consideration for the execution of this Agreement and the Lease Agreement, that (a) there shall be absolutely no personal liability on the part of any director, officer, manager, member, employee or agent of either party with respect to any of the terms, covenants and conditions of this Agreement, (b) each party waives all claims, demands and causes of action against the other party's directors, officers, managers, members, employees and agents in the event of any breach by such other party of any of the terms, covenants and conditions of this Agreement, and (c) each party shall look solely to the assets of the other party for the satisfaction of each and every remedy in the event of any breach of any of the terms, covenants and conditions of this Agreement, such exculpation of liability to be absolute and without any exception whatsoever.

**Section 7.13. Headings; Internal References** . The headings of the various sections and exhibits of this Agreement have been inserted for reference only and shall not to any extent have the effect of modifying the express terms and provisions of this Agreement. Unless stated to the contrary, any references to any section, subsection, exhibit and the like contained herein are to the respective section, subsection, exhibit and the like of this Agreement.

**Section 7.14. Construction Generally** . This is an agreement between parties who are experienced in sophisticated and complex matters similar to the Transaction and the other Transaction Documents, is entered into by both parties in reliance upon the economic and legal bargains contained herein and therein, and shall be interpreted and construed in a fair and impartial manner without regard to such factors as the party which prepared the instrument, the relative bargaining powers of the parties or the domicile of any party. Seller and Purchaser were each represented by legal counsel competent in advising them of their obligations and liabilities hereunder.

**Section 7.15. Further Assurances** . Each of the parties agrees, whenever and as often as reasonably requested so to do by the other party or the Title Company, to execute, acknowledge, and deliver, or cause to be executed, acknowledged, or delivered, any and all such further conveyances, assignments, confirmations, satisfactions, releases, instruments, or other documents as may be necessary, expedient or proper, in order to complete any and all conveyances,

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transfers, sales and assignments herein provided and to do any and all other acts and to execute, acknowledge and deliver any and all documents as so requested in order to carry out the intent and purpose of this Agreement.

**Section 7.16. Attorneys' Fees** . In the event of any claim, dispute or proceeding between the parties concerning this Agreement, the prevailing party shall be entitled to recover all of its reasonable attorneys' fees and other costs in addition to any other relief to which it may be entitled.

**Section 7.17. Entire Agreement** . This Agreement and all other Transaction Documents, and all other certificates, instruments or agreements to be delivered hereunder and thereunder constitute the entire agreement between the parties with respect to the subject matter hereof, and there are no other representations, warranties or agreements, written or oral, between Seller and Purchaser with respect to the subject matter of this Agreement. Notwithstanding anything in this Agreement to the contrary, upon the execution and delivery of this Agreement by Seller and Purchaser, (a) this Agreement shall supersede any previous discussions, letters of intent, agreements and/or term or commitment letters relating to the Transaction, including without limitation, the Letter of Intent and any and all agreements related to confidentiality, exclusivity, non-competition, non-solicitation of employees, non-solicitation or pursuit of any business opportunity represented by the Transaction, or any other term or condition which restricts any business activity of Purchaser or its affiliates, (b) the terms and conditions of this Agreement shall control notwithstanding that such terms are inconsistent with or vary from those set forth in any of the foregoing agreements, and (c) this Agreement may only be amended by a written agreement executed by Purchaser and Seller. The provisions of this Section shall survive the Closing.

**Section 7.18. Forum Selection; Jurisdiction; Venue** . For purposes of any action or proceeding arising out of this Agreement, the parties hereto expressly submit to the jurisdiction of Minnesota state district court located in Hennepin County, Minnesota. Seller consents that it may be served with any process or paper by registered mail or by personal service within or without the State of Illinois in accordance with applicable law. Furthermore, Seller waives and agrees not to assert in any such action, suit or proceeding that it is not personally subject to the jurisdiction of such courts, that the action, suit or proceeding is brought in an inconvenient forum or that venue of the action, suit or proceeding is improper.

**Section 7.19. Separability; Binding Effect; Governing Law** . Each provision hereof shall be separate and independent, and the breach of any provision by Purchaser shall not discharge or relieve Seller from any of its obligations hereunder. Each provision hereof shall be valid and shall be enforceable to the extent not prohibited by law. If any provision hereof or the application thereof to any Person or circumstance shall to any extent be invalid or unenforceable, the remaining provisions hereof, or the application of such provision to Persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby. Subject to the provisions of Section 7.04, all provisions contained in this Agreement shall be binding upon, inure to the benefit of and be enforceable by the successors and assigns of each party hereto, including, without limitation, any United States trustee, any debtor-in-possession or any trustee appointed from a private panel, in each case to the same extent as if each successor and assign were named as a party hereto. This Agreement shall be governed by, and construed with, the laws of the state of Minnesota.

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**Section 7.20. Counterparts** . This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and all such counterparts shall be deemed to constitute one and the same instrument.

**Section 7.21. Like-Kind Exchange** . The parties hereby agree to cooperate with one another in the event either party desires to structure the Closing as a like-kind exchange under Section 1031 of the Internal Revenue Code ("I.R.C.") provided that: (i) either or both parties may structure the transaction using an exchange agreement involving a "Qualified Intermediary" as defined in the regulations issued under Section 1031 of the I.R.C.; (ii) Seller and/or Purchaser, as the case may be, shall receive notice of the proposed structure of the transaction and the identity and organizational form of the Qualified Intermediary and a copy of any exchange agreement or other agreements pertinent to the transaction with sufficient time to review the same prior to the Closing Date; (iii) the structure of the transaction shall be designated so that the Purchase Price hereunder is paid to Seller or Seller's designee on the Closing Date; and (iv) nothing herein shall obligate either party to take any action which either party believes, in its reasonable discretion, adversely affects that party's tax position; does not have a reasonable basis in law; will place the party in the position of possessing any legal, equitable or beneficial ownership in any real property involved in the exchange other than the Property, or requires actions on the part of the party which cannot reasonably be accomplished by the party within the time frame necessary for the transaction to qualify as a like-kind exchange. Seller further acknowledges that Purchaser may close on the purchase of the Property in a tenancy-in-common with one or more other tenants-in-common if necessary to complete the like-kind exchange. Neither party makes any representations or warranties that the other party's proposed transaction will qualify as a like-kind exchange under I.R.C. 1031 and applicable regulations there under. The exchanging party agrees to indemnify, defend, and hold the non-exchanging party harmless for any claims, costs, or other liabilities which might arise as a result of the other party's cooperating with and assisting with the indemnifying party in accomplishing the exchange.

*[Remainder of page intentionally left blank; signature page(s) to follow]*

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**IN WITNESS WHEREOF** , the parties hereto have caused this Agreement to be executed and delivered as of the date first set forth above.

**SELLER:**

**CARDIOVASCULAR SYSTEMS, INC.**

By:  /s/ Scott Ward\_\_\_\_\_

Name:  Scott Ward\_\_\_\_\_

Title:  Chief Executive Officer\_\_\_\_\_

**IN WITNESS WHEREOF** , the parties hereto have caused this Agreement to be executed and delivered as of the date first set forth above.

**PURCHASER:**

**KRISHNA HOLDINGS, LLC**

By: \_\_\_ /s/ Ashish Aggarwal\_\_\_\_\_

Name: \_\_\_ Ashish Aggarwal\_\_\_\_\_

Title: \_\_\_ Chief Manager\_\_\_\_\_

## JOINDER BY TITLE COMPANY

The Title Company joins in the execution of this Agreement to evidence its agreement to receive, hold and disburse funds and documents in accordance with the terms and provisions of the Agreement.

### TITLE COMPANY :

Commercial Partners Title, LLC

By:  /s/ Chad Novak

Name:  Chad E. Novak

Title:  Underwriting Counsel

### Exhibits :

- A. Defined Terms
- B. Legal Description
- C. Lease Agreement
- D. List of Seller Documents

## EXHIBIT A

### DEFINED TERMS

The following terms shall have the following meanings for all purposes of this Agreement:

“ *Affiliate* ” or any derivation thereof, means any Person which directly or indirectly controls, is under common control with, or is controlled by any other Person. For purposes of this definition, “controls”, “under common control with” and “controlled by” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities or otherwise.

“ *Business Day* ” means a day on which banks located in Minneapolis, Minnesota are not required or authorized to remain closed.

“ *Closing* ” shall have the meaning set forth in Section 3.01.

“ *Closing Date* ” shall have the meaning set forth in Section 3.01.

“ *Deed* ” means that certain general warranty deed whereby Seller conveys to Purchaser all of Seller’s right, title and interest in and to the Property, free and clear of all Liens, restrictions, encroachments and easements, except the Permitted Encumbrances.

“ *Earnest Money Deposit* ” has the meaning set forth in Section 1.06.

“ *Effective Date* ” has the meaning set forth in the introductory paragraph of this Agreement.

“ *Environmental Liens* ” means all liens and other encumbrances imposed pursuant to any Hazardous Materials Law.

“ *Estoppe*l ” means an Estoppel Certificate completed and executed by Seller as tenant under the Lease Agreement, which Estoppel Certificate shall be in substantially the form reasonably required by Purchaser’s mortgage lender.

“ *Event of Default* ” has the meaning set forth in Section 6.01.

“ *Governmental Authority* ” means the United States of America, any state or other political subdivision thereof, any other entity exercising executive, judicial, regulatory or administrative functions of or pertaining to government and any corporation or other entity owned or controlled (through stock or capital ownership or otherwise) by any of the foregoing.

“ *Hazardous Materials* ” includes oil, petroleum products, flammable substances, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other materials, contaminants or pollutants, the presence of which causes any of the Property to be in violation of any local, state or federal law or regulation, (including without limitation, any Hazardous Materials Law), or are defined as or included in the definition of “hazardous substances”, “hazardous wastes”, “hazardous materials”, “toxic substances”, “contaminants”, “pollutants”, or words of similar import under any applicable local, state or federal law or under the regulations adopted, orders issued, or publications promulgated pursuant thereto, including, but not limited to: (i) the

Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. §9601, et seq.; (ii) the Hazardous Materials Transportation Act, as amended, 49 U.S.C. §1801, et seq.; and (iii) the Resource Conservation and Recovery Act, as amended, 42 U.S.C. §6901, et seq.

“ *Hazardous Materials Laws* ” includes any and all federal, state and local laws, rules, regulations, statutes, and requirements pertaining or relating to the environmental condition of the Property or to Hazardous Materials.

“ *Insolvency Event* ” means (a) a Person’s (i) admitting in writing its inability to pay its debts generally; or (ii) making a general assignment for the benefit of creditors; (b) any proceeding being instituted by or against any Person (i) seeking to adjudicate it a bankrupt or insolvent; (ii) seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency, or reorganization or relief of debtors; or (iii) seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property, and in the case of any such proceeding instituted against any such Person, either such proceeding shall remain undismissed for a period of 120 days or any of the actions sought in such proceeding shall occur; or (c) any Person taking any corporate or other formal action to authorize any of the actions set forth above in this definition.

“ *Inspection Period* ” has the meaning set forth in Section 2.03.

“ *Inspections* ” has the meaning set forth in Section 2.03.

“ *Lease Agreement* ” has the meaning set forth in Section 1.03.

“ *Lease Proof of Insurance* ” has the meaning set forth in Section 5.01(a)(vii).

“ *Letter of Intent* ” means that certain Letter of Intent dated November 3, 2016 between Seller and Purchaser with respect to the Transaction, and any amendments or supplements thereto.

