UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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

For the transition period from to

Commission File Number 000-21326

Anika Therapeutics, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**04-3145961**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
32 Wiggins Avenue, Bedford, Massachusetts	**01730**
(Address of Principal Executive Offices)	(Zip Code)

(781) 457-9000

(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐	Emerging growth company ☐

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of July 25, 2018, there were 14,583,597 outstanding shares of Common Stock, par value $.01 per share.

ANIKA THERAPEUTICS, INC.
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References in this Quarterly Report on Form 10-Q to "we," "us," "our," "our company," and other similar references refer to Anika Therapeutics, Inc. and its subsidiaries unless the context otherwise indicates.

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Anika Therapeutics, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands, except share data and per share data)
(unaudited)

ASSETS	June 30, 2018	December 31, 2017
Current assets:		
Cash and cash equivalents	$ 126,047	$ 133,256
Investments	13,250	24,000
Accounts receivable, net of reserves of $1,862 and $1,914 at June 30, 2018 and December 31, 2017, respectively	23,389	23,825
Inventories, net	24,060	22,035
Prepaid expenses and other current assets	4,244	3,211
Total current assets	190,990	206,327
Property and equipment, net	55,377	56,183
Other long-term assets	1,157	1,254
Intangible assets, net	9,876	10,635
Goodwill	8,013	8,218
Total assets	$ 265,413	$ 282,617
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,073	$ 6,747
Accrued expenses and other current liabilities	7,459	6,326
Total current liabilities	12,532	13,073
Other long-term liabilities	882	660
Deferred tax liability	5,396	5,393
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, $.01 par value; 1,250 shares authorized, no shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	-	-
Common stock, $.01 par value; 90,000 and 60,000 shares authorized, 14,584 and 14,688 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	146	147
Additional paid-in-capital	48,656	68,617
Accumulated other comprehensive loss	(5,115)	(4,784)
Retained earnings	202,916	199,511
Total stockholders' equity	246,603	263,491
Total liabilities and stockholders' equity	$ 265,413	$ 282,617

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

Anika Therapeutics, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Income
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Product revenue	$ 30,542	$ 28,340	$ 51,800	$ 51,721
Licensing, milestone and contract revenue	6	5,122	12	5,127
Total revenue	30,548	33,462	51,812	56,848
Operating expenses:				
Cost of product revenue	8,152	6,315	15,996	12,398
Research & development	4,733	4,449	9,895	8,679
Selling, general & administrative	6,417	4,972	22,507	10,039
Total operating expenses	19,302	15,736	48,398	31,116
Income from operations	11,246	17,726	3,414	25,732
Interest and other income, net	290	16	385	74
Income before income taxes	11,536	17,742	3,799	25,806
Provision for income taxes	1,444	6,373	394	8,944
Net income	$ 10,092	$ 11,369	$ 3,405	$ 16,862
Basic net income per share:				
Net income	$ 0.69	$ 0.78	$ 0.23	$ 1.16
Basic weighted average common shares outstanding	14,652	14,588	14,666	14,582
Diluted net income per share:				
Net income	$ 0.68	$ 0.76	$ 0.23	$ 1.12
Diluted weighted average common shares outstanding	14,915	15,044	15,045	15,046
Net income	$ 10,092	$ 11,369	$ 3,405	$ 16,862
Foreign currency translation adjustment	(951)	1,289	(331)	1,581
Comprehensive income	$ 9,141	$ 12,658	$ 3,074	$ 18,443

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

Anika Therapeutics, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$ 3,405	$ 16,862
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,920	2,022
Loss on disposal of fixed assets	172	-
Stock-based compensation expense	8,887	2,465
Deferred income taxes	63	589
Provision for doubtful accounts	(6)	(1)
Provision for inventory	3,993	287
Changes in operating assets and liabilities:		
Accounts receivable	1,926	(2,449)
Inventories	(5,990)	(1,741)
Prepaid expenses, other current and long-term assets	790	(155)
Accounts payable	(194)	2,362
Accrued expenses, other current and long-term liabilities	(100)	(813)
Income taxes	(1,803)	2,303
Net cash provided by operating activities	14,063	21,731
Cash flows from investing activities:		
Proceeds from maturity of investments	24,750	20,000
Purchase of investments	(14,000)	(24,500)
Purchase of property and equipment	(3,283)	(3,917)
Net cash provided by (used in) investing activities	7,467	(8,417)
Cash flows from financing activities:		
Repurchases of common stock	(30,000)	-
Cash paid for tax withheld on vested restricted stock awards	(1,735)	-
Proceeds from exercise of equity awards	2,886	209
Net cash (used in) provided by financing activities	(28,849)	209
Exchange rate impact on cash	110	90
(Decrease) Increase in cash and cash equivalents	(7,209)	13,613
Cash and cash equivalents at beginning of period	133,256	104,261
Cash and cash equivalents at end of period	$ 126,047	$ 117,874
Supplemental disclosure of cash flow information:		
Non-cash Investing Activities:		
Purchases of property and equipment included in accounts payable and accrued expenses	$ 462	$ 1,193

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

1. Nature of Business

Anika Therapeutics, Inc. (the "Company") is a global, integrated orthopedic and regenerative medicines company committed to improving the lives of patients with degenerative orthopedic diseases and traumatic conditions with clinically meaningful therapies along the continuum of care, from palliative pain management to regenerative tissue repair. The Company has over two decades of global expertise developing, manufacturing, and commercializing products based on its proprietary Hyaluronic Acid ("HA") technology. The Company's orthopedic medicine portfolio includes ORTHOVISC, MONOVISC, and CINGAL, which alleviate pain and restore joint function by replenishing depleted HA, and HYALOFAST, a solid HA-based scaffold to aid cartilage repair and regeneration.

The Company is subject to risks common to companies in the biotechnology and medical device industries including, but not limited to, development by the Company or its competitors of new technological innovations, dependence on key personnel, protection of proprietary technology, commercialization of existing and new products, and compliance with U.S. Food and Drug Administration ("FDA") and foreign regulations and approval requirements, as well as the ability to grow the Company's business through appropriate commercial strategies.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and related notes have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and in accordance with accounting principles generally accepted in the United States ("US GAAP"). The financial statements include the accounts of Anika Therapeutics, Inc. and its subsidiaries. Inter-company transactions and balances have been eliminated. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to SEC rules and regulations relating to interim financial statements. The December 31, 2017 balances reported herein are derived from the audited consolidated financial statements. In the opinion of management, these unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to fairly state the condensed consolidated financial position of the Company as of June 30, 2018, the results of its operations for the three- and six-month periods ended June 30, 2018 and 2017, and cash flows for the six-month periods ended June 30, 2018 and 2017.

The accompanying unaudited condensed consolidated financial statements and related notes should be read in conjunction with the Company's annual financial statements filed with its Annual Report on Form 10-K for the year ended December 31, 2017. The results of operations for the three- and six-month periods ended June 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018.

At the Company's annual stockholders' meeting on May 31, 2018, the Company's stockholders approved an increase in the number of shares of common stock that we are authorized to issue from 60 million to 90 million and ratified a change in the Company's state of incorporation from the Commonwealth of Massachusetts to the State of Delaware, pursuant to a plan of domestication. The Company became a Delaware corporation with the authorization to issue up to 90 million shares of its common stock on June 6, 2018. Upon its domestication in Delaware, the affairs of the Company became subject to the Delaware General Corporation Law, the Company implemented a new certificate of incorporation and new bylaws, and each previously outstanding share of the Company's common stock as a Massachusetts corporation (Anika Massachusetts) converted into an outstanding share of common stock of the Company as a Delaware corporation (Anika Delaware). The domestication was a tax-free reorganization under the U.S. Internal Revenue Code, and it did not affect the Company's business operations.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which amends existing leasing accounting requirements. The most significant change will result in the recognition of lease assets and lease liabilities by lessees for virtually all leases. The new guidance will also require significant additional disclosures about the amount, timing, and uncertainty of cash flows from leases. ASU 2016-02 is effective for fiscal years and interim periods beginning after December 15, 2018. Upon adoption, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Early adoption is permitted, and a number of optional practical expedients may be elected to simplify the impact of adoption. The Company has commenced work to assess ASU 2016-02 and the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures. The Company anticipates recognition of additional assets and corresponding liabilities related to leases on the consolidated balance sheet.

3. Revenue

The Company adopted the guidance in the FASB's Accounting Standards Codification (ASC) *Revenue from Contracts with Customers* (ASC 606) using the modified retrospective method effective January 1, 2018. The adoption of ASC 606 was applied to all contracts not completed as of the date of adoption. The adoption did not have a material impact on the amount and timing of revenue recognized in the condensed consolidated financial statements. The Company made no adjustments to our previously reported total and product revenue, as those periods continue to be presented in accordance with the Company's historical accounting practices under Topic, 605, *Revenue Recognition*.

Pursuant to ASC 606, revenue is recognized by the Company when a customer obtains control of promised goods or services. The amount of revenue that is recorded reflects the consideration that the Company expects to receive in exchange for those goods or services. The Company applies the following five-step model in order to determine this amount: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations, including whether they are capable of being distinct or distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

Product Revenues

The Company sells its products principally to a number of distributors (i.e., its customers) under legally enforceable executed contracts. The Company's distributors subsequently resell the products to sub-distributors and health care providers, among others. The Company recognizes revenue from product sales when the distributor obtains control of the Company's product, which typically occurs upon shipment to the distributor, in return for agreed-upon fixed price consideration. Performance obligations are generally settled quickly after purchase order acceptance; therefore, the value of unsatisfied performance obligations at the end of any reporting period is generally immaterial.

The Company's payment terms are consistent with prevailing practice in the respective markets in which the Company does business. Distributors make payments based on fixed-price contract terms, which are not affected by contingent events that could impact the transaction price. Payment terms fall within the one-year guidance for the practical expedient which allows the Company to forgo adjustment of the contractual payment amount of consideration for the effects of a significant financing component. The Company's contracts with customers do not customarily provide a right of return, unless certain product quality standards are not met.

To identify variable consideration and determine the transaction price, the Company has reviewed its standard contractual terms and conditions and its customary business practices. Volume based discounts with tiered pricing are generally prospective in nature. These prospective discounts together with any free-of-charge sample units offered are evaluated as potential material rights. If the discounts or free of charge sample units are considered significant in the context of the contract, revenue is deferred.

The Company receives payments from its customers based on billing schedules established in each contract. Up-front payments and fees are recorded as deferred revenue upon receipt or when due, and may require deferral of revenue recognition to a future period until the Company performs its obligations under these arrangements. Amounts are recorded as accounts receivable when the Company's right to consideration is unconditional. As of June 30, 2018, deferred revenue was $0.1 million.

Generally, distributor contracts contain Free on Board (FOB) shipping point or Ex-Works terms where the customer pays the shipping company directly for all shipping and handling costs. In those contracts in which the Company pays for the shipping and handling, the associated costs are generally recorded along with the product sale at the time of shipment in cost of product revenue when control over the products has transferred to the customer. The Company does not collect sales tax on its product sales as it is not applicable. Value-add and other taxes collected by the Company concurrently with revenue-producing activities are excluded from revenue. The Company's general product warranty does not extend beyond an assurance that the product or services delivered will be consistent with stated contractual specifications, which does not create a separate performance obligation. The Company recognizes the incremental costs of obtaining contracts as an expense when incurred as the amortization period of the assets that the Company otherwise would have recognized is one year or less in accordance with the practical expedient in paragraph ASC 340-40-25-4. These costs are included in selling, general and administrative expenses.

Included as a component of product revenue is sales-based royalty revenue, which represents the utilization of our intellectual property licensed by our commercial partners. The Company does not have future performance obligations under license arrangements as described in more detail below. The license is deemed to be the predominant item to which the royalties relate, and thus the constraints on variable consideration are applied. The Company records royalty revenues based on estimated net sales of licensed products as reported to us by our commercial partners. Differences between actual and estimated royalty revenues have not been material and are typically adjusted in the following quarter when the actual amounts are known.

License, Milestone and Contract Revenues

The Company has agreements with DePuy Synthes Mitek Sports Medicine, a division of DePuy Orthopaedics, Inc. ("Mitek") that include the grant of certain licenses, performance of development services, and supply of product. Revenues from the agreements with Mitek represent 72% and 73% of total Company revenues for the three- and six-month periods ended June 30, 2018, respectively. The Company has agreements with other customers that may include the delivery of a license and supply of product. The adoption of ASC 606 did not impact the accounting for these agreements.

The agreements with Mitek include variable consideration such as contingent development and regulatory milestones, sales-based milestones, and royalties. The Company completed the performance obligations related to granted licenses and development services under these agreements in prior years. Agreements that include a promise for future supply of product at the customer's discretion are generally considered as options. The Company assesses if these options provide a material right to the licensee and if so, they are accounted for as separate performance obligations.

Variable consideration is included in the transaction price only to the extent a significant reversal in the amount of cumulative revenue recognized is not probable to occur when the uncertainty associated with the variable consideration is subsequently resolved. Sales-based milestones and royalties for these arrangements are excluded from this assessment and are only recognized when the later of the underlying sale occurs or the performance obligation to which some or all of the sales-based royalty has been allocated has been satisfied (or partially satisfied). This is generally in the same period that the Company's licensees complete their product sales in their territory, for which the Company is contractually entitled to a percentage-based royalty. Revenue from sales-based royalties is included in product revenues as discussed above. Future revenue from sales-based or regulatory milestones will be subject to the constraints around variable consideration and will generally be recognized at the time the milestone is achieved.

There was no cumulative effect to relevant balance sheet accounts upon adopting the new standard using the modified retrospective method.

The following tables provide the disaggregated revenue by primary geographical market and major product group. Product revenue by product group is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Orthobiologics	$ 26,192	$ 24,468	$ 45,681	$ 44,695
Surgical	1,263	1,335	2,509	2,631
Dermal	623	453	83	878
Other	2,464	2,084	3,527	3,517
Product Revenue	$ 30,542	$ 28,340	$ 51,800	$ 51,721

Total revenue by geographic location and as a percentage of overall total revenue for the three- and six-month periods ended June 30, 2018 and 2017 is as follows:

	Three Months Ended June 30,			
	2018		2017	
	Total Revenue	Percentage of Revenue	Total Revenue	Percentage of Revenue
Geographic Location:				
United States	$ 24,773	81%	$ 27,447	82%
Europe	3,498	11%	4,060	12%
Other	2,277	8%	1,955	6%
Total Revenue	$ 30,548	100%	$ 33,462	100%

	Six Months Ended June 30,			
	2018		2017	
	Total Revenue	Percentage of Revenue	Total Revenue	Percentage of Revenue
Geographic Location:				
United States	$ 41,682	81%	$ 46,377	82%
Europe	5,889	11%	6,889	12%
Other	4,241	8%	3,582	6%
Total Revenue	$ 51,812	100%	$ 56,848	100%

On May 2, 2018, the Company publicly disclosed a voluntary recall of certain lots of its HYAFF-based products, HYALOFAST, HYALOGRAFT C, and HYALOMATRIX. The Company initiated the recall after internal quality testing, which indicated that the products were at risk of not maintaining certain measures throughout their entire shelf life. While there is no indication of any safety or efficacy issue related to the products at this time, the Company remains committed to the highest standards of quality and is removing the products from the field as a precautionary measure. During the three-month period ended March 31, 2018 the Company recorded a revenue reserve for this voluntary recall of $1.1 million of which $0.9 million was related to revenue recorded in prior periods. The adjustments related to the initial revenue reserve during the three-month period ended June 30, 2018 were immaterial. The revenue reserves impacted Dermal and Orthobiologics product groups and all geographic locations.

4. Investments

All of the Company's investments are carried at fair value with unrealized gains and losses recorded as a component of accumulated other comprehensive income, net of related income taxes. The Company held bank certificates of deposit of $13.3 million and $24.0 million as of June 30, 2018 and December 31, 2017, respectively. There were no unrealized gains or losses on the Company's available-for-sale securities as of June 30, 2018 or December 31, 2017.

5. Fair Value Measurements

The Company's investments are all classified within Levels 1 and 2 of the fair value hierarchy. The Company's investments classified within Level 1 of the fair value hierarchy are valued based on quoted prices in active markets. Level 2 investments are based on matrix pricing compiled by third party pricing vendors, using observable market inputs such as interest rates, yield curves, and credit risk. For cash and cash equivalents, current receivables, accounts payable, and interest accrual, the carrying amounts approximate fair value because of the short maturity of these instruments, and therefore fair value information is not included in the table below.

The fair value hierarchy of the Company's cash equivalents and investments at fair value is as follows:

		Fair Value Measurements at Reporting Date Using		
	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Money market funds	$ 17,366	$ 17,366	$ -	$ -
U.S. Treasury Bills	43,596	43,596	-	-
Total cash equivalents	$ 60,962	$ 60,962	$ -	$ -
Investments:				
Bank certificates of deposit	$ 13,250	$ -	$ 13,250	$ -

	December 31, 2017	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Money market funds	$ 5,893	$ 5,893	$ -	$ -
Bank certificates of deposit	500	-	500	-
Total cash equivalents	$ 6,393	$ 5,893	$ 500	$ -
Investments:				
Bank certificates of deposit	$ 24,000	$ -	$ 24,000	$ -

6. Equity Incentive Plan

The Company estimates the fair value of stock options and stock appreciation rights ("SARs") using the Black-Scholes valuation model. Fair value of restricted stock awards ("RSAs") and restricted stock units ("RSUs") are measured by the grant-date price of the Company's shares. The fair value of each stock option award during the six-month periods ended June 30, 2018 and 2017 was estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

	Six Months Ended June 30, 2018			2017		
Risk free interest rate	2.15%	-	2.75%	1.65%	-	1.78%
Expected volatility	37.12%	-	40.81%	42.54%	-	44.30%
Expected life (years)	4.0	-	4.5	4.0		
Expected dividend yield	0.00%			0.00%		

The Company recorded $1.3 million of stock-based compensation expense for the three-month periods ended June 30, 2018 and 2017 for equity compensation awards. The Company recorded $8.9 million and $2.5 million of stock-based compensation expense for the six-month periods ended June 30, 2018 and 2017, respectively, for stock-based compensation awards. Upon the retirement of the Company's former Chief Executive Officer on March 9, 2018, all of his outstanding stock-based compensation awards vested in full and became exercisable in accordance with their terms, resulting in a one-time expense of $6.2 million that was fully recognized during the three-month period ended March 31, 2018.

The Company presents the expenses related to stock-based compensation awards in the same expense line items as cash compensation paid to each of its employees as follows:

	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Cost of product revenue	$ (28)	$ 102	$ (244)	$ 199
Research and development	241	153	451	163
Selling, general and administrative	1,109	1,029	8,680	2,103
Total stock-based compensation expense	$ 1,322	$ 1,284	$ 8,887	$ 2,465

The decrease in stock-based compensation expense within the cost of product revenue line item during the three- and six-month periods ended June 30, 2018 is due to forfeitures associated with unvested stock option awards from the resignation of a former executive.

The following table sets forth share information for equity awards granted and exercised during the three- and six-month periods ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Grants:				
Stock options	17,500	5,500	209,800	410,135
RSAs	-	-	64,578	-
RSUs	-	-	8,130	9,970
Exercises:				
Stock options	273,123	3,850	284,548	9,437
SARs	-	-	-	5,000

During the three- and six-month periods ended June 30, 2018 and 2017 the Company granted stock option awards to employees the majority of which become exercisable or vest ratably over a four-year and three-year period, respectively. In addition, the Company executed its annual grant of RSUs to non-employee directors each of which vests over a one-year period. On March 9, 2018, upon the vesting of certain RSAs, 32,541 shares with a total fair value of $1.7 million were withheld for taxes and retired.

7. Earnings Per Share ("EPS")

Basic EPS is calculated by dividing net income by the weighted average number of shares outstanding during the period. Unvested restricted shares, although legally issued and outstanding, are not considered outstanding for purposes of calculating basic earnings per share. Diluted EPS is calculated by dividing net income by the weighted average number of shares outstanding plus the dilutive effect, if any, of outstanding stock options, SARs, RSAs, and RSUs using the treasury stock method.

The following table provides share information used in the calculation of the Company's basic and diluted earnings per share (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Shares used in the calculation of basic earnings per share	14,652	14,588	14,666	14,582
Effect of dilutive securities:				
Stock options, SARs, and RSAs	263	456	379	464
Diluted shares used in the calculation of earnings per share	14,915	15,044	15,045	15,046

Stock options of 0.7 million shares were outstanding for the three- month periods ended June 30, 2018 and 2017, respectively, and were not included in the computation of diluted EPS because the awards' impact on EPS would have been anti-dilutive. Stock options of 0.6 million and 0.3 million shares were outstanding for the six-month period ended June 30, 2018 and 2017, respectively, and were not included in the computation of diluted EPS because the awards' impact on EPS would have been anti-dilutive.

On May 24, 2018, the Company entered into an accelerated stock repurchase agreement with Morgan Stanley & Co. LLC ("Morgan Stanley") pursuant to a Fixed Dollar Accelerated Share Repurchase Transaction ("ASR Agreement") to purchase $30.0 million of shares of its common stock. Pursuant to the terms of the ASR Agreement, the Company delivered $30.0 million cash to Morgan Stanley and received an initial delivery of 0.4 million shares of the Company's common stock on May 24, 2018 based on a closing market price of $41.41 and the applicable contractual discount. This is approximately 60% of the then estimated total number of shares expected to be repurchased under the ASR Agreement. These shares were restored to the status of authorized but unissued shares. The initial delivery of shares resulted in an immediate reduction of the number of outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted net income per share on the effective date of the ASR Agreement.

As of June 30, 2018, the Company had approximately $12.0 million remaining under the ASR Agreement which was recorded as an equity forward sale contract and was included in additional paid-in capital in stockholders' equity in the condensed consolidated balance sheet as it met the criteria for equity accounting. On July 16, 2018, pursuant to the terms of the ASR Agreement, Morgan Stanley accelerated the final settlement date forward from December 2018, and the final number of shares and the average purchase price was determined. Based on the volume-weighted average price since the effective date of the ASR Agreement, less the applicable contractual discount, Morgan Stanley delivered 0.4 million additional shares to the Company on July 19, 2018. In total, 0.8 million shares were repurchased under the ASR Agreement at an average repurchase price of $37.18 per share. All shares were repurchased in accordance with the publicly announced program. Final settlement occurred on July 16, 2018, and the Company will not make further purchases under the program.

8. Inventories

Inventories consist of the following:

	June 30, 2018	December 31, 2017
Raw materials	$ 12,582	$ 11,296
Work-in-process	6,322	6,062
Finished goods	5,156	4,677
Total	$ 24,060	$ 22,035

As a result of the voluntary recall more fully described in Note 3, the Company recorded an inventory reserve of $0.8 million for non-saleable inventory. In addition, the Company recorded an inventory reserve of $1.7 million for certain HA raw materials, and it recorded a lower of cost or market adjustment of $1.2 million for certain HYAFF-based products during the six-month period ended June 30, 2018.

9. Intangible Assets

Intangible assets as of June 30, 2018 and December 31, 2017 consisted of the following:

	June 30, 2018				December 31, 2017				
	Gross Value	Accumulated Currency Translation Adjustment	Accumulated Amortization	Net Book Value	Accumulated Currency Translation Adjustment	Accumulated Amortization	Net Book Value	Useful Life
Developed technology	$17,100	$ (2,704)	$ (8,210)	$ 6,186	$ (2,550)	$ (7,723)	$ 6,827	15
In-process research & development	4,406	(1,097)	-	3,309	(1,015)	-	3,391	Indefinite
Distributor relationships	4,700	(415)	(4,285)	-	(415)	(4,285)	-	5
Patents	1,000	(162)	(457)	381	(152)	(431)	417	16
Elevess trade name	1,000	-	(1,000)	-	-	(1,000)	-	9
Total	$28,206	$ (4,378)	$ (13,952)	$ 9,876	$ (4,132)	$ (13,439)	$10,635	

The aggregate amortization expense related to intangible assets was $0.3 million and $0.2 million for the three-month periods ended June 30, 2018 and 2017, respectively. The aggregate amortization expense related to intangible assets was $0.5 million for each of the six-month periods ended June 30, 2018 and 2017.