“ *Lien* ” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction).

“ *Losses* ” means any and all claims, suits, liabilities (including, without limitation, strict liabilities), actions, proceedings, obligations, debts, damages, losses, Costs, fines, penalties, interest, charges, fees, judgments, awards, amounts paid in settlement and damages of whatever kind or nature, inclusive of bodily injury and property damage to third parties (including, without limitation, attorneys’ fees and other Costs of defense), excluding, however, any punitive, consequential, special, indirect, and incidental damages and diminutions in value.

“ *Memorandum of Lease* ” has the meaning set forth in Section 5.01(a)(v).

“ *Notices* ” has the meaning set forth in Section 7.03.

“ *OFAC List* ” means the list of specially designated nationals and blocked Persons subject to financial sanctions that is maintained by the U.S. Treasury Department, Office of Foreign Assets Control and any other similar list maintained by the U.S. Treasury Department, Office of Foreign Assets Control pursuant to any legal requirements, including, without limitation, trade embargo, economic sanctions, or other prohibitions imposed by Executive Order of the President of the United States. The OFAC List currently is accessible through the internet website [www.treas.gov/ofac/t11sdn.pdf](http://www.treas.gov/ofac/t11sdn.pdf).

“ *Permitted Encumbrances* ” means (a) the lien of any real estate taxes, special assessment water and sewer charges, not yet due and payable; (b) those recorded easements, restrictions, liens and encumbrances set forth as exceptions in the Title Commitment and in the Title Policy to be issued by Title Company to Purchaser and approved by Purchaser in its sole discretion (or deemed waived) in connection with this Agreement; and (c) the Lease Agreement.

“ *Person* ” means any natural person, firm, corporation, partnership, limited liability company, other entity, state, political subdivision of any state, the United States of America, any agency or instrumentality of the United States of America, any other public body or other organization or association.

“ *Professional Fees* ” has the meaning set forth in Section 1.05.

“ *Property* ” has the meaning set forth in Section 1.01.

“ *Purchase Price* ” means the amount specified in Section 1.02.

“ *Seller Documents* ” has the meaning set forth in Section 2.02.

“ *SNDA* ” means a Subordination, Non-Disturbance and Attornment Agreement executed by Seller as tenant, by Purchaser as landlord, and by Purchaser's mortgage lender, in form reasonably required by Purchaser's mortgage lender as a condition of Closing.

“ *Title Commitment* ” has the meaning set forth in Section 2.01(a).

“ *Title Company* ” means Commercial Partners Title, LLC.

“ *Title Objection* ” has the meaning set forth in Section 2.01(d)(i).

“ *Title Policy* ” has the meaning set forth in Section 2.01(a).

“ *Transaction* ” has the meaning set forth in Section 1.01.

“ *Transaction Costs* ” means all out-of-pocket costs and expenses incurred in connection with the Transaction, as set forth at Section 1.05. Transaction Costs expressly exclude Professional Fees.

“ *Transaction Documents* ” means this Agreement, the Lease, the Memorandum of Lease, the Deed, the Lease Proof of Insurance, the Non-Foreign Seller Certificates, SNDA and Estoppel, any and all documents referenced herein and therein, and such other documents, payments, instruments and certificates as are reasonably required by Purchaser and/or the Title Company.

“ *UST Regulations* ” means 40 C.F.R. § 298 Subpart H – Financial Responsibility, or any equivalent state law, with respect to petroleum underground storage tanks (as such term is defined under 40 C.F.R. § 290.12 or any equivalent state law).

“ *USTs* ” means any one or combination of tanks and associated product piping systems used in connection with storage, dispensing and general use of Hazardous Materials.

**EXHIBIT B**  
**LEGAL DESCRIPTION**

**LOT 1, BLOCK 1, NEW BRIGHTON EXCHANGE 2<sup>ND</sup> ADDITION**

121736930v2 0992939

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**EXHIBIT C**  
**FORM OF LEASE AGREEMENT**  
**[TO BE ATTACHED]**

## LEASE AGREEMENT

**THIS LEASE AGREEMENT** (this "Lease") is made as of \_\_\_\_\_, 2017 (the "Effective Date"), by and between \_\_\_\_\_, a \_\_\_\_\_ ("Lessor"), whose address is \_\_\_\_\_, and Cardiovascular Systems, Inc., a Delaware corporation ("Lessee"), whose address is 1225 Old Highway 8 NW, New Brighton, MN 55112. Capitalized terms not defined herein shall have the meanings set forth in Exhibit A hereto.

In consideration of the mutual covenants and agreements herein contained, Lessor and Lessee hereby covenant and agree as follows:

### ARTICLE I

#### BASIC LEASE TERMS

**Section 1.01. Property** . The real property located at 1225 Old Highway 8 NW, New Brighton, MN 55112, as legally described on Exhibit B attached hereto and incorporated herein , including the improvements thereon and fixtures and appurtenances thereto.

**Section 1.02. Initial Term Expiration Date** . \_\_\_\_\_, 2032.

**Section 1.03. Extension Options** . Four (4) extensions of five (5) years each, as described in Section 3.02.

**Section 1.04. Base Annual Rental** . One Million Six Hundred Fifty-Six Thousand Two Hundred Fifty and 00/100 Dollars (\$1,637,500.00) as described in Article IV, payable in monthly installments of One Hundred Thirty-Six Thousand Four Hundred Fifty-Eight and 33/100 Dollars (\$136,458.33).

**Section 1.05. Rental Adjustment** . Three percent (3%) per annum as of each Adjustment Date, as described in Section 4.02.

**Section 1.06. Adjustment Date** . The first anniversary of the Effective Date and annually thereafter during the Initial Lease Term (excluding any Extension Term).

**Section 1.07. Lessee Tax Identification No** . 41-1698056.

**Section 1.08. Lessor Tax Identification No.** \_\_\_\_\_.

### ARTICLE II

#### LEASE OF PROPERTY

**Section 2.01. Lease** . In consideration of Lessee's payment of the Rental and other Monetary Obligations and Lessee's performance of all other obligations hereunder, Lessor hereby leases to Lessee, and Lessee hereby takes and hires, the Property, "AS IS" and "WHERE IS" without representation or warranty by Lessor, and subject to the existing state of title, the parties in possession, any statement of facts which an accurate survey or physical inspection might reveal, and all Legal Requirements now or hereafter in effect.

**Section 2.02. Quiet Enjoyment** . So long as Lessee shall pay the Rental and other Monetary Obligations provided in this Lease and shall keep and perform all of the terms, covenants and conditions

on its part contained herein, Lessee shall have, subject to the terms and conditions set forth herein, the right to the peaceful and quiet enjoyment and occupancy of the Property.

### ARTICLE III

#### LEASE TERM; EXTENSION

**Section 3.01. Initial Term** . The initial term of this Lease (“ Initial Term ”) shall commence as of the Effective Date and shall expire at midnight on \_\_\_\_\_, 2032, unless terminated sooner as provided in this Lease and as may be extended as provided herein. The time period during which this Lease shall actually be in effect, including any Extension Term, is referred to as the “ Lease Term .”

**Section 3.02. Extensions** . Unless this Lease has expired or has been sooner terminated, or an Event of Default has occurred and is continuing at the time any extension option is exercised, Lessee shall have the right and option (each, an “ Extension Option ”) to extend the Initial Term for all and not less than all of the Property for four (4) additional successive periods of five (5) years each (each, an “ Extension Term ”), pursuant to the terms and conditions of this Lease then in effect.

**Section 3.03. Notice of Exercise** . Lessee may only exercise the Extension Options by giving its irrevocable written notice thereof to Lessor of its election to do so no later than nine (9) months prior to the expiration of the then-current Lease Term. If written notice of the exercise of any Extension Option is not received by Lessor by the applicable dates described above, then this Lease shall terminate on the last day of the Initial Term or, if applicable, the last day of the Extension Term then in effect. Notwithstanding the foregoing, if Lessee is entitled to exercise an option to renew but fails to give Lessor timely written notice of such exercise, then Lessor shall use commercially reasonable efforts to give Lessee written notice of such failure, and Lessee shall have the right to exercise such Extension Option by written notice to Lessor given within ten (10) Business Days after receipt of such notice. Upon the request of Lessor or Lessee, the parties hereto will, at the expense of Lessee, execute and exchange an instrument in recordable form setting forth the extension of the Lease Term in accordance with this Section 3.03.

**Section 3.04. Removal of Personalty** . Upon the expiration of the Lease Term, Lessee may remove from the Property all personal property, equipment and trade fixtures belonging to Lessee. Lessee shall repair any damage caused by such removal and shall leave all of the Property clean and in good and working condition and repair inside and out, subject to normal wear and tear, casualty and condemnation. Any property of Lessee left on the Property on the tenth (10<sup>th</sup>) day following the expiration of the Lease Term shall, at Lessor’s option, automatically and immediately become the property of Lessor.

### ARTICLE IV

#### RENTAL AND OTHER MONETARY OBLIGATIONS

**Section 4.01. Base Monthly Rental** . During the Lease Term, on or before the first day of each calendar month, Lessee shall pay in advance the Base Monthly Rental then in effect. If the Effective Date is a date other than the first day of the month, Lessee shall pay to Lessor on the Effective Date the Base Monthly Rental prorated by multiplying the Base Monthly Rental by a fraction, the numerator

of which is the number of days remaining in the month (including the Effective Date) for which Rental is being paid, and the denominator of which is the total number of days in such month.

**Section 4.02. Adjustments During Initial Lease Term** . During the Initial Lease Term (excluding any Extension Term), on the first Adjustment Date and on each Adjustment Date thereafter, the Base Annual Rental shall increase by an amount equal to the Rental Adjustment.

**Section 4.03. Adjustment During Extension Terms.** The Base Annual Rental for each Extension Term shall be equal to the then "Fair Market Rental Rate," as hereinafter defined; provided, however, in no event shall the Fair Market Rental Rate be less than the Base Annual Rental in effect during the last year of the then expiring Initial Lease Term or Extension Term, as the case may be. As used herein, the "Fair Market Rental Rate" payable by Lessee for each Extension Term shall mean the Base Annual Rental for space comparable in size, location and quality to the Property for a comparable term, and in other comparable buildings in the vicinity of the Property, taking into consideration all out-of-pocket concessions generally being granted at such time for such comparable space, including the condition and value of existing tenant improvements in the Property. Lessor shall provide Lessee with its determination of the Fair Market Rental Rate within ten (10) days after receipt of Lessee's notice to extend the Lease Term. Lessee shall have thirty (30) days after receipt of Lessor's notice in which to notify Lessor of any objection thereto. In the event Lessee notifies Lessor of its objection to the computation of such rental rate, then the parties shall negotiate in good faith for a period not to exceed thirty (30) days in order to come to agreement thereon. In the event the parties are unable to agree upon such rate within such thirty (30) day period, then Lessee shall have the right within ten (10) days thereafter to require that Lessor and Lessee each, at its cost and by giving written notice to the other party, appoint a competent and impartial commercial real estate broker (hereinafter "broker") with at least five (5) years' full-time commercial real estate brokerage experience in the geographical area of the Property to set the Fair Market Rental Rate for the Extension Term. Each broker shall submit its valuation of the Fair Market Rental Rate in accordance herewith within ten (10) days after selection, and if the valuations are within ten percent (10%) of each other, then the valuations shall be averaged together to arrive at the Fair Market Rental Rate of the Property. In the event the valuations have a disparity greater than ten percent (10%), then the brokers shall select a third broker, who shall submit a valuation in accordance with the foregoing within ten (10) days after selection. The two valuations which are the closest to each other shall then be averaged together to arrive at the current Fair Market Rental Rate. Upon determination of the Fair Market Rental Rate for the Extension Term in accordance with the terms outlined above, Lessor and Lessee shall immediately execute an amendment to the Lease Agreement. Such amendment shall set forth among other things, the Base Annual Rental for the Extension Term and the actual commencement date and expiration date of the Extension Term.

**Section 4.04. Additional Rental** . Lessee shall pay and discharge, as additional rental (" Additional Rental "), all sums of money required to be paid by Lessee under this Lease which are not specifically referred to as Rental. Lessee shall pay and discharge any Additional Rental when the same shall become due, provided that amounts which are billed to Lessor or any third party, but not to Lessee, shall be paid within fifteen (15) days after Lessor's written demand for payment thereof. In no event shall Lessee be required to pay to Lessor any item of Additional Rental that Lessee is obligated to pay and has paid to any third party pursuant to any provision of this Lease.

**Section 4.05. Late Charges** . Any payment that is not paid to Lessor within ten (10) days of the due date shall, in addition to any other remedy of Lessor, incur a late charge of two percent (2%) (which late charge is intended to compensate Lessor for the cost of handling and processing such

delinquent payment and should not be considered interest); *provided, however* , in no event shall Lessee be obligated to pay a late charge higher than the maximum legal rate then in effect.

**Section 4.06. Holdover** . If Lessee remains in possession of the Property after the expiration of the Lease Term hereof, Lessee, at Lessor's option and within Lessor's sole discretion, may be deemed a tenant on a month-to-month basis and shall continue to pay Rentals and other Monetary Obligations in the amounts herein provided, except that the Base Monthly Rental shall be automatically increased to one hundred fifty percent (150%) of the last Base Monthly Rental payable under this Lease, and Lessee shall comply with all the terms of this Lease; *provided that* nothing herein nor the acceptance of Rental by Lessor shall be deemed a consent to such holding over.

## ARTICLE V

### REPRESENTATIONS AND WARRANTIES OF LESSEE

The representations and warranties of Lessee contained in this Article V are being made to induce Lessor to enter into this Lease, and Lessor has relied, and will continue to rely, upon such representations and warranties. Lessee represents and warrants to Lessor as follows:

**Section 5.01. Organization, Authority and Status of Lessee** . Lessee has been duly organized or formed, is validly existing and in good standing under the laws of its state of formation and is qualified as a foreign corporation to do business in the State of Minnesota. All necessary and appropriate action has been taken to authorize the execution, delivery and performance by Lessee of this Lease and of the other documents, instruments and agreements provided for herein. Lessee is not, and if Lessee is a "disregarded entity," the owner of such disregarded entity is not, a "nonresident alien," "foreign corporation," "foreign partnership," "foreign trust," "foreign estate," or any other "person" that is not a "United States Person" as those terms are defined in the Code and the regulations promulgated thereunder. The Person who has executed this Lease on behalf of Lessee is duly authorized to do so.

**Section 5.02. Enforceability** . This Lease constitutes the legal, valid and binding obligation of Lessee, enforceable against Lessee in accordance with its terms.

**Section 5.03. Solvency** . There is no contemplated, pending or threatened Insolvency Event or similar proceedings, whether voluntary or involuntary, affecting Lessee or any Lessee Entity.

## ARTICLE VI

### TAXES AND ASSESSMENTS; UTILITIES; INSURANCE

#### Section 6.01. Taxes .

(a) **Payment** . Subject to the provisions of Section 6.01(b) below, Lessee shall pay and discharge, no later than the last day on which payment be made without penalty or interest, any and all taxes and installments of special assessments assessed against or imposed upon the Property or Lessee during the Lease Term related to or arising out of this Lease and the activities of the parties hereunder, including without limitation, (i) all taxes or assessments upon the Property or any part thereof and upon any personal property, trade fixtures and improvements located on the Property, whether belonging to Lessor or Lessee, or any tax or charge levied in lieu of such taxes and assessments; and (ii) all taxes, charges, license fees and or similar fees

imposed by reason of the use of the Property by Lessee. Notwithstanding anything in clauses (i) through (ii) to the contrary, Lessee shall not be obligated to pay or reimburse Lessor for any taxes based on the net income of Lessor or any corporate franchise, estate, inheritance, gift tax or tax imposed on the transfer of Lessor's interest in the Lease or the Property. Lessee shall have the right to pay special assessments in installments over the longest permissible periods.

(b) **Right to Contest** . Within thirty (30) days after each tax and assessment payment is required by this Section 6.01 to be paid, Lessee shall provide Lessor with evidence reasonably satisfactory to Lessor that taxes and assessments have been timely paid by Lessee. In the event Lessor receives a tax bill, Lessor shall use commercially reasonable efforts to forward said bill to Lessee within fifteen (15) days of Lessor's receipt thereof. Lessee may, at its own expense, contest or cause to be contested (in the case of any item involving more than \$100,000, after prior written notice to Lessor, which shall be given within fifteen (15) days of Lessee's determination to contest any matter as permitted herein), by appropriate legal proceedings conducted in good faith and with due diligence, any above-described item or lien with respect thereto, provided that (i) neither the Property nor any interest therein would be in any danger of being sold, forfeited or lost by reason of such proceedings; (ii) no Event of Default has occurred and is continuing; (iii) if and to the extent required by the applicable taxing authority and/or Lessor, Lessee posts a bond or takes other steps acceptable to such taxing authority and/or Lessor that removes such lien or stays enforcement thereof; and (iv) upon termination of such proceedings, it shall be the obligation of Lessee to pay the amount of any such tax and assessment or part thereof as finally determined in such proceedings, the payment of which may have been deferred during the prosecution of such proceedings, together with any costs, fees (including attorneys' fees and disbursements), interest, penalties or other liabilities in connection therewith. Lessor shall at the request of Lessee, execute or join in the execution of any instruments or documents necessary in connection with such contest or proceedings, but Lessor shall incur no cost or obligation thereby.

(c) **Tax Escrow Account** . During the pendency of any uncured Event of Default hereunder, upon written notice from Lessor, Lessee shall pay or cause to be paid into a separate account (the "Tax Account") to be established by Lessee with a lending institution designated by Lessor (which Tax Account shall not be removed from such lending institution without the express prior approval of Lessor), and which Lessor may draw upon, a reserve amount sufficient to discharge the obligations of Lessee under Section 6.01 hereof with respect to real estate taxes for the applicable Fiscal Year as and when they become due (such amounts, the "Tax Escrow Amount"). During each month commencing with the first full calendar month following the receipt of said notice from Lessor, Lessee shall deposit into the Tax Account one twelfth of the Tax Escrow Amount so that as each installment of real estate taxes becomes due and payable, there are sufficient funds in the Tax Account to pay the same. If the amount of such and real estate taxes has not been definitively ascertained by Lessee at the time when any such monthly deposit is to be paid, Lessor shall require payment of the Tax Escrow Amount based upon the amount of real estate taxes paid for the preceding year, subject to adjustment as and when the amount of such real estate taxes are ascertained by Lessee. The Tax Escrow Amount in the Tax Account shall be and constitute additional security for the performance of Lessee's

obligations hereunder and shall, if there are sufficient funds in escrow, be used to pay taxes when due.

**Section 6.02. Utilities .** Lessee shall contract, in its own name, for and pay when due all charges for the connection and use of water, gas, electricity, telephone, garbage collection, sewer use and other utility services supplied to the Property during the Lease Term.

**Section 6.03. Insurance .**

(a) **Coverage .** Throughout the Lease Term, Lessee shall maintain, with respect the Property, at its sole expense, the following types and amounts of insurance, in addition to such other insurance as Lessor may reasonably require from time to time:

(i) Insurance against loss or damage to real property and personal property under an “all risk” or “special form” insurance policy, which shall include coverage against all risks of direct physical loss, including but not limited to loss by fire, lightning, wind, terrorism, and other risks normally included in the standard ISO special form. Such insurance shall be in amounts not less than 100% of the full insurable replacement cost values.

(ii) Commercial general liability insurance, including products and completed operation liability, covering Lessor and Lessee against bodily injury liability, property damage liability and personal and advertising injury, and liability arising out of the ownership, maintenance, repair, condition or operation of the Property. Such insurance shall be in amounts of not less than \$2,000,000 per occurrence for bodily injury and property damage, and \$2,000,000 general aggregate. Such limits of insurance can be acquired through Commercial General liability and Umbrella liability policies.

(iii) Workers’ compensation and Employers Liability insurance with statutorily mandated limits covering all persons employed by Lessee on the Property in connection with any work done on or about the Property for which claims for death or bodily injury could be asserted against Lessor, Lessee or the Property.

(b) **Insurance Provisions .** All insurance policies shall:

(i) provide for a waiver of subrogation by the insurer as to claims against Lessor covered under the “all risk” or “special form” insurance policy described in Section 6.03(a)(i);

(ii) be primary and provide that any “other insurance” clause in the insurance policy shall exclude any policies of insurance maintained by Lessor and the insurance policy shall not be brought into contribution with insurance maintained by Lessor;

(iii) contain deductibles not to exceed \$100,000;

(iv) except for workers’ compensation insurance referred to in Section 6.03(a)(iii) above, name Lessor and any Lessor Affiliate or Lender requested by Lessor, as an “additional insured” with respect to liability insurance; and

(v) be issued by insurance companies licensed to do business in the state of Minnesota.

(c) **Blanket Policies** . Notwithstanding anything to the contrary in this Section 6.03, any insurance which Lessee is required to obtain pursuant to this Section 6.03 may be carried under a “blanket” policy or policies covering other Property or liabilities of Lessee provided that such “blanket” policy or policies otherwise comply with the provisions of this Section 6.03.

## ARTICLE VII

### MAINTENANCE; ALTERATIONS

**Section 7.01. Condition of Property; Maintenance** . Lessee hereby accepts the Property “AS IS” and “WHERE IS” with no representation or warranty of Lessor as to the condition thereof. Lessee shall, at its sole cost and expense, be responsible for (a) keeping all of the building, structures and improvements erected on the Property in good order and repair, free from actual or constructive waste, subject to ordinary wear and tear; (b) the repair or reconstruction of any building, structures or improvements erected on the Property damaged or destroyed by a Casualty; and (c) subject to Section 7.02, making all necessary structural, non-structural, exterior and interior repairs to any building, structures or improvements erected on the Property. In the event that necessary repairs may be covered by a construction, manufacturer’s or installer’s Warranty (collectively, “Warranties”), Lessee shall use its best efforts to enforce the terms of such Warranty.

**Section 7.02. Alterations and Improvements** . During the Lease Term, Lessee shall not alter the exterior, structural, plumbing or electrical elements of the Property in any manner without the written consent of Lessor, which consent shall not be unreasonably withheld or conditioned; *provided, however* , Lessee may undertake non-structural alterations to the Property that cost less than \$50,000, individually, and do not materially affect the exterior appearance of the Property, without Lessor’s prior written consent. If Lessor’s consent is required hereunder and Lessor consents to the making of any such alterations, the same shall be made by Lessee at Lessee’s sole expense by a licensed contractor and according to plans and specifications approved by Lessor and subject to such other conditions as Lessor shall reasonably require. Any work at any time commenced by Lessee on the Property shall be prosecuted diligently to completion, shall be of good workmanship and materials shall not void, invalidate or otherwise compromise any existing Warranty, and shall comply fully with all the terms of this Lease and all Legal Requirements. Upon completion of any alterations individually costing \$50,000 or more, Lessee shall promptly provide Lessor with evidence of full payment to all laborers and materialmen contributing to the alterations. Lessee shall keep the Property free from any liens arising out of any work performed on, or materials furnished to, the Property.