10. Goodwill

The Company completed its annual impairment review as of November 30, 2017 and concluded that no impairment in the carrying value of goodwill exists as of that date. Through June 30, 2018, there have been no events or changes in circumstances that indicate that the carrying value of goodwill may not be recoverable. Changes in the carrying value of goodwill were as follows:

	June 30, 2018
Balance at January 1, 2018	$ 8,218
Effect of foreign currency adjustments	(205)
Balance at June 30, 2018	$ 8,013

11. Accrued Expenses

Accrued expenses consist of the following:

	June 30, 2018	December 31, 2017
Compensation and related expenses	$ 3,633	$ 2,893
Clinical trial costs	867	2,318
Accrued liabilities related to product recall	1,181	-
Research grants	408	419
Professional fees	1,213	448
Deferred income	74	-
Other	83	248
Total	$ 7,459	$ 6,326

Included in Compensation and related expenses as of June 30, 2018 are the accrued and unpaid costs related to the retirement of the Company's former Chief Executive Officer as of March 9, 2018. Under the terms of his employment agreement, the former Chief Executive Officer is entitled to receive from the Company, as a result of his retirement, aggregate benefits of $1.7 million over the 18-month period subsequent to March 9, 2018, among other benefits. On March 8, 2018 the Company entered into a $0.3 million one-year, post-retirement consulting agreement with the former Chief Executive Officer to provide certain services as may be requested by the Company through February 28, 2019. The unpaid amounts under these agreements are included in accrued expenses and other long-term liabilities. As more fully described in Note 6, all of the former Chief Executive Officer's outstanding equity awards vested in full and became exercisable upon his retirement.

Accrued liabilities related to product recall includes amounts due to customers for estimated product returns as a result of the voluntary recall more fully described in Note 3 as well as an accrual of $0.4 million for future expenses associated with the administration and remediation of the voluntary recall.

12. Commitments and Contingencies

In certain of its contracts, the Company warrants to its customers that the products it manufactures conform to the product specifications as in effect at the time of delivery of the specific product. The Company may also warrant that the products it manufactures do not infringe, violate, or breach any U.S. or international patent or intellectual property right, trade secret, or other proprietary information of any third party. On occasion, the Company contractually indemnifies its customers against any and all losses arising out of, or in any way connected with, any claim or claims of breach of its warranties or any actual or alleged defect in any product caused by the negligent acts or omissions of the Company. The Company maintains a products liability insurance policy that limits its exposure to these risks. Based on the Company's historical activity, in combination with its liability insurance coverage, the Company believes the estimated fair value of these indemnification agreements is immaterial. The Company had no accrued warranties as of June 30, 2018 or December 31, 2017, respectively, and has no history of claims paid.

The Company is also involved from time-to-time in various legal proceedings arising in the normal course of business. Although the outcomes of these legal proceedings are inherently difficult to predict, the Company does not expect the resolution of these occasional legal proceedings to have a material adverse effect on its financial position, results of operations, or cash flow.

13. Income Taxes

The provisions for income taxes were $1.4 million and $0.4 million for the three- and six- month periods ended June 30, 2018, based on effective tax rates of 12.5% and 10.4%, respectively. Provisions for income taxes were $6.4 million and $8.9 million for the three- and six- month periods ended June 30, 2017, based on effective tax rates of 35.9% and 34.7%, respectively. The net decrease in the effective tax rate for the three- and six- month periods ended June 30, 2018, as compared to the same periods in 2017, was primarily due to the reduction of Federal Corporate Income Tax rate as a result of the Tax Cuts and Jobs Act ("Tax Act") tax reform legislation. This legislation makes significant changes to the U.S. tax law, including a reduction in the corporate tax rate from 35% to 21% starting in 2018. In addition, during the second quarter the Company realized windfall tax benefits related to exercises of employee equity awards resulting in a discrete period income tax benefit of $1.3 million and a reduction in the effective tax rate of 11.3%.

The Company files income tax returns in the United States on a federal basis, in certain U.S. states, and in Italy. The associated tax filings remain subject to examination by applicable tax authorities for a certain length of time following the tax year to which those filings relate.

In connection with the preparation of the financial statements, the Company assesses whether it was more likely than not that it would be able to utilize, in future periods, the net deferred tax assets associated with its net operating loss carry-forward. The Company has concluded that the positive evidence outweighs the negative evidence and, thus, the deferred tax assets not otherwise subject to a valuation allowance are realizable on a "more likely than not" basis. As such, the Company did not record a valuation allowance as of June 30, 2018 or December 31, 2017.

In accordance with Staff Accounting Bulletin No. 118, which provides guidance on accounting for the tax effects of the 2017 Tax Act, the Company has recorded a reasonable estimate of the impact on the consolidated financial statements. We will continue to assess forthcoming guidance and accounting interpretations on the effects of the Tax Act and expect to complete the analysis within the measurement period in accordance with the SEC guidance. The Company does not expect a significant adjustment to the recorded amounts.

14. Business Segment

The Company operates in a single segment engaged in the discovery, development, licensing, manufacturing, and sale of innovative medical therapies that improve the lives of patients with degenerative orthopedic diseases and traumatic conditions. The determination of a single segment is consistent with the financial information regularly reviewed by the Chief Executive Officer, who is the chief decision maker for the purposes of evaluating performance, allocating resources, setting incentive compensation targets, and planning and forecasting future periods. For further information on product and geographic revenues, see Note 3.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (amounts in thousands, except per share amounts or as otherwise noted)

You should read the following discussion in conjunction with our financial statements and related notes appearing elsewhere in this report. In addition to historical information, this report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 concerning our business, consolidated financial condition, and results of operations. The Securities and Exchange Commission ("SEC") encourages companies to disclose forward-looking statements so that investors can better understand a company's prospects and make informed investment decisions. Forward-looking statements are subject to risks and uncertainties, many of which are outside our control, which could cause actual results to differ materially from these statements. Therefore, you should not rely on any of these forward-looking statements. Forward-looking statements can be identified by such words as "will," "likely," "may," "believe," "expect," "anticipate," "intend," "seek," "designed," "develop," "would," "future," "can," "could," and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters. All statements other than statements of historical facts included in this report regarding our strategies, prospects, financial condition, operations, costs, plans, and objectives are forward-looking statements. Examples of forward-looking statements include, among others, statements regarding expected future operating results, expectations regarding the timing and receipt of regulatory results, anticipated levels of capital expenditures, and expectations of the effect on our financial condition of claims, litigation, and governmental and regulatory proceedings.

Please also refer to those factors described in Part II, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2017 and in Part II, Item 1A "Risk Factors" of this report for important factors that we believe could cause actual results to differ materially from those in our forward-looking statements. Any forward-looking statement made by us in this Quarterly Report on Form 10-Q is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

Management Overview

We are a global, integrated orthopedic and regenerative medicines company committed to improving the lives of patients with degenerative orthopedic diseases and traumatic conditions with clinically meaningful therapies along the continuum of care, from palliative pain management to regenerative tissue repair. We have over two decades of global expertise developing, manufacturing, and commercializing our products based on our proprietary hyaluronic acid ("HA") technology. Our orthopedic medicine portfolio includes ORTHOVISC, MONOVISC, and CINGAL, which alleviate pain and restore joint function by replenishing depleted HA, and HYALOFAST, a solid HA-based scaffold to aid cartilage repair and regeneration.

Our therapeutic offerings consist of products in the following areas: Orthobiologics, Dermal, Surgical, and Other, which includes our ophthalmic and veterinary products. All of our products are based on HA, a naturally occurring, biocompatible polymer found throughout the body. Due to its unique biophysical and biochemical properties, HA plays an important role in a number of physiological functions such as the protection and lubrication of soft tissues and joints, the maintenance of the structural integrity of tissues, and the transport of molecules to and within cells.

Our proprietary technologies for modifying the HA molecule allow product properties to be tailored specifically to therapeutic use. Our patented technology chemically modifies HA to allow for longer residence time in the body. We also offer products made from HA based on two other technologies: HYAFF, which is a solid form of HA, and ACP gel, an autocross-linked polymer of HA. Our technologies are protected by an extensive portfolio of owned and licensed patents.

Since our inception in 1992, we have utilized a commercial partnership model for the distribution of our products to end-users. Our strong, worldwide network of distributors has historically provided, and continues to provide, a solid foundation for our revenue growth and territorial expansion. We have made the strategic decision to commercialize, at least in part, our next generation viscosupplementation product, CINGAL, in the United States ourselves, initially through the engagement of a contract sales organization. Ultimately, we intend to transition the direct sales function into our company as part of a broader buildout of our commercial capabilities. We have made meaningful progress on our initiative to develop this functionality, but we have delayed additional pre-launch activities for CINGAL as we evaluate its regulatory pathway in the United States, as described below. We are also currently evaluating a potential hybrid commercial approach that would see us balance our direct model with a limited form of strategic partnership. For future products in the U.S. market, we intend to evaluate the appropriate commercial model for each on a case-by-case basis, based on market dynamics and other factors. These models could include direct sales, distribution partnerships, or a hybrid of those forms. We believe that the combination of the direct and distribution commercial models will maximize the revenue potential from our current and future product portfolio.

Please see the section captioned “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations-Management Overview” in our Annual Report on Form 10-K for the year ended December 31, 2017, for a description of each of the above therapeutic areas, including the individual products.

Our notified body, which is responsible for performing a conformity assessment for MONOVISC in the European Union, advised us of the suspension of our CE Mark for MONOVISC as of March 27, 2018. This suspension resulted from changes in the regulatory environment in 2017 and administrative difficulties between our notified body and us related to our providing of the notified body with certain technical information for MONOVISC. This suspension was not related to any safety or efficacy issues associated with the product. On May 30, 2018, our notified body issued an updated CE Mark for MONOVISC. This matter did not impact our financial results in the quarter ended June 30, 2018 or in any prior periods, and we do not expect any impact on our financial results going forward.

On May 2, 2018, we publicly disclosed a voluntary recall of certain production lots of our HYAFF-based products, HYALOFAST, HYALOGRAFT C, and HYALOMATRIX. We communicated with all affected distributors in advance of that announcement, and we are taking all required or otherwise appropriate actions with respect to applicable regulatory bodies. We initiated the recall following internal quality testing, which indicated that the products were at risk of not maintaining certain measures throughout their entire shelf life. While there was no indication of any safety or efficacy issue related to the products, we are committed to the highest standards of quality and removed the products from the field as a precautionary measure. During the three-month period ended March 31, 2018 we recorded a revenue reserve for this voluntary recall of $1.1 million of which $0.9 million was related to revenue recorded in prior periods. The adjustments related to the initial revenue reserve during the three-month period ended June 30, 2018 were immaterial. As a result of the voluntary recall, we had an inventory charge of $0.8 million for the related non-saleable inventory during the six-month period ended June 30, 2018. In addition, we accrued $0.4 million for future expenses associated with the administration and remediation of the voluntary recall. As of June 30, 2018, a majority of the affected products had been returned with no material change to the related reserves. Based on the facts currently known to us, we believe we can resolve this matter and resume production and shipment of these products by the end of 2018.

Research and Development

Our research and development efforts primarily consist of the development of new medical applications for our HA-based technology, the management of clinical trials for certain product candidates, the preparation and processing of applications for regulatory approvals or clearances at all relevant stages of product development, and process development and scale-up manufacturing activities for our existing and new products. Our development focus includes products for tissue protection, repair, and regeneration. We anticipate that we will continue to commit significant resources in the near future to research and development activities, including in relation to preclinical activities and clinical trials. These activities are aimed at the delivery of a steady cascade of new product development and launches over the next several years.