## ARTICLE VIII

### USE OF THE PROPERTY; COMPLIANCE

**Section 8.01. Use** . During the Lease Term, the Property shall be used for the operation of a Permitted Facility.

**Section 8.02. Compliance** . Lessee’s use and occupation of the Property, and the condition thereof, shall, at Lessee’s sole cost and expense, comply fully with all Legal Requirements and all restrictions, covenants and encumbrances of record, and any owner obligations under such Legal

Requirements, or restrictions, covenants and encumbrances of record, with respect to the Property, in either event, the failure with which to comply could have a Material Adverse Effect. Lessee shall obtain, maintain and comply with all required licenses and permits, both governmental and private, to use and operate the Property as a Permitted Facility. Lessee will use its best efforts to prevent any act or condition to exist on or about the Property that will materially increase any insurance rate thereon, except when such acts are required in the normal course of its business and Lessee shall pay for such increase.

**Section 8.03. Environmental .**

(a) **Covenants .**

(i) Lessee covenants to Lessor during the Lease Term, subject to the limitations of subsection (ii) below, as follows:

(A) All uses and operations on or of the Property, whether by Lessee or any other Person, shall be in compliance with all Environmental Laws and permits issued pursuant thereto.

(B) There shall be no Releases in, on, under or from the Property, except in Permitted Amounts.

(C) There shall be no Hazardous Materials or Regulated Substances in, on or under the Property, except in Permitted Amounts. Above and below ground storage tanks shall be properly permitted and only used as permitted.

(D) Lessee shall not act or fail to act or allow any other tenant, occupant, guest, customer or other user of the Property to act or fail to act in any way that (1) materially increases a risk to human health or the environment, (2) poses an unreasonable or unacceptable risk of harm to any Person or the environment (whether on or off any of the Property), (3) has a Material Adverse Effect, or (4) is contrary to any material requirement set forth in the insurance policies maintained by Lessee or Lessor, or (5) constitutes a public or private nuisance.

(ii) Notwithstanding any provision of this Lease to the contrary, an Event of Default shall not be deemed to have occurred as a result of the failure of Lessee to satisfy any one or more of the covenants set forth in subsections (A) through (D) above provided that Lessee shall be in compliance in all material respects with the requirements of any Governmental Authority with respect to the Remediation of any Release at the Property.

(b) **Remediation .** Lessee shall, at its sole cost and expense, and without limiting any other provision of this Lease, effectuate any Remediation required of Lessee by any Governmental Authority of any condition (including, but not limited to, a Release or Threatened Release) in, on, under or from the Property and take any other reasonable action deemed necessary by any Governmental Authority for protection of human health or the environment. Should Lessee fail to undertake any required Remediation in accordance with the preceding sentence within a commercially reasonable time frame, Lessor, after written notice to Lessee

and Lessee's failure to immediately undertake such Remediation, shall be permitted to complete such Remediation, and all Costs incurred in connection therewith shall be paid by Lessee. Any Cost so paid by Lessor, together with interest at the Default Rate, shall be deemed to be Additional Rental hereunder and shall be immediately due from Lessee to Lessor.

(c) **Indemnification** . Lessee shall, at its sole cost and expense, protect, defend, indemnify, release and hold harmless each of the Indemnified Parties from and against any and all Losses, including, but not limited to, all Costs of Remediation (whether or not performed voluntarily), arising out of or in any way relating to any Environmental Laws, Hazardous Materials, Regulated Substances, above or below ground storage tanks, or other environmental matters concerning the Property, to the extent caused by or through Lessee. It is expressly understood and agreed that Lessee's obligations under this Section shall survive the expiration or earlier termination of this Lease for any reason.

(d) **Survival** . The obligations of Lessee and the rights and remedies of Lessor under this Section 8.03 shall survive the termination, expiration and/or release of this Lease.

## ARTICLE IX

### ADDITIONAL COVENANTS

**Section 9.01. Inspection** . Lessor and its authorized representatives shall have the right, at all reasonable times and upon giving reasonable prior notice (except in the event of an emergency, in which case no prior notice shall be required), to enter the Property or any part thereof and inspect the same. Lessee hereby waives any claim for damages for any injury or inconvenience to or interference with Lessee's business, any loss of occupancy or quiet enjoyment of the Property and any other loss occasioned by such entry, but, subject to Section 10.01, excluding damages arising as a result of the gross negligence or willful misconduct of Lessor. Notwithstanding the foregoing, Lessor shall exercise its inspection rights in a manner that does not interfere with Lessee's use of the Property.

**Section 9.02. Estoppel Certificate** . At any time, and from time to time, Lessee shall, promptly and in no event later than ten (10) days after a request from Lessor or any Lender or mortgagee of Lessor, execute, acknowledge and deliver to Lessor or such Lender or mortgagee, as the case may be, a certificate in the form supplied by Lessor, certifying: (a) that Lessee has accepted the Property; (b) that this Lease is in full force and effect and has not been modified (or if modified, setting forth all modifications), or, if this Lease is not in full force and effect, the certificate shall so specify the reasons therefor; (c) the commencement and expiration dates of the Lease Term; (d) the date to which the Rentals have been paid under this Lease and the amount thereof then payable; (e) whether there are then any existing defaults by Lessor in the performance of its obligations under this Lease, and, if there are any such defaults, specifying the nature and extent thereof; (f) that no notice has been received by Lessee of any default under this Lease which has not been cured, except as to defaults specified in the certificate; (g) the capacity of the Person executing such certificate, and that such Person is duly authorized to execute the same on behalf of Lessee; and (h) any other information reasonably requested by Lessor or any Lender or mortgagee, as the case may be.

## ARTICLE X

### RELEASE AND INDEMNIFICATION

**Section 10.01. Release and Indemnification** . Lessee agrees to use and occupy the Property at its own risk and hereby releases Lessor and Lessor's agents and employees from all claims for any damage, compensation, liability, injury, loss or claim from any cause, other than gross negligence or willful misconduct of Lessor, its agents or employees, relative to or arising from (i) loss or damage to Lessee's personal property or improvements that Lessee may remove pursuant to Section 3.04 hereof; (ii) any injury to person or damage to property on or about the Property; (iii) any criminal act on or about the Property; or (iv) interference with Lessee's business operations or loss of occupancy or use of the Property from Lessor's right to access or enter the Property under this Lease. Lessee acknowledges and agrees that Lessor has no duty or obligation to provide security for the Property. Lessee shall indemnify, protect, defend and hold harmless each of the Indemnified Parties from and against any and all Losses (excluding Losses suffered by an Indemnified Party arising out of the gross negligence or willful misconduct of such Indemnified Party) caused by, incurred or resulting from Lessee's operations or occurring in or about the Property, whether relating to its original design or construction, latent defects, alteration, maintenance, use by Lessee or any Person thereon, supervision or otherwise, or from any breach of, default under, or failure to perform, any term or provision of this Lease by Lessee, its officers, employees, agents or other Persons. It is expressly understood and agreed that Lessee's obligations under this Section shall survive the expiration or earlier termination of this Lease for any reason whatsoever.

## ARTICLE XI

### CONDEMNATION AND CASUALTY

**Section 11.01. Notification** . Lessee shall promptly give Lessor written notice of (a) any Condemnation of any of the Property, (b) the commencement of any proceedings or negotiations which might result in a Condemnation of any of the Property, and (c) any Casualty to any of the Property or any part thereof. Such notice shall provide a general description of the nature and extent of such Condemnation, proceedings, negotiations or Casualty, and shall include copies of any documents or notices received in connection therewith. Thereafter, Lessee shall promptly send Lessor copies of all notices, correspondence and pleadings relating to any such Condemnation, proceedings, negotiations or Casualty.

**Section 11.02. Total Condemnation** . In the event of a Condemnation of all or substantially all of any of the Property, and if as a result of such Condemnation: (i) access to the Property to and from the publicly dedicated roads adjacent to the Property as of the Effective Date is permanently and materially impaired such that Lessee no longer has access to such dedicated road; (ii) there is insufficient parking to operate the Property as a Permitted Facility under applicable Laws; or (iii) the Condemnation includes a portion of the building such that the remaining portion is unsuitable for use as a Permitted Facility, as determined by Lessee in the exercise of good faith business judgment (and Lessee provides to Lessor an officer's certificate executed by an officer of Lessee certifying to the same) (each such event, a "Total Condemnation"), then, in such event:

(a) **Termination of Lease** . On the date of the Total Condemnation, all obligations of either party hereunder with respect to the Property shall cease; *provided, however* , that Lessee's obligations to the Indemnified Parties under any indemnification provisions of this Lease with respect to the Property and Lessee's obligation to pay Rental and all other Monetary Obligations (whether payable to Lessor or a third party) accruing under this Lease with respect to the Property prior to the date of termination shall survive such termination. If the date of such

Total Condemnation is other than the first day of a month, the Base Monthly Rental for the month in which such Total Condemnation occurs shall be apportioned based on the date of the Total Condemnation.

(b) **Net Award** . Subject to Section 11.07 below, Lessor shall be entitled to receive the entire Net Award in connection with a Total Condemnation without deduction for any estate vested in Lessee by this Lease, and Lessee hereby expressly assigns to Lessor all of its right, title and interest in and to every such Net Award and agrees that Lessee shall not be entitled to any Net Award or other payment for the value of Lessee's leasehold interest in this Lease.

**Section 11.03. Partial Condemnation or Casualty** . In the event of a Condemnation which is not a Total Condemnation (each such event, a "Partial Condemnation"), or in the event of a Casualty:

(a) **Net Awards** . All Net Awards shall be paid to Lessor.

(b) **Continuance of Lease** . This Lease shall continue in full force and effect upon the following terms:

(i) All Rental and other Monetary Obligations due under this Lease shall continue unabated.

(ii) Lessee shall promptly commence and diligently prosecute restoration of the Property to the same condition, as nearly as practicable, as prior to such Partial Condemnation or Casualty as approved by Lessor; provided, however, that Lessee shall have no obligation to incur costs in excess of the Net Award or insurance proceeds, as applicable, made available by Lessor to Lessee hereunder. Upon the written request of Lessee (accompanied by evidence reasonably satisfactory to Lessor that such amount has been paid or is due and payable and is properly part of such costs, and that Lessee has complied with the terms of Section 7.02 in connection with the restoration), Lessor shall promptly make available in installments, subject to reasonable conditions for disbursement imposed by Lessor, an amount up to but not exceeding the amount of any Net Award received by Lessor with respect to such Partial Condemnation or Casualty.

(c) Notwithstanding the foregoing, if a Casualty cannot reasonably be expected to be restored within three hundred sixty-five (365) days of the date of such Casualty as reasonably determined by Lessee, then Lessee shall have the right to terminate this Lease Agreement upon delivery of written notice to Lessor. The termination will be effective as of the date of the Casualty. Upon such termination, all obligations of either party hereunder with respect to the Property shall cease; provided, however, that Lessee's obligations to the Indemnified Parties under any indemnification provisions of this Lease with respect to the Property and Lessee's obligation to pay Rental and all other Monetary Obligations (whether payable to Lessor or a third party) accruing under this Lease with respect to the Property prior to the date of termination shall survive such termination. If the date of such Casualty is other than the first day of a month, the Base Monthly Rental for the month in which such Casualty occurs shall be apportioned based on the date of the Casualty.

**Section 11.04. Temporary Taking** . In the event of a Condemnation of all or any part of the Property for a temporary use (a "Temporary Taking"), this Lease shall remain in full force and effect

without any reduction of Base Annual Rental, Additional Rental or any other Monetary Obligation payable hereunder. Except as provided below, Lessee shall be entitled to the entire Net Award for a Temporary Taking, unless the period of occupation and use by the condemning authorities shall extend beyond the date of expiration of this Lease, in which event the Net Award made for such Temporary Taking shall be apportioned between Lessor and Lessee as of the date of such expiration.

**Section 11.05. Adjustment of Losses** . Any loss under any property damage insurance required to be maintained by Lessee shall be adjusted by Lessor and Lessee. Any Net Award relating to a Total Condemnation or a Partial Condemnation shall be adjusted by Lessor or, at Lessor's election, Lessee. Notwithstanding the foregoing or any other provisions of this Section 11.05 to the contrary, if at the time of any Condemnation or any Casualty or at any time thereafter an Event of Default shall have occurred and be continuing, Lessor is hereby authorized and empowered but shall not be obligated, in the name and on behalf of Lessee and otherwise, to file and prosecute Lessee's claim, if any, for a Net Award on account of such Condemnation or such Casualty and to collect such Net Award and apply the same to the curing of such Event of Default and any other then existing Event of Default under this Lease and/or to the payment of any amounts owed by Lessee to Lessor under this Lease, in such order, priority and proportions as Lessor in its discretion shall deem proper.

**Section 11.06. Lessee Obligation in Event of Casualty** . During all periods of time following a Casualty, Lessee shall take reasonable steps to ensure that the Property is secure and does not pose any risk of harm to any adjoining property and Persons (including owners or occupants of such adjoining property).

**Section 11.07. Lessee Awards and Payments** . Notwithstanding any provision contained in this Article XI, Lessee shall be entitled to claim and receive any award or payment from the condemning authority expressly granted for the taking of any personal property owned by Lessee, any insurance proceeds with respect to any personal property owned by Lessee, the interruption of its business and moving expenses, but only if such claim or award does not adversely affect or interfere with the prosecution of Lessor's claim for the Condemnation or Casualty, or otherwise reduce the amount recoverable by Lessor for the Condemnation or Casualty.

## ARTICLE XII

### DEFAULT, CONDITIONAL LIMITATIONS, REMEDIES AND MEASURE OF DAMAGES

**Section 12.01. Event of Default** . Each of the following shall be an event of default by Lessee under this Lease (each, an "Event of Default"):

(a) if any Rental or other Monetary Obligation due under this Lease is not paid when due; *provided, however* , any delay in the payment of Rental shall not constitute an Event of Default hereunder so long as the same is corrected within five (5) Business Days of the date Lessee receives written notice thereof from Lessor that such sums are due, provided, however, that no more than one (1) notice of nonpayment to Lessee shall be required to be given in any calendar year and any additional payments not paid within ten (10) Business Days of the date due shall be an Event of Default without notice from the Lessor;

(b) Failure to maintain insurance in accordance with Section 6.03;

(c) if Lessee fails to pay, prior to delinquency, any taxes, assessments or other charges the failure of which to pay has resulted in the imposition of a lien against any the Property;

(d) if Lessee abandons the Property;

(e) if there is an Insolvency Event affecting Lessee;

(f) if Lessee fails to observe or perform any of the other covenants, conditions or obligations of Lessee in this Lease; *provided, however*, if any such failure does not involve the payment of any Monetary Obligation, then such failure shall not constitute an Event of Default hereunder, unless otherwise expressly provided herein, unless and until Lessor shall have given Lessee written notice thereof and a period of thirty (30) days shall have elapsed, during which period Lessee may correct or cure such failure, upon failure of which an Event of Default shall be deemed to have occurred hereunder without further notice or demand of any kind being required. If such failure cannot reasonably be cured within such thirty (30)-day period, and Lessee is diligently pursuing a cure of such failure, then Lessee shall have a reasonable period to cure such failure beyond such thirty (30)-day period; or

(g) if the estate or interest of Lessee in any of the Property shall be levied upon or attached in any proceeding and such estate or interest is about to be sold or transferred or such process shall not be vacated or discharged within ninety (90) days after it is made.

**Section 12.02. Remedies** . Upon the occurrence of an Event of Default, with or without notice or demand, except as otherwise expressly provided herein or such other notice as may be required by Law, Lessor shall be entitled to exercise, at its option, concurrently, successively, or in any combination, all remedies available at Law or in equity, including, without limitation, any one or more of the following:

(a) to terminate this Lease, whereupon Lessee's right to possession of the Property shall cease and this Lease, except as to Lessee's liability, shall be terminated;

(b) to the extent not prohibited by applicable Law, to (i) re-enter and take possession of the Property (or any part thereof), any or all personal property or fixtures of Lessee upon the Property and, to the extent permissible, permits and other rights or privileges of Lessee pertaining to the use and operation of the Property, and (ii) expel Lessee and those claiming under or through Lessee, without being deemed guilty in any manner of trespass or becoming liable for any loss or damage resulting therefrom, without resort to legal or judicial process, procedure or action. No notice from Lessor hereunder or under a forcible entry and detainer statute or similar Law shall constitute an election by Lessor to terminate this Lease unless such notice specifically so states. If Lessee shall, after default, voluntarily give up possession of the Property to Lessor, deliver to Lessor or its agents the keys to the Property, or both, such actions shall be deemed to be in compliance with Lessor's rights and the acceptance thereof by Lessor or its agents shall not be deemed to constitute a termination of the Lease. Lessor reserves the right following any re-entry and/or reletting to exercise its right to terminate this Lease by giving Lessee written notice thereof, in which event this Lease will terminate;

(c) to bring an action against Lessee for any damages sustained by Lessor or any equitable relief available to Lessor;

(d) to relet the Property or any part thereof for such term or terms (including a term which extends beyond the original Lease Term), at such rentals and upon such other terms as Lessor, in its reasonable discretion, may determine, with all proceeds received from such reletting being applied to the Rental and other Monetary Obligations due from Lessee in such order as Lessor may, in its reasonable discretion, determine, which other Monetary Obligations include, without limitation, all repossession costs, brokerage commissions, attorneys' fees and expenses, and repair costs and expenses of preparing for such reletting. Lessor reserves the right following any re-entry and/or reletting to exercise its right to terminate this Lease by giving Lessee written notice thereof, in which event this Lease will terminate as specified in said notice;

(e) to recover from Lessee all Costs paid or incurred by Lessor as a result of such breach, regardless of whether or not legal proceedings are actually commenced;

(f) to immediately or at any time thereafter, and with or without notice, at Lessor's sole option but without any obligation to do so, correct such breach or default and charge Lessee all Costs incurred by Lessor therein. and enforce, to the extent not enforced by Lessee, the terms of any Warranty. Any sum or sums so paid by Lessor, together with interest at the Default Rate, shall be deemed to be Additional Rental hereunder and shall be immediately due from Lessee to Lessor. Any such acts by Lessor in correcting Lessee's breaches or defaults hereunder shall not be deemed to cure said breaches or defaults or constitute any waiver of Lessor's right to exercise any or all remedies set forth herein;

(g) to immediately or at any time thereafter, and with or without notice, except as required herein, set off any money of Lessee held by Lessor under this Lease or any other Transaction Document or any Other Agreement against any sum owing by Lessee hereunder; and/or

(h) to seek any equitable relief available to Lessor, including, without limitation, the right of specific performance.

**Section 12.03. Cumulative Remedies** . All powers and remedies given by Section 12.02 to Lessor, subject to applicable Law, shall be cumulative and not exclusive of one another or of any other right or remedy or of any other powers and remedies available to Lessor under this Lease, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements of Lessee contained in this Lease, and no delay or omission of Lessor to exercise any right or power accruing upon the occurrence of any Event of Default shall impair any other or subsequent Event of Default or impair any rights or remedies consequent thereto. Every power and remedy given by this Section or by Law to Lessor may be exercised from time to time, and as often as may be deemed expedient, by Lessor, subject at all times to Lessor's right in its sole judgment to discontinue any work commenced by Lessor or change any course of action undertaken by Lessor.

### **ARTICLE XIII**

#### **SUBORDINATION AND ATTORNMENT**

**Section 13.01. Subordination** . This Lease at all times shall automatically be subordinate to the lien of any and all ground leases and Mortgages now or hereafter placed upon the Property by Lessor, and Lessee covenants and agrees to execute and deliver, upon demand, such further instruments subordinating this Lease to the lien of any or all such ground leases and Mortgages

as shall be desired by Lessor, or any present or proposed mortgagees under trust deeds, upon the condition that Lessee shall have the right to remain in possession of the Property under the terms of this Lease, notwithstanding any default in any or all such ground leases or Mortgages, or after the foreclosure of any such Mortgages, so long as no Event of Default shall have occurred and be continuing. Prior to the Effective Date, Lessor shall provide to Lessee a commercially reasonable form of non-disturbance agreement from any Lender holding a Mortgage on the Property as of the Effective Date.

**Section 13.02. Attornment** . In the event any purchaser or assignee of any Lender at a foreclosure sale acquires title to the Property, or in the event that any Lender or any purchaser or assignee otherwise succeeds to the rights of Lessor as lessor under this Lease, Lessee shall attorn to Lender or such purchaser or assignee, as the case may be (a “ Successor Lessor ”), and recognize the Successor Lessor as lessor under this Lease, and, subject to the provisions of this Article XIII, this Lease shall continue in full force and effect as a direct lease between the Successor Lessor and Lessee. The foregoing provision shall be self-operative and effective without the execution of any further instruments.

**Section 13.03. Execution of Additional Documents** . Although the provisions in this Article XIII shall be self-operative and no future instrument of subordination shall be required, upon request by Lessor, Lessee shall execute and deliver such additional reasonable instruments as may be reasonably required for such purposes.

## ARTICLE XIV

### ASSIGNMENT

**Section 14.01. Assignment by Lessor** . As a material inducement to Lessor’s willingness to enter into the transactions contemplated by this Lease (the “ Transaction ”) and the other Transaction Documents, Lessee hereby agrees that Lessor may, from time to time and at any time and without the consent of Lessee, engage in all or any combination of the following, or enter into agreements in connection with any of the following or in accordance with requirements that may be imposed by applicable securities, tax or other Laws: the sale, assignment, grant, conveyance, transfer, financing, re-financing, purchase or re-acquisition of all, less than all or any portion of the Property, this Lease or any other Transaction Document, Lessor’s right, title and interest in this Lease or any other Transaction Document, the servicing rights with respect to any of the foregoing, or participations in any of the foregoing. In the event of any such sale or assignment other than a security assignment, Lessee shall attorn to such purchaser or assignee (so long as Lessor and such purchaser or assignee notify Lessee in writing of such transfer and such purchaser or assignee expressly assumes in writing the obligations of Lessor hereunder from and after the date of such assignment). At the request of Lessor, Lessee will execute such documents confirming the sale, assignment or other transfer and such other agreements as Lessor may reasonably request, provided that the same do not increase the liabilities and obligations of Lessee hereunder. Lessor shall be relieved, from and after the date of such transfer or conveyance, of liability for the performance of any obligation of Lessor contained herein, except for obligations or liabilities accrued prior to such assignment or sale.