Our second single-injection osteoarthritis product under development in the United States, CINGAL, which is composed of our proprietary cross-linked HA material combined with an approved steroid and is designed to provide both short- and long-term pain relief to patients, is our lead pipeline product and a critical component of our growth strategy. We completed an initial CINGAL Phase III clinical trial, including the associated statistical analysis for 368 enrolled patients, during the fourth quarter of 2014 with data indicating that the product met all primary and secondary endpoints relative to placebo set forth for the trial. During the first half of 2015, we completed a CINGAL retreatment study with 242 patients who had participated in the Phase III clinical trial and reported safety data related to the retreatment study. This initial Phase III clinical trial and the associated retreatment study supported the Health Canada and CE Mark approval of the product, and the commercial launch of the product in both Canada and the European Union occurred in the second quarter of 2016. In the United States, after discussions with the U.S. Food and Drug Administration (“FDA”) related to the regulatory pathway for CINGAL, we conducted a formal meeting with the FDA’s Office of Combination Products (“OCP”) to present and discuss our data in September 2015, and we submitted a formal request for designation with OCP a month later. In its response to our formal request for designation, OCP assigned the product to the FDA’s Center for Drug Evaluation and Research (“CDER”) as the lead agency center for premarket review and regulation. We then held discussions with CDER to understand the requirements for submitting a New Drug Application (“NDA”) for CINGAL. We held a meeting with CDER in September 2016 to align on an approval framework and on submission requirements for this NDA for CINGAL, including the execution of an additional Phase III clinical trial to supplement our existing CINGAL pivotal study data. We submitted an Investigational New Drug Application (“IND”) in late 2016, and discussions with CDER indicated that they did not have objections to our clinical protocol design. As a result, we commenced work on this second Phase III clinical trial (“CINGAL 16-02 Study”) in the first quarter of 2017, and the first patient was treated in the second quarter of 2017. Enrollment of the 576 patients in this second Phase III clinical trial was completed during October 2017, and we completed the six-month patient follow-up in April 2018. We received and analyzed the data from the CINGAL 16-02 Study during the second quarter of 2018, and, while substantial pain reduction associated with CINGAL was evident at each measurement point, we determined based on statistical analysis that it did not meet the primary study endpoint of demonstrating a statistically significant difference in pain reduction between CINGAL and the approved steroid component of CINGAL at the six-month time point. We initiated an additional three-month extended follow-up study in conjunction with the CINGAL 16-02 Study to investigate the efficacy of CINGAL over this longer period, and the first patients were enrolled in this follow-up study in the fourth quarter of 2017. Given the results of the CINGAL 16-02 Study, we continue to evaluate multiple strategies to optimize the potential U.S. regulatory pathway for CINGAL. After receiving the results from the three-month extended follow-up study, we intend to meet with FDA to discuss the totality of our clinical data for CINGAL and to identify and execute an optimal approach towards a potential future regulatory approval in the United States.

We have several research and development programs underway for new products, including for HYALOFAST (in the United States), an innovative product for cartilage tissue repair, and other early stage regenerative medicine development programs. HYALOFAST received CE Mark approval in September 2009, and it is commercially available in Europe and certain international countries. During the first quarter of 2015, we submitted an Investigational Device Exemption ("IDE") for HYALOFAST to the FDA, which was approved in July 2015. We commenced patient enrollment in a clinical trial in December 2015, and we are advancing site initiations and patient enrollment activities. In the second quarter of 2016, a supplement to the HYALOFAST IDE was approved to expand the inclusion criteria for the clinical study. The purpose of this supplement is to allow us to increase enrollment rates with the ultimate goal of decreasing the time needed to complete the clinical trial. The voluntary recall described above does not impact the HYALOFAST clinical trial, as the product used in the clinical trial is not sourced from the affected production lots.

We are currently proceeding with other research and development programs, one of which utilizes our proprietary HA technology to treat pain associated with common repetitive overuse injuries, such as lateral epicondylitis, also known as tennis elbow. We submitted a CE Mark application for this treatment during the first quarter of 2016 and received a CE Mark for the treatment of pain associated with tennis elbow in December 2016. We expect to begin work on in a post-market clinical study in relation to the CE Mark for this product before the end of 2018. Outside of the United States, this product is marketed under the trade name ORTHOVISC-T. Additionally, in the second quarter of 2016, we submitted an IDE to the FDA to conduct a Phase III clinical trial for this treatment, which was approved by the FDA in June 2016. We also have other research and development programs underway focused on expanding the indications of our current products, including one program being conducted and funded by our U.S. MONOVISC distribution partner, DePuy Synthes Mitek Sports Medicine, a division of DePuy Orthopaedics Inc., seeking to expand MONOVISC's indication to include treatment of pain associated with osteoarthritis of the hip. In third quarter of 2017, we also submitted an application to the FDA for 510(k) clearance of an injectable HA-based bone repair treatment. The 510(k) clearance was received from the FDA in December 2017, and we expect to make this product commercially available during 2019. In addition to other early stage research and development initiatives we are currently undertaking, we are working to expand our regenerative medicine pipeline with a new product candidate in the form of an implant for rotator cuff repair utilizing our proprietary solid HA, for which we expect to have a developed prototype by the end of the year.

In June 2015, we entered into an agreement with the Institute for Applied Life Sciences at the University of Massachusetts Amherst to collaborate on research to develop a therapy for rheumatoid arthritis. The purpose of this research is to develop a novel modality for the treatment of rheumatoid arthritis. The agreement with the University of Massachusetts Amherst was extended in January 2018, and the next phase of the research will focus on optimizing the drug delivery system with the goal of advancing a novel therapeutic candidate into clinical trials to support regulatory submission. In January 2018, we entered into an agreement with the University of Liverpool to develop an injectable mesenchymal stem cell therapy for the treatment of age-related osteoarthritis with the goal of bringing a therapeutics candidate through clinical trials to market to meet an unmet therapeutic need.

Results of Operations

Three- and Six-Months Ended June 30, 2018 Compared to Three- and Six-Months Ended June 30, 2017

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018	2017	$ Inc/(Dec)	% Inc/(Dec)	2018	2017	$ Inc/(Dec)	% Inc/(Dec)
	(in thousands, except percentages)				(in thousands, except percentages)			
Product revenue	$30,542	$28,340	$ 2,202	8%	$51,800	$51,721	$ 79	0%
Licensing, milestone and contract revenue	6	5,122	(5,116)	*	12	5,127	(5,115)	*
Total revenue	30,548	33,462	(2,914)	(9%)	51,812	56,848	(5,036)	(9%)
Operating expenses:								
Cost of product revenue	8,152	6,315	1,837	29%	15,996	12,398	3,598	29%
Research and development	4,733	4,449	284	6%	9,895	8,679	1,216	14%
Selling, general & administrative	6,417	4,972	1,445	29%	22,507	10,039	12,468	*
Total operating expenses	19,302	15,736	3,566	23%	48,398	31,116	17,282	56%
Income from operations	11,246	17,726	(6,480)	(37%)	3,414	25,732	(22,318)	(87%)
Interest and other income, net	290	16	274	*	385	74	311	*
Income before income taxes	11,536	17,742	(6,206)	(35%)	3,799	25,806	(22,007)	(85%)
Provision for income taxes	1,444	6,373	(4,929)	(77%)	394	8,944	(8,550)	(96%)
Net income	$10,092	$11,369	$ (1,277)	(11%)	$ 3,405	$16,862	$(13,457)	(80%)
Product gross profit	$22,390	$22,025	$ 365	2%	$35,804	$39,323	$ (3,519)	(9%)
Product gross margin	73%	78%			69%	77%		

* Percentage change has been omitted due to magnitude.

Product Revenue

Product revenue for the three-month period ended June 30, 2018 was $30.5 million, an increase of 8% as compared to $28.3 million for the three-month period ended June 30, 2017. Product revenue for the six-month period ended June 30, 2018 was $51.8 million, an increase of $0.1 million as compared to $51.7 million for the six-month period ended June 30, 2017. For the six-month period ended June 30, 2018, the increase in product revenue growth was mainly driven by the increase in MONOVSC and CINGAL revenue. This increase was impacted by a decline in ORTHOVISC revenue, the effects of the previously described voluntary recall of certain production lots of our HYAFF-based products, and the timing of orders by our commercial partners.

The following tables present product revenue by product group:

	Three Months Ended June 30,			
	2018	2017	$ Inc/(Dec)	% Inc/(Dec)
	(in thousands, except percentages)			
Orthobiologics	$ 26,192	$ 24,468	$ 1,724	7%
Surgical	1,263	1,335	(72)	(5%)
Dermal	623	453	170	38%
Other	2,464	2,084	380	18%
Total	$ 30,542	$ 28,340	$ 2,202	8%

	Six Months Ended June 30,			
	2018	2017	$ Inc/(Dec)	% Inc/(Dec)
	(in thousands, except percentages)			
Orthobiologics	$ 45,681	$ 44,695	$ 986	2%
Surgical	2,509	2,631	(122)	(5%)
Dermal	83	878	(795)	(91%)
Other	3,527	3,517	10	0%
Total	$ 51,800	$ 51,721	$ 79	0%

Orthobiologics

Our orthobiologics franchise consists of our orthopedic pain management and regenerative therapies. Overall, sales increased 7% and 2% for the three- and six-month periods ended June 30, 2018, as compared to the same periods in 2017. The increase in the three-month period ended June 30, 2018 was primarily due to worldwide MONOVISC growth, and the overall increase in the six-month period ending June 30, 2018 was primarily due to worldwide MONOVISC and international CINGAL growth. In each period, the growth mentioned above was offset in part by declines in worldwide ORTHOVISC revenue, viscosupplemenation product pricing declines in the U.S., and the timing of orders by our international commercial partners. The growth of MONOVISC revenue worldwide remains strong. We expect orthobiologics product revenue in 2018 to increase as compared to 2017, due to the growth of worldwide MONOVISC and international CINGAL revenue offset by a decline in ORTHOVISC revenue, U.S. viscosupplementation product pricing declines, and the effects of the previously described voluntary recall of certain production lots of our HYAFF-based products.

Surgical

Our surgical franchise consists of products used to prevent surgical adhesions and to treat ear, nose, and throat (“ENT”) disorders. Sales of our surgical products decreased 5% for the three- and six-month periods ended June 30, 2018 to $1.3 million and $2.5 million, respectively, as compared to the same periods in 2017. The decrease in surgical product revenue for the three-month period was primarily due to a decrease in sales to our worldwide ENT commercial partner, which was partially offset by an increase in sales of our surgical anti-adhesion products. We expect surgical product revenue to increase modestly in 2018 as compared to 2017 primarily due to increased worldwide sales of our surgical anti-adhesion products.

Dermal

Our dermal franchise consists of advanced wound care products, which are based on our HYAFF technology, and aesthetic dermal fillers. Our advanced wound care products treat complex skin wounds ranging from burns to diabetic ulcers, with HYALOMATRIX and HYALOFILL as the lead products. For the three- and six-month periods ended June 30, 2018, dermal product sales increased 38% and decreased 91%, respectively, as compared to the same periods in 2017. We expect dermal sales to decrease in 2018 as compared to 2017, due to the previously described voluntary recall of certain production lots of our HYAFF-based products.

Other

Other product revenue includes revenues from our ophthalmic and veterinary franchises. Other product revenue increased for the three-month period ended June 30, 2018 by $0.4 million or 18%, and increased slightly for the six-month period ended June 30, 2018, both as compared to similar periods in 2017. We expect other revenue to increase in 2018 as compared to 2017, primarily driven by increases in ophthalmic revenue.

Product gross profit and margin

Product gross profit for the three- and six-month periods ended June 30, 2018 increased $0.4 million and decreased $3.5 million to $22.4 and $35.8 million, respectively, representing 73% and 69% of product revenue. Product gross profit for the three- and six-month periods ended June 30, 2017 was $22.0 million and $39.3 million, respectively, or 78% and 77% of product revenue for the periods. The decrease in product gross margin for the three-month period ended June 30, 2018, as compared to the same period in 2017, was due to a lower of cost or market adjustment on certain products, higher than planned production costs for our recently transferred HYAFF solid HA production, and revenue mix and pricing dynamics. The decrease in product gross margin for the six-month period ended June 30, 2018, as compared to the same period in 2017, was due to an increase in inventory reserves related to certain raw materials, inventory write-offs associated with the previously described voluntary recall of certain production lots of our HYAFF-based products, higher than planned production costs for our recently transferred HYAFF solid HA production, as well as revenue mix and pricing dynamics. We began remediation and mitigation plans during the first quarter of 2018 and currently expect to resolve the identified issues by the end of 2018. This current product gross margin may not be indicative of the rest of the year, and we expect to see continued improvement in product gross margin as we progress through 2018.