**Section 14.02. Assignment by Lessee** .

(a) Lessee shall not assign, sublet, transfer, convey, pledge or mortgage this Lease or any interest herein or any interest in Lessee, without the prior written consent of Lessor, which consent shall not be unreasonably withheld. At the time of any assignment of this Lease which

is approved by Lessor, the assignee shall assume all of the obligations of Lessee under this Lease pursuant to a written assumption agreement in form and substance reasonably acceptable to Lessor. Such assignment of this Lease pursuant to this Section 14.02 shall not relieve Lessee of its obligations respecting this Lease unless otherwise agreed to by Lessor. Any assignment, transfer, conveyance, pledge or mortgage in violation of this Section 14.02 shall be voidable at the sole option of Lessor. Any consent to an assignment given by Lessor hereunder shall not be deemed consent to any subsequent assignment. Any assignment or transfer of this Lease by transfer of a majority interest of stock in one transaction or a series of related transactions, asset sale, merger, consolidation, liquidation or dissolution, or any changes in the ownership of, or power to vote in excess of fifty percent (50%) of its outstanding stock in one transaction or a series of related transactions, shall constitute an assignment for purposes of this Section.

(b) For purposes of this Section 14.02, in addition to any other reasonable grounds for refusal, Lessor's consent to any assignment or sublease shall be deemed reasonably withheld if, in Lessor's good faith judgment, any one or more of the following apply: (i) the proposed transferee is not in a financial condition to comply with its financial obligations under the assignment or sublease; (ii) either the proposed transferee, or any affiliate of the proposed transferee, occupies or is negotiating with Lessor to lease the Property or any other building owned by Lessor and its related parties; (iii) the use of the Premises by the proposed transferee would, in Lessor's reasonable judgment, not comply with the terms of the Lease; (iv) if the space subject to the assignment or sublease is only a portion of the Property and the physical division of such portion is, or would render the Property, irregular in shape and configuration or without appropriate ingress or egress and facilities suitable for normal leasing purposes, or is otherwise not readily divisible from the Property; (v) the proposed transferee is a government, governmental entity (or an agency or instrumentality thereof); or (vi) an uncured Event of Default exists under the Lease at the time Lessee requests Lessor's consent to the proposed transfer.

(c) Notwithstanding anything to the contrary contained in this Section 14.02 and provided that no Event of Default has occurred and is continuing at the time of the proposed assignment or other transfer, and provided further that any assignee agrees to assume all of Lessee's obligations under this Lease, Lessee shall have the right to assign or otherwise transfer all, but not less than all, of its interest in, to and under this Lease without Lessor's consent to an Affiliate of Lessee.

## ARTICLE XV

### NOTICES

**Section 15.01. Notices .** All notices, demands, designations, certificates, requests, offers, consents, approvals, appointments and other instruments given pursuant to this Lease shall be in writing and given by any one of the following: (a) hand delivery; (b) express overnight delivery service; or (c) certified or registered mail, return receipt requested, and shall be deemed to have been delivered upon (i) receipt, if hand delivered; (ii) the next Business Day, if delivered by a reputable express overnight delivery service; or (iii) the third Business Day following the day of deposit of such notice with the United States Postal Service, if sent by certified or registered mail, return receipt requested. Notices shall be provided to the parties and addresses (or electronic mail addresses) specified below:

If to Lessee: Cardiovascular Systems, Inc.  
1225 Old Highway 8 NW  
New Brighton, MN 55112  
Attn: Corporate Controller

With copies to: Cardiovascular Systems, Inc.  
1225 Old Highway 8 NW  
New Brighton, MN 55112  
Attn: General Counsel

Fredrikson & Byron, P.A.  
200 South Sixth Street, Suite 4000  
Minneapolis, MN 55402  
Attn: Christopher J. Dolan, Esq.

If to Lessor: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attention: \_\_\_\_\_

With a copy to: Hinshaw & Culbertson LLP  
333 South Seventh Street, Suite 2000  
Minneapolis, MN 55042  
Attn: Michael T. Hatting, Esq.

or to such other address or such other person as either party may from time to time hereafter specify to the other party in a notice delivered in the manner provided above.

## ARTICLE XVI

### EXPANSION

**Section 16.01 Expansion** . Lessee has the right (the “ Expansion Right ”) to acquire from the City of New Brighton, Minnesota certain real estate parcels adjacent to the Property (the “ Option Property ”) pursuant to that certain Contract for Private Redevelopment dated June 10, 2014 (the “ Redevelopment Contract ”). In the event Lessee desires to exercise the Expansion Right, Lessor shall cooperate with Lessee to exercise such rights under the Redevelopment Contract to purchase the Option Property and to construct building improvements on the Option Property, which improvements may adjoin, or connect to, the building improvements, located upon the Property. In the event the Lessee exercises its Expansion Right and acquires the Option Property during the Lease term hereof, Lessee shall not convey its fee interest in the Option Property, or any portion thereof, to any third party without providing Lessor with the following right of first refusal to purchase the Option Property (the “ Option Property Right of First Refusal ”). If Lessee receives an offer by a third party to purchase the Option Property, or any portion thereof, which Lessee desires to accept, Lessee shall deliver a copy of said offer to Lessor (the “ Option Property Right of First Refusal Notice ”) Lessee’s notice to Lessor shall state: (i) Lessee’s desire and intention to sell all or any part of the Option Property; and (ii) full details of the offer received by it, and a description of the purchase price as well as the overall transaction. Lessor shall have twenty (20) days from and after receiving the Option Property Right of First Refusal Notice to elect to purchase the Option Property, or such portion as may be the subject of the offer, upon the terms and conditions set forth in the Option Property Right of First Refusal Notice, including all

rights, privileges and timetables contained in the offer and any amendments related thereto which had been accepted by Lessee. If Lessor elects to purchase the Option Property, or such portion as may be the subject of the offer, the closing shall occur as set forth in the Option Property Right of First Refusal Notice or at such date as may be mutually agreed upon by and between the parties. If Lessor fails to give Lessee written notice within the twenty (20) day period of its intent to purchase the Option Property, or such portion as may be the subject of the offer, then the Option Property Right of First Refusal shall terminate; provided, however, that if such closing as described in the Option Property Right of First Refusal Notice does not occur, then the Option Property Right of First Refusal shall remain in effect.

## ARTICLE XVII

### RIGHT OF FIRST REFUSAL

**Section 17.01 Right of First Refusal** . During the Lease Term hereof, Lessor shall not convey its fee interest in the Property, or any portion thereof, to any third party without providing Lessee with the following right of first refusal to purchase the Property (the “Right of First Refusal”). If Lessor receives an offer by a third party to purchase the Property, or any portion thereof, which Lessor desires to accept, Lessor shall deliver a copy of said offer to Lessee (the “Right of First Refusal Notice”). Lessor’s notice to Lessee shall state: (i) Lessor’s desire and intention to sell all or any part of the Property; and (ii) full details of the offer received by it, and a description of the purchase price as well as the overall transaction. Lessee shall have twenty (20) days from and after receiving the Right of First Refusal Notice to elect to purchase the Property, or such portion as may be the subject of the offer, upon the terms and conditions set forth in the Right of First Refusal Notice, including all rights, privileges and timetables contained in the offer and any amendments related thereto which had been accepted by Lessor. If Lessee elects to purchase the Property, or such portion as may be the subject of the offer, the closing shall occur as set forth in the Right of First Refusal Notice or at such date as may be mutually agreed upon by and between the parties. If Lessee fails to give Lessor written notice within the twenty (20) day period of its intent to purchase the Property, or such portion as may be the subject of the offer, then the Right of First Refusal shall terminate; provided, however, that if such closing as described in the Right of First Refusal Notice does not occur, then the Right of First Refusal shall remain in effect.

## ARTICLE XVIII

### MISCELLANEOUS

**Section 18.01. Force Majeure** . Any prevention, delay or stoppage due to strikes, lockouts, acts of God, enemy or hostile governmental action, civil commotion, fire or other casualty beyond the control of the party obligated to perform shall excuse the performance by such party for a period equal to any such prevention, delay or stoppage, expressly excluding, however, the obligations imposed upon Lessee with respect to Rental and other Monetary Obligations to be paid hereunder.

**Section 18.02. No Merger** . There shall be no merger of this Lease nor of the leasehold estate created by this Lease with the fee estate in or ownership of any of the Property by reason of the fact that the same person, corporation, firm or other entity may acquire or hold or own, directly or indirectly, (a) this Lease or the leasehold estate created by this Lease or any interest in this Lease or in such leasehold estate, and (b) the fee estate or ownership of the Property or any interest in such fee estate or ownership. No such merger shall occur unless and until all persons, corporations, firms and other entities having any interest in (i) this Lease or the leasehold estate created by this Lease, and (ii) the fee estate in or ownership of the Property or any part thereof sought to be merged shall join in a written instrument effecting such merger and shall duly record the same.

**Section 18.03. Interpretation** . Lessor and Lessee acknowledge and warrant to each other that each has been represented by independent counsel and has executed this Lease after being fully advised by said counsel as to its effect and significance. This Lease shall be interpreted and construed in a fair and impartial manner without regard to such factors as the party which prepared the instrument, the relative bargaining powers of the parties or the domicile of any party. Whenever in this Lease any words of obligation or duty are used, such words or expressions shall have the same force and effect as though made in the form of a covenant.

**Section 18.04. Characterization**. The following expressions of intent, representations, warranties, covenants, agreements, stipulations and waivers are a material inducement to Lessor entering into this Lease:

(a) Lessor and Lessee intend that (i) this Lease is a "true lease," is not a financing lease, capital lease, mortgage, equitable mortgage, deed of trust, trust agreement, security agreement or other financing or trust arrangement, and the economic realities of this Lease are those of a true lease; and (ii) the business relationship created by this Lease and any related documents is solely that of a long-term commercial lease between Lessor and Lessee, the Lease has been entered into by both parties in reliance upon the economic and legal bargains contained herein, and none of the agreements contained herein is intended, nor shall the same be deemed or construed, to create a partnership ( *de facto* or *de jure* ) between Lessor and Lessee, to make them joint venturers, to make Lessee an agent, legal representative, partner, subsidiary or employee of Lessor, nor to make Lessor in any way responsible for the debts, obligations or losses of Lessee.

**Section 18.05. Disclosures** . The parties agree that, notwithstanding any provision contained in this Lease, any party (and each employee, representative or other agent of any party) may disclose to any and all persons, without limitation of any kind, any matter required under applicable Law, including,

without limitation, under the Securities Act, the Exchange Act, the rules and regulations of the Securities and Exchange Commission promulgated thereunder, and stock exchange requirements, including the filing of this Agreement in its entirety with such public disclosures, and any subsequent disclosures in other public filings and announcements consistent with any such prior disclosures (including in earnings press releases).

**Section 18.06. Building Reports** . Lessee agrees to provide Lessor with a report prepared by a licensed building inspector or engineer as to the condition of the structural or exterior components of the Property, including without limitation the roof, heating, ventilation and air-conditioning systems, plumbing and electrical elements, on or before the expiration of the fifth (5<sup>th</sup>) year of the Lease Term and every three (3) years thereafter during the Lease Term.

**Section 18.07. Attorneys' Fees** . In the event of any judicial or other adversarial proceeding concerning this Lease, to the extent permitted by Law, the prevailing party shall be entitled to recover all of its reasonable attorneys' fees and other Costs in addition to any other relief to which it may be entitled. In addition, the prevailing party shall, upon demand, be entitled to all attorneys' fees and all other Costs incurred in the preparation and service of any notice or demand hereunder, whether or not a legal action is subsequently commenced.

**Section 18.08. Memoranda of Lease** . Concurrently with the execution of this Lease, Lessor and Lessee are executing Lessor's standard form memorandum of lease in recordable form, indicating the names and addresses of Lessor and Lessee, a description of the Property, the Lease Term, but omitting Rentals and such other terms of this Lease as Lessor may not desire to disclose to the public.

**Section 18.09. No Brokerage** . Lessor and Lessee represent and warrant to each other that they have had no conversation or negotiations with any broker concerning the leasing of the Property. Each of Lessor and Lessee agrees to protect, indemnify, save and keep harmless the other, against and from all liabilities, claims, losses, Costs, damages and expenses, including attorneys' fees, arising out of, resulting from or in connection with their breach of the foregoing warranty and representation.

**Section 18.10. Time is of the Essence; Computation** . Time is of the essence with respect to each and every provision of this Lease. If any deadline provided herein falls on a non-Business Day, such deadline shall be extended to the next day that is a Business Day.

**Section 18.11. Waiver and Amendment** . No provision of this Lease shall be deemed waived or amended except by a written instrument unambiguously setting forth the matter waived or amended and signed by the party against which enforcement of such waiver or amendment is sought. Waiver of any matter shall not be deemed a waiver of the same or any other matter on any future occasion. No acceptance by Lessor of an amount less than the Rental and other Monetary Obligations stipulated to be due under this Lease shall be deemed to be other than a payment on account of the earliest such Rental or other Monetary Obligations then due or in arrears nor shall any endorsement or statement on any check or letter accompanying any such payment be deemed a waiver of Lessor's right to collect any unpaid amounts or an accord and satisfaction.

**Section 18.12. Successors Bound** . Except as otherwise specifically provided herein, the terms, covenants and conditions contained in this Lease shall bind and inure to the benefit of the respective heirs, successors, executors, administrators and assigns of each of the parties hereto.

**Section 18.13. Captions** . Captions are used throughout this Lease for convenience of reference only and shall not be considered in any manner in the construction or interpretation hereof.

**Section 18.14. Other Documents** . Each of the parties agrees to sign such other and further documents as may be necessary or appropriate to carry out the intentions expressed in this Lease.

**Section 18.15. Entire Agreement** . This Lease and any other instruments or agreements referred to herein, constitute the entire agreement between the parties with respect to the subject matter hereof, and there are no other representations, warranties or agreements except as herein provided.

**Section 18.16. Forum Selection; Jurisdiction; Venue; Choice of Law** . For purposes of any action or proceeding arising out of this Lease, the parties hereto expressly submit to the jurisdiction of all federal and state courts located in the state of Minnesota. This Lease shall be governed by, and construed with, the Laws of the applicable state of Minnesota, without giving effect to any state's conflict of Laws principles.

**Section 18.17. Counterparts** . This Lease may be executed in one or more counterparts, each of which shall be deemed an original. Furthermore, the undersigned agree that transmission of this Lease via e-mail in a ".pdf" or other electronic format shall be deemed transmission of the original Lease for all purposes.

*[Remainder of page intentionally left blank; signature page(s) to follow]*

**IN WITNESS WHEREOF** , Lessor and Lessee have entered into this Lease as of the date first above written.

**LESSOR:**

\_\_\_\_\_

a \_\_\_\_\_

By: \_\_

Printed Name: \_\_

Title: \_\_

**IN WITNESS WHEREOF** , Lessor and Lessee have entered into this Lease as of the date first above written.

**LESSEE:**

CARDIOVASCULAR SYSTEMS, INC.,  
a Delaware corporation

By: \_\_

Printed Name: \_\_

Title: \_\_

**EXHIBIT A**  
**DEFINED TERMS**

The following terms shall have the following meanings for all purposes of this Lease:

“ *Additional Rental* ” has the meaning set forth in Section 4.04.

“ *Adjustment Date* ” has the meaning set forth in Section 1.06.

“ *Affiliate* ” means any Person which directly or indirectly controls, is under common control with or is controlled by any other Person. For purposes of this definition, “controls,” “under common control with,” and “controlled by” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or otherwise.

“ *Base Annual Rental* ” has the meaning set forth in Section 1.04.

“ *Base Monthly Rental* ” means an amount equal to 1/12 of the applicable Base Annual Rental.

“ *Business Day* ” means a day on which banks located in Minneapolis, Minnesota are not required or authorized to remain closed.

“ *Casualty* ” means any loss of or damage to any property included within or related to the Property or arising from an adjoining property caused by an Act of God, fire, flood or other catastrophe.

“ *Code* ” means the Internal Revenue Code of 1986, as the same may be amended from time to time.

“ *Condemnation* ” means a Taking and/or a Requisition.

“ *Costs* ” means all reasonable costs and expenses incurred by a Person, including, without limitation, reasonable attorneys’ fees and expenses, court costs, expert witness fees, costs of tests and analyses, travel and accommodation expenses, deposition and trial transcripts, copies and other similar costs and fees, brokerage fees, escrow fees, title insurance premiums, appraisal fees, stamp taxes, recording fees and transfer taxes or fees, as the circumstances require.

“ *Default Rate* ” means 12% per annum or the highest rate permitted by Law, whichever is less.

“ *Effective Date* ” has the meaning set forth in the introductory paragraph of this Lease.

“ *Environmental Laws* ” means federal, state and local Laws, ordinances, common law requirements and regulations and standards, rules, policies and other governmental requirements, administrative rulings and court judgments and decrees having the effect of Law in effect now or in the future and including all amendments, that relate to Hazardous Materials, Regulated

Substances, USTs, and/or the protection of human health or the environment, or relating to liability for or Costs of Remediation or prevention of Releases, and apply to Lessee and/or the Property.

“ *Event of Default* ” has the meaning set forth in Section 12.01.

“ *Exchange Act* ” means the Securities Exchange Act of 1934, as amended.

“ *Extension Option* ” has the meaning set forth in Section 3.02.

“ *Extension Term* ” has the meaning set forth in Section 3.02.

“ *Governmental Authority* ” means any governmental authority, agency, department, commission, bureau, board, instrumentality, court or quasi-governmental authority of the United States, any state or any political subdivision thereof with authority to adopt, modify, amend, interpret, give effect to or enforce any federal, state and local Laws, statutes, ordinances, rules or regulations, including common law, or to issue court orders.

“ *Hazardous Materials* ” includes: (a) oil, petroleum products, flammable substances, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other materials, contaminants or pollutants, the presence of which causes the Property to be in violation of any local, state or federal Law or regulation, or Environmental Law, or are defined as or included in the definition of “hazardous substances,” “hazardous wastes,” “hazardous materials,” “toxic substances,” “contaminants,” “pollutants,” or words of similar import under any applicable local, state or federal Law or under the regulations adopted, orders issued, or publications promulgated pursuant thereto, including, but not limited to: (i) the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. § 9601, et seq.; (ii) the Hazardous Materials Transportation Act, as amended, 49 U.S.C. § 5101, et seq.; and (iii) the Resource Conservation and Recovery Act, as amended, 42 U.S.C. § 6901, et seq.

“ *Indemnified Parties* ” means Lessor and its members, managers, officers, directors, shareholders, partners, employees, agents, servants, representatives, contractors, subcontractors, affiliates, subsidiaries, participants, successors and assigns, including, but not limited to, any successors by merger, consolidation or acquisition of all or a substantial portion of the assets and business of Lessor.

“ *Initial Term* ” has the meaning set forth in Section 3.01.

“ *Insolvency Event* ” means (a) a Person’s (i) failure to generally pay its debts as such debts become due; (ii) admitting in writing its inability to pay its debts generally; or (iii) making a general assignment for the benefit of creditors; (b) any proceeding being instituted by or against any Person (i) seeking to adjudicate it bankrupt or insolvent; (ii) seeking liquidation, dissolution, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any Law relating to bankruptcy, insolvency, or reorganization or relief of debtors; or (iii) seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property, and in the case of any such proceeding instituted against any Person, either such proceeding shall remain undismissed for a period of one hundred twenty (120) days or any of the actions sought in such proceeding shall occur; or (c) any Person taking any corporate action to authorize any of the actions set forth above in this definition.

“ *Law(s)* ” means any constitution, statute, rule of law, code, ordinance, order, judgment, decree, injunction, rule, regulation, policy, requirement or administrative or judicial determination, even if unforeseen or extraordinary, of every duly constituted Governmental Authority, court or agency, now or hereafter enacted or in effect.

“ *Lease Term* ” has the meaning described in Section 3.01.

“ *Legal Requirements* ” means the requirements of all present and future Laws (including, without limitation, Environmental Laws and Laws relating to accessibility to, usability by, and discrimination against, disabled individuals), all judicial and administrative interpretations thereof, including any judicial order, consent, decree or judgment, and all covenants, restrictions and conditions now or hereafter of record which may be applicable to Lessee or to any of the Property, or to the use, manner of use, occupancy, possession, operation, maintenance, alteration, repair or restoration of any of the Property, even if compliance therewith necessitates structural changes or improvements or results in interference with the use or enjoyment of any of the Property.

“ *Lender* ” means any lender in connection with any loan secured by Lessor’s interest in any or all of the Property, and any servicer of any loan secured by Lessor’s interest in any or all of the Property.

“ *Lessee Entity* ” or “ *Lessee Entities* ” means individually or collectively, as the context may require, Lessee and all Affiliates thereof.

“ *Losses* ” means any and all claims, suits, liabilities (including, without limitation, strict liabilities), actions, proceedings, obligations, debts, damages, losses, Costs, fines, penalties, interest, charges, fees, judgments, awards, amounts paid in settlement and damages of whatever kind or nature, inclusive of bodily injury and property damage to third parties (including, without limitation, attorneys’ fees and other Costs of defense), excluding, however, any punitive, consequential, special, indirect, and incidental damages and diminutions in value.

“ *Material Adverse Effect* ” means a material adverse effect on (a) the Property, including without limitation, the operation of the Property as a Permitted Facility and/or the value of the Property; (b) the contemplated business, condition, worth or operations of any Lessee Entity; or (c) Lessee’s ability to perform its obligations under this Lease.

“ *Monetary Obligations* ” means all Rental and all other sums payable or reimbursable by Lessee under this Lease to Lessor, to any third party on behalf of Lessor, or to any Indemnified Party.

“ *Mortgages* ” means, collectively, the mortgages, deeds of trust or deeds to secure debt, assignments of rents and leases, security agreements and fixture filings executed by Lessor for the benefit of Lender with respect to the Property, as such instruments may be amended, modified, restated or supplemented from time to time and any and all replacements or substitutions.

“ *Net Award* ” means (a) the entire award payable with respect to the Property by reason of a Condemnation whether pursuant to a judgment or by agreement or otherwise; or (b) the entire proceeds of any insurance required under Section 6.03 payable with respect to the Property, as

the case may be, and in either case, less any Costs incurred by Lessor in collecting such award or proceeds.

“ *Partial Condemnation* ” has the meaning set forth in Section 11.03.

“ *Permitted Amounts* ” shall mean, with respect to any given level of Hazardous Materials or Regulated Substances, that level or quantity of Hazardous Materials or Regulated Substances in any form or combination of forms which does not constitute a violation of any Environmental Laws and is customarily employed in, or associated with, similar businesses located in the state or states where the Property is located.