Research and development

Research and development expenses for the three- and six-month periods ended June 30, 2018 were $4.7 million and $9.9 million, representing 15% and 19% of total revenue for the respective periods, an increase of $0.3 million and $1.2 million, respectively as compared to the same periods in 2017. The increase in research and development expenses was primarily due to a higher level of regulatory and clinical activities, including with respect to our HYALOFAST and CINGAL Phase III clinical studies. Furthermore, we also increased our pre-clinical product development activities with respect to certain product candidates in our research and development pipeline. Research and development spending is expected to increase in 2018 and thereafter, as compared to 2017, as we further develop new products and line extensions and initiate new clinical trials based on our existing technology assets, as well as increase research and development activities for other products in the pipeline.

Selling, general and administrative

Selling, general and administrative ("SG&A") expenses for the three- and six-month periods ended June 30, 2018 were $6.4 million and $22.5 million, representing 21% and 43% of total revenue for the period, an increase of $1.4 million and $12.5 million as compared to the same periods in 2017. The increase in SG&A expenses for the three-month period ending June 30, 2018 was primarily related to increased personnel, external professional fees, and marketing expenses. SG&A expenses increased for the six-month period ending June 30, 2018, as compared to prior period, primarily as a result of costs related to the retirement of our former Chief Executive Officer, certain accrued expenses related to the previously described voluntary recall of certain production lots of our HYAFF-based products, and increased personnel costs, external professional fees, and marketing expenses.

Income taxes

The provisions for income taxes were $1.4 million and $0.4 million for the three- and six- month periods ended June 30, 2018, based on effective tax rates of 12.5% and 10.4%, respectively. Provisions for income taxes were $6.4 million and $8.9 million for the three- and six- month periods ended June 30, 2017, based on effective tax rates of 35.9% and 34.7%, respectively. The net decrease in the effective tax rate for the three- and six- month periods ended June 30, 2018, as compared to the same periods in 2017, was primarily due to the reduction of Federal Corporate Income Tax rate as a result of the Tax Cuts and Jobs Act ("Tax Act") tax reform legislation. This legislation makes significant changes to the U.S. tax law, including a reduction in the corporate tax rate from 35% to 21% starting in 2018. In addition, during the second quarter the Company realized windfall tax benefits related to exercises of employee equity awards resulting in a discrete period income tax benefit of $1.3 million and a reduction in the effective tax rate of 11.3%.

Liquidity and Capital Resources

We require cash to fund our operating expenses and to make capital expenditures. We expect that our requirements for cash to fund these uses will increase as our operations expand. Historically we have generated positive cash flow from operations, which, together with our available cash, investments, and debt, have met our cash requirements. Cash, cash equivalents, and investments aggregated $139.3 million and $157.3 million, and working capital totaled $178.5 million and $193.3 million as of June 30, 2018, and December 31, 2017, respectively. In addition, we have $50.0 million of available credit under our Senior Revolving Credit Facility as of June 30, 2018. We believe that we have adequate financial resources to support our business for at least the twelve months from the issuance date of our financial statements. As of June 30, 2018, we were in compliance with the terms of the Credit Agreement.

Cash provided by operating activities was $14.1 million for the six-month period ended June 30, 2018, as compared to cash provided by operating activities of $21.7 million for the same period in 2017. The decrease in cash provided by operations for the six-month period ended June 30, 2018, as compared to the same period in 2017, was primarily related to our higher operating expenses in manufacturing, research and development, and sales and marketing, prepayments of income taxes, and an increase in inventory on hand.

Cash provided by investing activities was $7.5 million for the six-month period ended June 30, 2018, as compared to cash used in investing activities of $8.4 million for the same period in 2017. The increase was due to maturities of investments and lower capital expenditures in comparison to 2017.

Cash used in financing activities was $28.8 million for the six-month period ended June 30, 2018, as compared to cash provided by financing activities of $0.2 million for the same period in 2017. The decrease in cash used in financing activities for the six-month period ended June 30, 2018, was primarily attributable to the utilization of $30.0 million cash to repurchase outstanding common stock under the Fixed Dollar Accelerated Share Repurchase program.

Critical Accounting Policies and Estimates

There were no other significant changes in our critical accounting policies during the six months ended June 30, 2018 to augment the critical accounting policies disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 other than those described in the Notes to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, including the adoption of the FASB's Accounting Standards Codification Revenue from Contracts with Customers (ASC 606) effective January 1, 2018. As a result of our adoption of the new revenue recognition standard, we re-assessed the estimates, assumptions, and judgments that are most critical in our recognition of revenue and have revised our revenue recognition critical accounting policy. For information regarding the impact of recently adopted accounting standards, refer to Note 3.

There were no other significant changes in our critical accounting estimates during the six-month period ended June 30, 2018 to augment the critical accounting estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 other than those described in the Notes to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, including the estimated costs for the previously described voluntary recall of certain production lots of our HYAFF-based products.

Recent Accounting Pronouncements

A discussion of Recent Accounting Pronouncements is included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and is updated in the Notes to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Contractual Obligations and Other Commercial Commitments

Our contractual obligations and other commercial commitments are summarized in the section captioned "Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contractual Obligations and Other Commercial Commitments" in our Annual Report on Form 10-K for the year ended December 31, 2017. Except for retirement and post-retirement consulting benefits of $2.0 million we accrued on March 9, 2018 related to the retirement of our former Chief Executive Officer, we had no material changes outside the ordinary course to our contractual obligations reported in our 2017 Annual Report on Form 10-K during the six-month period ended June 30, 2018. For additional discussion, see Note 11 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

To the extent that funds generated from our operations, together with our existing capital resources, are insufficient to meet future requirements, we will be required to obtain additional funds through equity or debt financings, strategic alliances with corporate partners and others, or through other sources. No assurance can be given that any additional financing will be made available to us or will be available on acceptable terms should such a need arise.

Off-balance Sheet Arrangements

We do not use special purpose entities or other off-balance sheet financing techniques, except for operating leases, that we believe have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, or capital resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risks, and the ways we manage them, are summarized in the section captioned "Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes in the first six months of 2018 to our market risks or to our management of such risks.

ITEM4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in SEC rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by our company in the reports it files or submits under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. On an on-going basis, we review and document our disclosure controls and procedures, and our internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

(b) Changes in internal controls over financial reporting.

There were no changes in our internal control over financial reporting during the six-month period ended June 30, 2018 that have materially affected, or that are reasonably likely to materially affect, our internal controls over financial reporting. In January 2018, we placed in service our new enterprise resource planning software. In this regard, we reviewed and modified our internal controls, as necessary.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved from time-to-time in various legal proceedings arising in the normal course of business. Although the outcomes of these legal proceedings are inherently difficult to predict, we do not expect the resolution of these occasional legal proceedings to have a material adverse effect on our financial position, results of operations, or cash flow. There have been no material changes to the information provided in the section captioned "Part I, Item 3, Legal Proceedings" in our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 1A. RISK FACTORS

Except as set forth below, there have been no material changes to the risk factors described in the section captioned "Part I, Item 1A, Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017. In addition to the other information set forth in this report, you should carefully consider the factors discussed in the section captioned "Part I, Item 1A, Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, which could materially affect our business, financial condition, or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may have a material adverse effect on our business, financial condition, and/or operating results.

Risks Related to Our Business and Industry

Failure to obtain, or any delay in obtaining, FDA or other U.S. and foreign governmental approvals for our products may have a material adverse effect on our business, financial condition and results of operations.

Several of our current products, and any future products we may develop, will require clinical trials to determine their safety and efficacy for United States and international marketing approval by regulatory bodies, including the FDA. Product development and approval within the FDA framework takes a number of years and involves the expenditure of substantial resources. There can be no assurance that the FDA will accept submissions related to our new products or the expansion of the indications of our current products, and, even if submissions are accepted, there can be no guarantee that the FDA will grant approval for our new products, including CINGAL, HYALOFAST, or other line extensions of our current products, or for the expansion of indications of our current products on a timely basis, if at all.

In the second quarter of 2018, we received and analyzed the results of our second Phase III clinical trial for CINGAL, our lead product candidate, and found that, while substantial pain reduction associated with CINGAL was evident at each measurement point, the data did not meet the primary study endpoint of demonstrating a statistically significant difference in pain reduction between CINGAL and the approved steroid component of CINGAL at the six-month time point. These results could have a substantial negative impact on the timeline for, and the cost associated with, CINGAL regulatory approval, if any, which could have a material adverse effect on our competitive position in the market in which we do business, and our overall business, financial condition, and results of operations.

In addition to regulations enforced by the FDA, we are subject to other existing and future federal, state, local, and foreign regulations applicable to product approval, which may vary significantly across jurisdictions. Additional approval of existing products may be required when changes to such products may affect the safety and effectiveness, including for new indications for use, labeling changes, process or manufacturing changes, the use of a different facility to manufacture, process or package the device, and changes in performance or design specifications. Failure to obtain regulatory approvals of our products, including any changes to existing products, could have an adverse material impact on our business, financial condition, and results of operations.

Even if ultimately granted, FDA and international regulatory approvals may be subject to significant, unanticipated delays throughout the regulatory approval process. Internally, we make assumptions regarding product approval timelines, both in the United States and internationally, in our business planning, and any delay in approval could materially affect our competitive position in the relevant product market and our projections related to future business results. We were informed by our notified body that our CE Mark for MONOVISC was temporarily suspended as of March 27, 2018. On May 30, 2018, our notified body issued an updated CE Mark for MONOVISC.

We cannot be certain that product approvals, both in the United States and internationally, will not include significant limitations on the product indications and other claims sought for use, under which the products may be marketed. The relevant approval or clearance may also include other significant conditions of approval such as post-market testing, tracking, or surveillance requirements. Any of these factors could significantly impact our competitive position in relation to such products and could have a negative impact on the sales of such products.

We are facing an unforeseen delay in implementing a direct sales model to commercialize our CINGAL product, as well as certain other future products, in the United States and we may face other unforeseen difficulties and delays in implementing this new model, which could affect our business and financial results.

We began the initial, pre-launch phases of implementing a direct sales model to commercialize and promote CINGAL in the United States, initially through a contract sales organization, with the ultimate goal of transitioning the direct sales function into our company as part of a broader buildout of our commercial capabilities. In the second quarter of 2018, we received and analyzed the results of our second Phase III clinical trial for CINGAL and found that, while substantial pain reduction associated with CINGAL was evident at each measurement point, the data did not meet the primary study endpoint of demonstrating a statistically significant difference in pain reduction between CINGAL and the approved steroid component of CINGAL at the six-month time point. Because these results could have a substantial negative impact on the timeline for and the cost associated with a potential CINGAL regulatory approval, if any, our overall business condition, financial results, and competitive position could be affected.

We also intended to use this direct sales model, at least in part, to potentially commercialize other products in the United States in the future. We believe that the combination of direct and distribution commercial models will maximize the revenue potential from our current and future product portfolio. We have delayed additional U.S. pre-launch activities for CINGAL as we evaluate its regulatory pathway in the United States, which will delay our implementation of a direct sales model for CINGAL and may delay implementation of the direct sales model for other products. These delays could reduce the revenue we generate from those products. If and when we proceed to implement a direct sales model for one or more products, we will need to allocate internal and external resources to manage the contract sales organization and the sales of the product. We cannot assure you that there will not be other unforeseen roadblocks or delays in finalizing the contracts related to, and implementing, the relationship with the contract sales organization, nor we can we assure you that we will not face setbacks in transitioning the direct sales function into our organization. Failure to implement our direct sales model in a timely fashion or to successfully manage the implementation or transition process could materially impact our competitive position, business, and financial results.

Once obtained, we cannot guarantee that FDA or international product approvals will not be withdrawn or that relevant agencies will not require other corrective action, and any withdrawal or corrective action could materially affect our business and financial results.

Once obtained, marketing approval can be withdrawn by the FDA or comparable foreign regulatory agencies for a number of reasons, including the failure to comply with ongoing regulatory requirements or the occurrence of unforeseen problems following initial approval. Regulatory authorities could also limit or prevent the manufacture or distribution of our products. We were informed by our notified body that our CE Mark for MONOVISC was temporarily suspended as of March 27, 2018. On May 30, 2018, our notified body issued an updated CE Mark for MONOVISC. Any regulatory limitations on the use of our products or any withdrawal or suspension of approval or rescission of approval by the FDA or a comparable foreign regulatory agency could have a material adverse effect on our business, financial condition, and results of operations.

Substantial competition could materially affect our financial performance.

We compete with many companies, including large pharmaceutical companies, specialized medical products companies, and healthcare companies. Many of these companies have substantially greater financial resources, larger research and development staffs, more extensive marketing and manufacturing organizations, and more experience in the regulatory process than we do. We also compete with academic institutions, government agencies, and other research organizations that may be involved in research, development, and commercialization of products similar to our own. Because a number of companies are developing or have developed HA products for similar applications and have received FDA approval, the successful commercialization of a particular product will depend in part upon our ability to complete clinical studies and obtain FDA marketing and foreign regulatory approvals prior to our competitors, or, if regulatory approval is not obtained prior to our competitors, to identify markets for our products that may be sufficient to permit meaningful sales of our products. For example, we are aware of several companies that are developing and/or marketing products utilizing HA for a variety of human applications. In some cases, competitors have already obtained product approvals, submitted applications for approval, or have commenced human clinical studies, either in the United States or in certain foreign countries. There exist major competing products for the use of HA in ophthalmic surgery. In addition, certain HA products made by our competitors for the treatment of osteoarthritis in the knee received FDA approval before ours and have been marketed in the United States since 1997, as well as select markets in Canada, Europe, and other countries. There can be no assurance that we will be able to compete against current or future competitors or that competition will not have a material adverse effect on our business, financial condition, and results of operations.

In the second quarter of 2018, we received and analyzed the results of our second Phase III clinical trial for CINGAL and found that, while substantial pain reduction associated with CINGAL was evident at each measurement point, the data did not meet the primary study endpoint of demonstrating a statistically significant difference in pain reduction between CINGAL and the approved steroid component of CINGAL at the six-month time point. These results could have a substantial negative impact on the timeline for CINGAL's commercial launch in the United States, if regulatory approval is ultimately achieved, which could negatively impact our competitive position and have a material adverse effect on our business, financial condition, and results of operations.

Risks Related to Ownership of Our Common Stock

Our stock price may be highly volatile, and we cannot assure you that market making in our common stock will continue.

The market price of shares of our common stock may be highly volatile. Factors such as announcements of new commercial products or technological innovations by us or our competitors, disclosure of results of clinical testing or regulatory proceedings, government regulation and approvals, developments in patent or other proprietary rights, public concern as to the safety of products developed by us, and general market conditions may have a significant effect on the market price of our common stock. The trading price of our common stock could be subject to wide fluctuations in response to quarter-to-quarter variations in our operating results, material announcements by us or our competitors, governmental regulatory action, conditions in the health care industry generally or in the medical products industry specifically, or other events or factors, many of which are beyond our control. In addition, the stock market has experienced extreme price and volume fluctuations, which have particularly affected the market prices of many medical products companies and which often have been unrelated to the operating performance of such companies. Our operating results in future quarters may be below the expectations of equity research analysts and investors. In such an event, the price of our common stock would likely decline, perhaps substantially.

In the second quarter of 2018, we analyzed the results of our second Phase III clinical trial for CINGAL and found that, while substantial pain reduction associated with CINGAL was evident at each measurement point, the data did not meet the primary study endpoint of demonstrating a statistically significant difference in pain reduction between CINGAL and the approved steroid component of CINGAL at the six-month time point. We publicly announced these results on June 19, 2018, after which we observed a substantial decline in the price of our common stock. These Phase III clinical results could aggravate the volatility of our stock in the short term, and we cannot guarantee that we will not experience wide stock price fluctuations in the future.

Our charter documents contain anti-takeover provisions that may prevent or delay an acquisition of our company.

At our Annual Meeting of Stockholder on May 31, 2018, our stockholders ratified the reincorporation of our company from the Commonwealth of Massachusetts to the State of Delaware. We became a Delaware corporation with a new Certificate of Incorporation and new Bylaws, effective as of June 6, 2018. Our new charter documents continue to contain anti-takeover provisions that could prevent or delay an acquisition of our company. The provisions include, among others, a classified board of directors, advance notice to the board of stockholder proposals, limitations on the ability of stockholders to remove directors and to call stockholder meetings, and a provision that allows vacancies on the Board of Directors to be filled by vote of a majority of the remaining directors. We are also subject to Section 203 of the Delaware General Corporate Law which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested stockholder" for a period of three years following the date that such stockholder becomes an interested stockholder. Those provisions could have the effect of discouraging a third party from pursuing a non-negotiated takeover of our company at a price considered attractive by many stockholders and could have the effect of preventing or delaying a potential acquirer from acquiring control of our company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

Under our equity compensation plans, and subject to the specific approval of the Compensation Committee of our Board of Directors, grantees have the option of electing to satisfy tax withholding obligations at the time of vesting or exercise by allowing us to withhold shares of stock otherwise issuable to the grantee. During the three-month period ended June 30, 2018, there were no shares withheld to satisfy grantee tax withholding obligations on restricted stock award vesting events.

Following is a summary of stock repurchases for the three-month period ended June 30, 2018 (in thousands, except share data):

Period	Total Number of Shares Repurchased (1)	Average Price Paid per Share (1)	Total Number of Shares Repurchased as Part of Publicly Announced Program (1)	Approximate Dollar Value of Shares that May Yet Be Repurchased Under the Program (1)
April 1 to 30, 2018	-	-	-	$ -
May 1 to 31, 2018	434,678	-	434,678	$ 12,000
June 1 to 30, 2018	-	-	-	$ 12,000
Total	434,678	-	434,678	

(1) On May 24, 2018, we entered into a previously-announced accelerated stock repurchase agreement (the "ASR Agreement") to repurchase an aggregate of $30.0 million of our common stock. During the second quarter of 2018, 434,678 shares were delivered to us under the ASR Agreement, constituting the initial delivery of shares under the ASR Agreement. On July 16, 2018, pursuant to the terms of the ASR Agreement, Morgan Stanley accelerated the final settlement date from December 2018, and the final number of shares and the average purchase price was determined. Based on the volume-weighted average price from the effective date of the ASR Agreement through July 16, 2018, less the applicable contractual discount, Morgan Stanley delivered 372,140 additional shares to us on July 19, 2018. In total, 806,818 shares were repurchased under the ASR Agreement at an average repurchase price of approximately $37.18. All shares were repurchased in accordance with the publicly announced program. Final settlement occurred on July 16, 2018, and we will not make further purchases under the program.

ITEM 6. EXHIBITS

Exhibit No.	Description
2.1	Plan of Domestication of Anika Therapeutics, Inc., as adopted by Anika Therapeutics, Inc. on March 23, 2018 and approved by the stockholders of Anika Therapeutics, Inc. on May 31, 2018.
*10.1	Fixed Dollar Accelerated Share Repurchase Transaction Confirmation entered into as of May 24, 2018 by and between Morgan Stanley & Co. LLC and Anika Therapeutics, Inc.
(31)	Rule 13a-14(a)/15d-14(a) Certifications
*31.1	Certification of Joseph G. Darling, pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Sylvia Cheung pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)	Section 1350 Certifications
**32.1	Certification of Joseph G. Darling, and Sylvia Cheung, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(101)	XBRL
*101	The following materials from Anika Therapeutics, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, as filed with the SEC on July 31, 2018, formatted in XBRL (eXtensible Business Reporting Language), as follows: i. Condensed Consolidated Balance Sheets as of June 30, 2018 (unaudited) and December 31, 2017 (unaudited) ii. Condensed Consolidated Statements of Operations and Comprehensive Income for the Three and Six Months Ended June 30, 2018 and June 30, 2017 (unaudited) iii. Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2018 and June 30, 2017 (unaudited) iv. Notes to Condensed Consolidated Financial Statements (unaudited)

* Filed herewith
** Furnished herewith.

SIGNATURES

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

ANIKA THERAPEUTICS, INC.

Date: July 31, 2018

By: /s/ SYLVIA CHEUNG
Sylvia Cheung
Chief Financial Officer
(Authorized Officer and Principal Financial Officer)

Exhibit 10.1

Morgan Stanley

MORGAN STANLEY & CO. LLC
1585 BROADWAY
NEW YORK, NY 10036-8293
(212) 761-4000

May 24, 2018

Fixed Dollar Accelerated Share Repurchase Transaction

Anika Therapeutics, Inc.
32 Wiggins Avenue
Bedford, MA 01730
United States

Dear Sir/Madam:

The purpose of this letter agreement (this "**Confirmation**") is to confirm the terms and conditions of the Transaction entered into between Morgan Stanley & Co. LLC ("**MSCO**") and Anika Therapeutics, Inc. ("**Issuer**") on the Trade Date specified below (the "**Transaction**"). This confirmation constitutes a "Confirmation" as referred to in the Agreement specified below.

The definitions and provisions contained in the 2002 ISDA Equity Derivatives Definitions (as published by the International Swaps and Derivatives Association, Inc. ("**ISDA**")) (the "**Equity Definitions**") are incorporated into this Confirmation. The Transaction is a Share Forward Transaction for purposes of the Equity Definitions. Any reference to a currency shall have the meaning contained in Section 1.7 of the 2006 ISDA Definitions, as published by ISDA.

1. This Confirmation evidences a complete and binding agreement between MSCO and Issuer as to the terms of the Transaction to which this Confirmation relates and shall supersede all prior or contemporaneous written or oral communications with respect thereto. This Confirmation shall be subject to an agreement (the "**Agreement**") in the form of the 2002 ISDA Master Agreement as if MSCO and Issuer had executed an agreement in such form without any Schedule but with the elections set forth in this Confirmation (and the election of USD as the Termination Currency).

The Transaction shall be the only transaction under the Agreement. If there exists any ISDA Master Agreement between MSCO and Issuer or any confirmation or other agreement between MSCO and Issuer pursuant to which an ISDA Master Agreement is deemed to exist between MSCO and Issuer, then, notwithstanding anything to the contrary in such ISDA Master Agreement, such confirmation or agreement or any other agreement to which MSCO and Issuer are parties, the Transaction shall not be considered a transaction under, or otherwise governed by, such existing or deemed to be existing ISDA Master Agreement.

If there is any inconsistency between the Agreement, this Confirmation and the Equity Definitions, the following will prevail for purposes of the Transaction in the order of precedence indicated: (i) this Confirmation; (ii) the Equity Definitions; and (iii) the Agreement.

2. The terms of the particular Transaction to which this Confirmation relates are as follows:

GENERAL TERMS:

Trade Date:	As specified in Schedule I
Buyer:	Issuer
Seller:	MSCO

Shares:	Common Stock, par value USD 0.01 per share, of Issuer (Ticker: ANIK)
Forward Price:	A price per Share (as determined by the Calculation Agent) equal to (i) the arithmetic mean (not a weighted average) of the 10b-18 VWAP on each Trading Day during the Calculation Period minus (ii) the Discount.
Discount:	As specified in Schedule I
10b-18 VWAP:	On any Trading Day, a price per Share equal to the volume-weighted average price of the Rule 10b-18 eligible trades in the Shares for the entirety of such Trading Day as determined by the Calculation Agent by reference to the screen entitled "ANIK <Equity> AQR SEC" or any successor page as reported by Bloomberg L.P. or any successor (without regard to pre-open or after-hours trading outside of any regular trading session for such Trading Day or block trades (as defined in Rule 10b-18(b)(5) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")) on such Trading Day) or, if the price displayed on such screen is clearly erroneous, as determined by the Calculation Agent in good faith and in a commercially reasonable manner.
Calculation Period:	The period from, and including, the first Trading Day that occurs on the Prepayment Date to, and including, the relevant Valuation Date.
Trading Day:	Any Exchange Business Day that is not a Disrupted Day in whole.
Initial Shares:	As specified in Schedule I
Initial Share Delivery Date:	One Exchange Business Day following the Trade Date. On the Initial Share Delivery Date, Seller shall deliver to Buyer a number of Shares equal to the Initial Shares in accordance with Section 9.4 of the Equity Definitions, with the Initial Share Delivery Date being deemed to be a "Settlement Date" for purposes of such Section 9.4.
Prepayment:	Applicable
Prepayment Amount:	As specified in Schedule I

Prepayment Date:	One Exchange Business Day following the Trade Date. On the Prepayment Date, Buyer shall pay to Seller the Prepayment Amount.
Exchange:	Nasdaq Global Select Market
Related Exchange:	All Exchanges on which options or futures on the Shares are traded.
Market Disruption Event:	The definition of "Market Disruption Event" in Section 6.3(a) of the Equity Definitions is hereby amended by deleting the words "at any time during the one-hour period that ends at the relevant Valuation Time, Latest Exercise Time, Knock-in Valuation Time or Knock-out Valuation Time, as the case may be," starting in the third line thereof. Section 6.3(d) of the Equity Definitions is hereby amended by deleting the remainder of the provision following the term "Scheduled Closing Time" in the fourth line thereof. Notwithstanding anything to the contrary in the Equity Definitions, if any Exchange Business Day in the Calculation Period is a Disrupted Day, the Calculation Agent shall have the option in its sole discretion to take one or more of the following actions: (i) determine that such Exchange Business Day is a Disrupted Day in part, in which case the Calculation Agent shall (x) determine the 10b-18 VWAP on such Exchange Business Day based on Rule 10b-18 eligible trades in the Shares on such day taking into account the nature and duration of the relevant Market Disruption Event and (y) determine the Forward Price using an appropriately weighted average of 10b-18 VWAPs instead of an arithmetic mean, and/or (ii) elect to postpone the Scheduled Valuation Date by up to one Scheduled Trading Day for every Trading Day that is a Disrupted Day during the Calculation Period. For the avoidance of doubt, if the Calculation Agent takes the action described in clause (i) above, then such Disrupted Day shall be a Trading Day for purposes of calculating the Forward Price. Any Exchange Business Day on which, as of the date hereof, the Exchange is scheduled to close prior to its normal close of trading shall be deemed not to be an Exchange Business Day; if a closure of the Exchange prior to its normal close of trading on any Exchange Business Day is scheduled following the date hereof, then such Exchange Business Day shall be deemed to be a Disrupted Day in full.