“ *Permitted Facility* ” means an office, warehouse and manufacturing facility and all related purposes such as ingress, egress and parking, and uses incidental thereto.

“ *Person* ” means any individual, partnership, corporation, limited liability company, trust, unincorporated organization, Governmental Authority or any other form of entity.

“ *Property* ” means those parcels of real estate legally described on Exhibit B attached hereto, all rights, privileges, and appurtenances associated therewith, and all buildings, fixtures and other improvements now or hereafter located on such real estate (whether or not affixed to such real estate).

“ *Regulated Substances* ” means “petroleum” and “petroleum-based substances” or any similar terms described or defined in any of the Environmental Laws and any applicable federal, state, county or local Laws applicable to or regulating USTs.

“ *Release* ” means any presence, release, deposit, discharge, emission, leaking, spilling, seeping, migrating, injecting, pumping, pouring, emptying, escaping, dumping, disposing or other movement of Hazardous Materials, Regulated Substances or USTs or any Threatened Release.

“ *Remediation* ” means any response, remedial, removal, or corrective action, any activity to cleanup, detoxify, decontaminate, contain or otherwise remediate any Hazardous Materials, Regulated Substances or USTs, any actions to prevent, cure or mitigate any Release, any action to comply with any Environmental Laws or with any permits issued pursuant thereto, any inspection, investigation, study, monitoring, assessment, audit, sampling and testing, laboratory or other analysis, or any evaluation relating to any Hazardous Materials, Regulated Substances or USTs.

“ *Rental* ” means, collectively, the Base Annual Rental and the Additional Rental.

“ *Requisition* ” means any temporary requisition or confiscation of the use or occupancy of the Property by any Governmental Authority, civil or military, whether pursuant to an agreement with such Governmental Authority in settlement of or under threat of any such requisition or confiscation, or otherwise.

“ *Securities Act* ” means of the Securities Act of 1933, as amended.

“ *Successor Lessor* ” has the meaning set forth in Section 13.02.

“ *Taking* ” means (a) any taking or damaging of all or a portion of the Property (i) in or by condemnation or other eminent domain proceedings pursuant to any Law, general or special; (ii) by reason of any agreement with any condemnor in settlement of or under threat of any such condemnation or other eminent domain proceeding; or (iii) by any other means; or (b) any de facto condemnation. The Taking shall be considered to have taken place as of the later of the date actual physical possession is taken by the condemnor, or the date on which the right to compensation and damages accrues under the Law applicable to the Property.

“ *Temporary Taking* ” has the meaning set forth in Section 11.04.

“ *Threatened Release* ” means a substantial likelihood of a Release which requires action to prevent or mitigate damage to the soil, surface waters, groundwaters, land, stream sediments, surface or subsurface strata, ambient air or any other environmental medium comprising or surrounding the Property which may result from such Release.

“ *Total Condemnation* ” has the meaning set forth in Section 11.02.

“ *Transaction* ” has the meaning set forth in Section 14.01.

“ *Transaction Documents* ” means this Lease Agreement and all documents related thereto.

“ *USTs* ” means any one or combination of tanks and associated product piping systems used in connection with storage, dispensing and general use of Regulated Substances.

**EXHIBIT B**

**PROPERTY**

**LOT 1, BLOCK 1, NEW BRIGHTON EXCHANGE 2<sup>ND</sup> ADDITION**

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## EXHIBIT D

### List of Seller Documents:

any occupancy agreements, including parking agreements; all service contracts, maintenance agreements and energy contracts; if available, Seller's most recent title insurance policy for the Property; all environmental assessment reports, soil, groundwater or vapor tests, wetland surveys, and other engineering reports and materials pertaining to the physical condition of the Property in the possession of Seller, including any roof inspection reports; any existing survey drawings depicting the Property, if available; all development approvals and permits and existing audits or reports relating to the compliance with applicable governmental laws, ordinances and regulations with respect to the Property, if any (and with respect to any development approvals or permits that have been applied for but not yet issued, a copy of the application materials and all correspondence relating thereto), including without limitation, any development orders, site plan approvals, permits for installation of water and sewer facilities, and also including any conditions, restrictions, obligations, covenants, declarations or agreements that may exist or may have been submitted, received by, entered into or accepted by Seller pertaining to the development of the Property; if available, all permits, reports, surveys, and other documents that evidence the location, capacity, and/or availability of utilities to the Property; any notices of real estate tax assessments and information and documentation regarding any tax or assessment protests; "as-built" floor plans of the Property, if available; plans and specifications for the improvements on the Property; copies of all publically available organizational documents of Seller, including, without limitation, copies of Seller's Articles of Incorporation filed with the Delaware Secretary of State and any amendments or modifications thereto.

**FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT**

**THIS FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT** (the “**Amendment**”) is made and entered into as of February 2, 2017, by and between Cardiovascular Systems, Inc., a Delaware corporation (“**Seller**”), and Krishna Holdings, LLC, a Minnesota limited liability company and its assigns (“**Purchaser**”).

**RECITALS:**

- A. Purchaser and Seller are parties to that certain Purchase and Sale Agreement dated as of December 29, 2016 (the “**Purchase Agreement**”).
- B. Purchaser and Seller desire to amend the Purchase Agreement as provided herein.

**AGREEMENTS:**

**NOW, THEREFORE**, in consideration of the foregoing Recitals, which, by this reference thereto, are hereby incorporated into the body of this Amendment, and for other good, fair and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. **Defined Terms.** Capitalized terms utilized in this Amendment and not separately defined herein shall have the meanings ascribed to them in the Purchase Agreement.
  2. **Purchase Price.** The definition of “**Purchase Price**” in Section 1.02 of the Purchase Agreement is hereby amended by deleting the amount of “22,000,000.00” and replacing it with “\$21,500,000.00”, thus reducing the Purchase Price to such lesser amount.
  3. **Inspection Period.** The definition of “**Inspection Period**” in the first sentence of Section 2.03 of the Purchase Agreement is hereby amended by deleting the terms “From the date that Seller delivers the last of the Seller Documents to Purchaser, and for a period of forty-five (45) days thereafter” and replacing them with the terms “Until February 15, 2017”, thus establishing February 15, 2017 as the expiration date of the Inspection Period.
  4. **Closing Date.** The definition of “**Closing Date**” in Section 3.01 of the Purchase Agreement is hereby amended by deleting the terms “thirty (30) days after the expiration of the Inspection Period” from the end of the first sentence and replacing them with “March 10, 2017,” thus establishing the deadline for the Closing Date to be March 10, 2017, subject to the following provisions, which are hereby added to the end of Section 3.01 of the Purchase Agreement: “The Closing Date shall be extended in the event that (i) Purchaser’s lender has not received and approved the appraisal of the Property by the Closing Date and (ii) Purchaser delivers written notice of extension to Seller no later than the Closing Date (the “**Extension Notice**”). The Extension Notice shall set forth the period of extension, which extension period shall be for as long as reasonably necessary for Lender to review and approve the appraisal and finalize its mortgage loan documents for Closing, but in no event shall such extension of the Closing Date continue for more than an additional thirty (30) days, absent agreement in writing between Seller and Purchaser.”
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5. **Credit.** Provided that Purchaser and Seller each fulfill their obligations under the Purchase Agreement, at Closing Purchaser shall receive a \$100,000 credit against the Purchase Price which shall be held back from Seller's proceeds to compensate the parties' dual agent, Colliers International, for additional commission. Such commission shall be in addition to the commission set forth in Section 7.06 of the Purchase Agreement to be paid to Colliers International as Seller's agent. Notwithstanding the foregoing, Purchaser and Seller hereby reaffirm their representations, warranties and indemnification obligations set forth in Section 7.06 of the Purchase Agreement with respect to brokerage commissions.

6. **Miscellaneous.** Except as expressly set forth in this Amendment, the Purchase Agreement remains unmodified and in full force and effect. The provisions of this Amendment inure to the benefit of Purchaser and Seller and shall be binding on their successors and assigns.

7. **Counterparts.** This Amendment may be executed in counterparts which taken together shall be considered one and the same instrument. Such counterparts may be evidenced by facsimile or electronic (PDF) signature pages.

**IN WITNESS WHEREOF** , Seller and Purchaser have executed this Amendment as of the date first above written.

**SELLER :**

Cardiovascular Systems, Inc.

By:  /s/ Jeffrey S. Points

Name:  /s/ Jeffrey S. Points

Title:  Corporate Controller & Treasurer

**PURCHASER :**

Krishna Holdings, LLC

By:  /s/ Ashish Aggarwal

Name:  Ashish Aggarwal

Title:  Chief Manager

**Amendment to Purchasing Agreement  
Agreement No. 4037  
Vendor: Cardiovascular Systems Inc  
Agreement Date: August 1, 2014  
Amendment Date: August 1, 2017**

Effective as of the Amendment Date above, **HealthTrust Purchasing Group, L.P.**, a Delaware Limited Partnership having its principal place of business at 155 Franklin Road, Suite 400, Brentwood, Tennessee 37027 (hereinafter referred to as "HPG"), and **Cardiovascular Systems Inc** (hereinafter referred to as "Vendor"), having its principal place of business at 651 Campus Dr, St. Paul, MN 55112-3495 hereby agree to amend their Purchasing Agreement dated August 1, 2014 for Atherectomy - Mechanical (the "Agreement"), as follows:

1. Definitions. The capitalized terms in this Amendment shall have the meaning designated in the Agreement unless otherwise expressly provided herein.
2. Term. The term of the Agreement shall be extended, with the Expiration Date listed in Exhibit B being amended to be November 30, 2017.
3. Except as expressly amended by this Amendment, the terms and conditions of the Agreement shall remain in full force and effect.

*Signatures Follow on Next Page*

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**IN WITNESS WHEREOF** , the parties hereby indicate their agreement to the terms of this Amendment by the signatures of their authorized representatives.

**HealthTrust Purchasing Group, L.P.,**  
a Delaware limited partnership, by  
HPG Enterprises, LLC, a Delaware  
limited liability company, its general partner

HealthTrust Signee: /s/ Anne Preston

HealthTrust Signee Name: <sup>Anne Preston</sup>

HealthTrust Signee Title: AVP

HealthTrust Signature Date: <sup>9/29/2016</sup>

**VENDOR: Cardiovascular Systems Inc**

Vendor Signee: /s/ Jim Blooston

Vendor Signee Name: <sup>Jim Blooston</sup>

Vendor Signee Title: Director - Strategic Accounts

Vendor Signature Date: <sup>9/27/2016</sup>

## CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Scott R. Ward, certify that:

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

Dated: February 3, 2017

By: /s/ Scott R. Ward

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Scott R. Ward

Chairman, President and Chief Executive Officer

## CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Laurence L. Betterley, certify that:

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

Dated: February 3, 2017

By: /s/ Laurence L. Betterley

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Laurence L. Betterley

Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of the Quarterly Report on Form 10-Q for the quarter ended December 31, 2016 (the "Report") by Cardiovascular Systems, Inc. ("Registrant"), I, Scott R. Ward, the Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: February 3, 2017

By: /s/ Scott R. Ward

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Scott R. Ward

Chairman, President and Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of the Quarterly Report on Form 10-Q for the quarter ended December 31, 2016 (the "Report") by Cardiovascular Systems, Inc. ("Registrant"), I, Laurence L. Betterley, the Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: February 3, 2017

By: /s/ Laurence L. Betterley

Laurence L. Betterley

Chief Financial Officer