If a Disrupted Day occurs during the Calculation Period and each of the nine immediately following Scheduled Trading Days is a Disrupted Day, then the Calculation Agent may, in its good faith and commercially reasonable discretion, deem such ninth Scheduled Trading Day to be an Exchange Business Day that is not a Disrupted Day and determine the 10b-18 VWAP Price for such ninth Scheduled Trading Day using its good faith and commercially reasonable estimate of the value of the Shares on such ninth Scheduled Trading Day based on the volume, historical trading patterns and price of the Shares and such other factors as it deems appropriate.

VALUATION:

Valuation Date:	The earlier of (i) the Scheduled Valuation Date and (ii) any earlier accelerated Valuation Date as a result of MSCO's election in accordance with the immediately succeeding paragraph. MSCO shall have the right, in its absolute discretion but subject to the limitation set forth in the immediately succeeding paragraph, to accelerate the Valuation Date, in whole or in part, to any Exchange Business Day that is on or after the Lock-Out Date and prior to the Scheduled Valuation Date by notice (each such notice, an "**Acceleration Notice**") to Issuer by 9:00 p.m., New York City time, on the Exchange Business Day immediately following the accelerated Valuation Date (the "**Acceleration Date**"). On each Valuation Date, the Calculation Agent shall calculate the Settlement Amount.
Scheduled Valuation Date:	As specified in Schedule I, subject to postponement in accordance with "Market Disruption Event" above.
Lock-Out Date:	As specified in Schedule I

SETTLEMENT TERMS:

Physical Settlement:	Applicable. On the Settlement Date, Seller shall deliver to Buyer a number of Shares equal to (a) (i) the Prepayment Amount divided by (ii) the Forward Price, minus (b) the Initial Shares (such number of Shares, the "**Settlement Amount**"), rounded to the nearest whole number of Shares; provided, however, that if the Settlement Amount is less than zero, then Buyer shall deliver to Seller a number of Shares which shares shall be delivered to Seller by means of a private placement equal to 101% of the absolute value of the Settlement Amount (such number of Shares, the "**Payment Shares**").

	Notwithstanding the proviso in the immediately preceding paragraph, if the Settlement Amount is less than zero, Buyer may cash settle its obligation to deliver the Payment Shares by delivering to Seller a notice by no later than the Valuation Date (or, if later, the date on which MSCO delivers an Acceleration Notice) electing to cash settle its obligation to deliver the Payment Shares. Any such cash settlement shall be effected in accordance with "Cash Settlement of Payment Shares" below. For the avoidance of doubt, upon the date that (i) Issuer satisfies its obligation to deliver the Payment Shares to MSCO in accordance with the terms of this paragraph or (ii) the Settlement Balance (as defined below) is reduced to zero in connection with the cash settlement of the Issuer's obligation to deliver Payment Shares (as described under "Cash Settlement of Payment Shares" below), Issuer shall have no further delivery or payment obligations under the terms of the Transaction and the Transaction shall be deemed to have been settled as of such date.
Settlement Currency:	USD
Settlement Date:	The earlier of (x) December 31, 2018 and (y) the date that falls one Settlement Cycle after the relevant Valuation Date; provided that with respect to any accelerated Valuation Date, the date shall be the date that falls one Settlement Cycle following the Acceleration Date.
Cash Settlement of Payment Shares:	If Buyer elects to cash settle its obligation to deliver Payment Shares, then on the Valuation Date a notional Share balance (the "**Settlement Balance**") shall be created with an initial balance equal to the absolute value of the Settlement Amount. On the Settlement Date, Buyer shall deliver to Seller an amount in USD equal to the Payment Shares multiplied by a price per Share as reasonably determined by the Calculation Agent (such cash amount, the "**Initial Cash Settlement Amount**"). On the Exchange Business Day immediately following the Valuation Date, Seller may begin purchasing Shares in a commercially reasonable manner (all such Shares purchased, "**Cash Settlement Shares**") and a notional cash balance (the "**Cash Balance**") shall be created with an initial balance equal to the Initial Cash Settlement Amount. At the end of each Exchange Business Day on which Seller purchases Cash Settlement Shares, Seller shall reduce (i) the Settlement Balance by the number of Cash Settlement Shares purchased on such Exchange Business Day and (ii) the Cash Balance by the aggregate purchase price (including commissions) of the Cash Settlement Shares purchased on such Exchange Business Day. If, on any Exchange Business Day, the Cash Balance is reduced to or below zero but the Settlement Balance is greater than zero, the Buyer shall (i) deliver to Seller or as directed by Seller on the next Currency Business Day after such Exchange Business Day an additional amount in USD (an "**Additional Cash Settlement Amount**") equal to the Settlement Balance as of such Exchange Business Day multiplied by a price per Share as reasonably determined by the Calculation Agent, and the Cash Balance shall be increased by such amount. This provision shall be applied successively until the Settlement Balance is reduced to zero. On the Currency Business Day immediately following the Exchange Business Day that the Settlement Balance is reduced to zero, Seller shall return to Buyer an amount in USD equal to the remaining Cash Balance, if any, as of such Exchange Business Day. In making any purchases of Cash Settlement Shares contemplated by this paragraph, MSCO shall use commercially reasonable efforts to purchase such Shares in a manner that would qualify for the safe harbor provided by Rule 10b-18 under the Exchange Act ("**Rule 10b-18**") if such purchases were made by or on behalf of Issuer and subject to Rule 10b-18. The period until the Settlement Balance is reduced to zero shall be considered to be part of the Calculation Period for purposes of the representations, warranties and covenants and other provisions herein as the context requires (but, for the avoidance of doubt, not for purposes of determining the Forward Price).

Other Applicable Provisions:	The last sentence of Section 9.2, Sections 9.8, 9.9, 9.10 and 9.11 (except that the Representation and Agreement contained in Section 9.11 of the Equity Definitions shall be modified by excluding any representations therein relating to restrictions, obligations, limitations or requirements under applicable securities laws arising as a result of the fact that Buyer is the issuer of the Shares) and Section 9.12 of the Equity Definitions will be applicable to the Transaction.

SHARE ADJUSTMENTS:

Potential Adjustment Event:	Notwithstanding anything to the contrary in Section 11.2(e) of the Equity Definitions, an Extraordinary Dividend shall not constitute a Potential Adjustment Event. It shall constitute a Potential Adjustment Event if a Disrupted Day occurs or, pursuant to Section 11 below, is deemed to occur (in whole or in part) on any Trading Day on or prior to the Valuation Date.
Extraordinary Dividend:	Any dividend or distribution on the Shares with an ex-dividend date occurring during the period from, and including, the Trade Date to, and including, the later of (i) the last day of the Calculation Period or (ii) the day upon which the transactions contemplated under "Cash Settlement of Payment Shares" are complete.
Method of Adjustment:	Calculation Agent Adjustment

EXTRAORDINARY EVENTS:

Consequences of Merger Events:

Share-for-Share:	Modified Calculation Agent Adjustment
Share-for-Other:	Cancellation and Payment on that portion of the Other Consideration that consists of cash; Modified Calculation Agent Adjustment on the remainder of the Other Consideration
Share-for-Combined:	Component Adjustment
Tender Offer:	Applicable

Consequences of Tender Offers:

Share-for-Share:	Modified Calculation Agent Adjustment
Share-for-Other:	Modified Calculation Agent Adjustment
Share-for-Combined:	Modified Calculation Agent Adjustment
New Shares:	In the definition of New Shares in Section 12.1(i) of the Equity Definitions, the text in clause (i) thereof shall be deleted in its entirety (including the word "and" following such clause (i)) and replaced with "publicly quoted, traded or listed on any of the New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market (or their respective successors)".

For purposes of the Transaction,

(i) the definition of Merger Date in Section 12.1(c) of the Equity Definitions shall be amended to read, "Merger Date shall mean the Announcement Date.";

(ii) the definition of Tender Offer Date in Section 12.1(e) of the Equity Definitions shall be amended to read, "Tender Offer Date shall mean the Announcement Date.";

(iii) the definition of "Announcement Date" in Section 12.1(l) of the Equity Definitions is hereby amended by (a) replacing the words "a firm" with the word "any" in the second and fourth lines thereof, (b) replacing the word "leads to the" with the words ", if completed, would lead to a" in the third and the fifth lines thereof, (c) replacing the words "voting shares" with the word "Shares" in the fifth line thereof, (d) inserting the words "by any entity" after the word "announcement" in the second and the fourth lines thereof, (e) inserting the words "or to explore the possibility of engaging in" after the words "engage in" in the second line thereof and (f) inserting the words "or to explore the possibility of purchasing or otherwise obtaining" after the word "obtain" in the fourth line thereof; and

(iv) Section 12.2 of the Equity Definitions is hereby amended by inserting the words "Announcement Date in respect of any Merger Event or any potential" before the words "Merger Event" in the final line thereof.

Composition of Combined Consideration:	Not Applicable

Nationalization, Insolvency or Delisting:	Cancellation and Payment; provided that in addition to the provisions of Section 12.6(a)(iii) of the Equity Definitions, it shall constitute a Delisting if the Exchange is located in the United States and the Shares are not immediately re-listed, re-traded or re-quoted on any of the New York Stock Exchange, The NASDAQ Global Market or The NASDAQ Global Select Market (or their respective successors); if the Shares are immediately re-listed, re-traded or re-quoted on any such exchange or quotation system, such exchange or quotation system shall thereafter be deemed to be the Exchange.

ADDITIONAL DISRUPTION EVENTS:

Change in Law:	Applicable; provided that (i) any determination as to whether (A) the adoption of or any change in any applicable law or regulation (including, for the avoidance of doubt and without limitation, (x) any tax law or (y) adoption or promulgation of new regulations authorized or mandated by existing statute) or (B) the promulgation of or any change in the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law or regulation (including any action taken by a taxing authority), in each case, constitutes a "Change in Law" shall be made without regard to Section 739 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 or any similar legal certainty provision in any legislation enacted, or rule or regulation promulgated, on or after the Trade Date, and (ii) Section 12.9(a)(ii) of the Equity Definitions is hereby amended by replacing the parenthetical beginning after the word "regulation" in the second line thereof the words "(including, for the avoidance of doubt and without limitation, (x) any tax law or (y) adoption or promulgation of new regulations authorized or mandated by existing statute)".
Failure to Deliver:	Applicable
Insolvency Filing:	Applicable
Hedging Disruption:	Applicable
Increased Cost of Hedging:	Applicable
Loss of Stock Borrow:	Applicable
Maximum Stock Loan Rate:	100 bps
Increased Cost of Stock Borrow:	Applicable
Initial Stock Loan Rate:	25 bps
Determining Party:	For all applicable events, MSCO
Hedging Party:	For all applicable events, MSCO

Additional Termination Event(s):	The declaration by the Issuer of any Extraordinary Dividend, the ex-dividend date for which occurs or is scheduled to occur during the Relevant Dividend Period, will constitute an Additional Termination Event, with Counterparty as the sole Affected Party and all Transactions hereunder as the Affected Transactions.
Relevant Dividend Period:	The period from, and including, the Trade Date for the Transaction to, and including, the third Scheduled Trading Day following the Scheduled Valuation Date for the Transaction.
Non-Reliance:	Applicable
Agreements and Acknowledgements Regarding Hedging Activities:	Applicable
Additional Acknowledgments:	Applicable

3. Calculation Agent: MSCO

4. Account Details and Notices:

(a) Account for delivery of Shares to Issuer:

Company: 12629
Anika Therapeutics, Inc.
American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219

(b) Account for payments to Issuer:

Bank of America, NY
ABA#: 026009593
Anika Therapeutics, Inc.
Account#: 9363574995

(c) Account for payments to MSCO:

Citibank, NY
ABA #: 021000089
Morgan Stanley & Co.
Account #: 38890774
Anika Therapeutics, Inc.
023-05370

(d) For purposes of this Confirmation:

(i) Address for notices or communications to Issuer:

Anika Therapeutics, Inc.
32 Wiggins Avenue
Bedford, MA 01730
Attention: Sylvia Cheung
Telephone: 781-457-9214
Facsimile: 781-305-9720
Email Address: scheung@anikatherapeutics.com

With a copy to:
Anika Therapeutics, Inc.
32 Wiggins Avenue
Bedford, MA 01730
Attention: Charles Sherwood III
Telephone: 781-457-9261
Facsimile: 781-305-9720
Email: chsherwoodiii@anikatherapeutics.com

(ii) Address for notices or communications to MSCO:

Morgan Stanley & Co. LLC
1585 Broadway
New York, NY 10036-8293
Attention: Usman Khan
Telephone: 212-761-0955
Facsimile: 212-507-4261
Email Address: usman.s.khan@morganstanley.com

With a copy to:
Morgan Stanley & Co. LLC
1585 Broadway
New York, NY 10036-8293
Attention: Steven Seltzer
Telephone: 212-761-1719
Email: Steven.Seltzer1@morganstanley.com

5. Amendments to the Equity Definitions.

(a) Section 9.2(a)(iii) of the Equity Definitions is hereby amended by deleting the words "the Excess Dividend Amount, if any, and".

(b) Section 11.2(a) of the Equity Definitions is hereby amended by deleting the words "a diluting or concentrative effect on the theoretical value of the relevant Shares" and replacing them with the words "a material economic effect on the relevant Transaction".

(c) The first sentence of Section 11.2(c) of the Equity Definitions, prior to clause (A) thereof, is hereby amended to read as follows: '(c) If "Calculation Agent Adjustment" is specified as the Method of Adjustment in the related Confirmation of a Share Option Transaction or Share Forward Transaction, then, following the announcement or occurrence of any Potential Adjustment Event, the Calculation Agent will determine whether such Potential Adjustment Event has a material economic effect on the Transaction and, if so, will (i) make appropriate adjustment(s), if any, to any one or more of:' and the portion of such sentence immediately preceding clause (ii) thereof is hereby amended by deleting the words "diluting or concentrative" and the words "(provided that no adjustments will be made to account solely for changes in volatility, expected dividends, stock loan rate or liquidity relative to the relevant Share)" and replacing such latter phrase with the words "(including adjustments to account for changes in volatility, stock loan rate or liquidity relevant to the Shares or to the Transaction)".

(d) Section 11.2(e)(vii) of the Equity Definitions is hereby amended by deleting the words "diluting or concentrative effect on the theoretical value of the relevant Shares" and replacing them with the words "material economic effect on the relevant Transaction".

(e) Section 12.6(c)(ii) of the Equity Definitions is hereby amended by replacing the words "the Transaction will be cancelled," in the first line with the words "MSCO will have the right to cancel the Transaction,".

(f) Section 12.9(b)(iv) of the Equity Definitions is hereby amended by (A) deleting (1) subsection (A) in its entirety, (2) the phrase "or (B)" following subsection (A) and (3) the phrase "in each case" in subsection (B); and (B) deleting the phrase "neither the Non-Hedging Party nor the Lending Party lends Shares in the amount of the Hedging Shares or" in the penultimate sentence.

(g) Section 12.9(b)(v) of the Equity Definitions is hereby amended by (A) adding the word "or" immediately before subsection "(B)" and deleting the comma at the end of subsection (A); and (B)(1) deleting subsection (C) in its entirety, (2) deleting the word "or" immediately preceding subsection (C) and (3) replacing in the penultimate sentence the words "either party" with "the Hedging Party" and (4) deleting clause (X) in the final sentence.

6. Certain Payments and Deliveries by MSCO.

Notwithstanding anything to the contrary herein, or in the Equity Definitions, if at any time (i) an Early Termination Date occurs and MSCO would be required to make a payment pursuant to Section 6 of the Agreement or (ii) an Extraordinary Event occurs and MSCO would be required to make a payment pursuant to Article 12 of the Equity Definitions (the amount of any such payment obligation described in Section 6(i) or (ii) above, an "**MSCO Payment Amount**"), then Issuer shall have the right, by prior written notice to MSCO, to require MSCO to settle such payment obligation in Shares in lieu of cash; provided, however, that Issuer shall not have the right to so elect in the event of (i) an Insolvency, a Nationalization, a Merger Event or a Tender Offer, in each case, in which the consideration or proceeds to be paid to holders of Shares consists solely of cash or (ii) an Event of Default in which Issuer is the Defaulting Party or a Termination Event in which Issuer is an Affected Party, which Event of Default or Termination Event resulted from an event or events within Issuer's control. If Issuer does not so elect for MSCO to settle an MSCO Payment Amount in Shares, then MSCO shall have the right, in its sole discretion, to elect to settle such MSCO Payment Amount in Shares. If either Issuer or MSCO so elects, then MSCO shall deliver to Issuer, on or within a commercially reasonable time following the date on which such MSCO Payment Amount would have been due, a number of Shares with a market value, as determined by the Calculation Agent, equal to all or a portion (which portion may be zero) of the MSCO Payment Amount. If the market value of such Shares equals a portion, but not all, of the MSCO Payment Amount, then, on the date such MSCO Payment Amount is due, a notional balance (the "**Settlement Balance**") shall be established equal to the remaining portion of the MSCO Payment Amount, and MSCO shall commence purchasing Shares for delivery to Issuer. At the end of each Trading Day on which MSCO purchases Shares pursuant to this Section 6, MSCO shall reduce the Settlement Balance by the amount paid by MSCO to purchase the Shares purchased on such Trading Day. MSCO shall deliver any Shares purchased on a Trading Day pursuant to this Section 6 to Issuer on the third Exchange Business Day following such Trading Day. MSCO shall continue so purchasing and delivering Shares until the Settlement Balance has been reduced to zero. In making any purchases of Shares contemplated by this Section 6, MSCO shall use commercially reasonable efforts to purchase such Shares in a manner that would qualify for the safe harbor provided by Rule 10b-18 if such purchases were made by or on behalf of Issuer and subject to Rule 10b-18. The period until the Settlement Balance is reduced to zero shall be considered to be part of the Calculation Period for purposes of the representations, warranties and covenants and other provisions herein as the context requires.

7. Certain Payments and Deliveries by Issuer.

Notwithstanding anything to the contrary herein, or in the Equity Definitions, if at any time (i) an Early Termination Date occurs and Issuer would be required to make a payment pursuant to Section 6 of the Agreement or (ii) an Extraordinary Event occurs and Issuer would be required to make a payment pursuant to Article 12 of the Equity Definitions (any such payment described in (i) or (ii) above, an "**Early Settlement Payment**"), then Issuer shall have the right, by prior written notice to MSCO, in lieu of making such cash payment, to settle such payment obligation in Shares (such Shares, "**Early Settlement Shares**"); provided, however, that Issuer shall not have the right to so elect in the event of (i) an Insolvency, a Nationalization, a Merger Event or a Tender Offer, in each case, in which the consideration or proceeds to be paid to holders of Shares consists solely of cash or (ii) an Event of Default in which Issuer is the Defaulting Party or a Termination Event in which Issuer is an Affected Party, which Event of Default or Termination Event resulted from an event or events within Issuer's control. In order to elect to deliver Early Settlement Shares, (i) Issuer must notify MSCO of its election by no later than 4:00 p.m., New York City time, on the date that is three Exchange Business Days before the date that the Early Settlement Payment is due, (ii) Issuer must specify whether such Early Settlement Shares are to be sold by means of a registered offering or by means of a private placement and (iii) Issuer must comply with Section 8 below.

8. Provisions Relating to Delivery of Early Settlement Shares.

(a) Issuer may deliver Early Settlement Shares and Make-Whole Shares (as defined below) by means of a registered offering only if the following conditions are satisfied:

(i) On the later of (A) the Trading Day following Issuer's election to deliver Early Settlement Shares and any Make-Whole Shares by means of a registered offering (the "**Registration Notice Date**"), and (B) the date on which the Registration Statement is declared effective by the SEC or becomes effective, but in no event later than the date the Early Settlement Payment is due, Issuer shall deliver to MSCO a number of Early Settlement Shares equal to the quotient of (I) the relevant Early Settlement Payment divided by (II) a price per Share as reasonably determined by the Calculation Agent (the date of such delivery, the "**Registered Share Delivery Date**").

(ii) Promptly following the Registration Notice Date, Issuer shall file with the SEC a registration statement ("**Registration Statement**") covering the public sale by MSCO of the Early Settlement Shares and any Make-Whole Shares (collectively, the "**Registered Securities**") on a continuous or delayed basis pursuant to Rule 415 (or any similar or successor rule), if available, under the Securities Act of 1933, as amended (the "**Securities Act**"); provided that no such filing shall be required pursuant to this paragraph (ii) if Issuer shall have filed a similar registration statement with unused capacity at least equal to the relevant Early Settlement Payment and such registration statement has become effective or been declared effective by the SEC on or prior to the Registration Notice Date and no stop order is in effect with respect to such registration statement as of the Registration Notice Date, in which case such registration statement shall be the Registration Statement. Issuer shall use its commercially reasonable efforts to file the Registration Statement as an automatic shelf registration statement or have the Registration Statement declared effective by the SEC as promptly as possible. The Registration Statement shall be effective and subject to no stop order as of the Registered Share Delivery Date.

(iii) Promptly following the Registration Notice Date, Issuer shall afford MSCO a reasonable opportunity to conduct a due diligence investigation with respect to Issuer customary in scope for underwritten offerings of equity securities for companies of comparable size, maturity and line of business (including, without limitation, the availability of senior management to respond to questions regarding the business and financial condition of Issuer and the right to have made available to MSCO for inspection all financial and other records, pertinent corporate documents and other information reasonably requested in connection with underwritten offerings of this type by MSCO), and MSCO shall be satisfied in all material respects with the results of such due diligence investigation of Issuer. For the avoidance of doubt, Issuer shall not have the right to deliver Shares pursuant to this Section 8(a) (and the conditions to delivery of Early Settlement Shares specified in this Section 8(a) shall not be satisfied) unless and until MSCO is satisfied in all material respects with the results of such due diligence investigation of Issuer.

(iv) From the effectiveness of the Registration Statement until all Registered Securities have been sold by MSCO, Issuer shall, at the request of MSCO, make available to MSCO a printed prospectus relating to the Registered Securities in form and substance (including, without limitation, any sections describing the plan of distribution) reasonably satisfactory to MSCO (a "**Prospectus**", which term shall include any prospectus supplement thereto), in such quantities as MSCO shall reasonably request.

(v) Issuer shall use its commercially reasonable efforts to avoid or prevent the issuance of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any Prospectus and, if any such order is issued, to obtain the lifting thereof as soon thereafter as is possible. If the Registration Statement, the Prospectus or any document incorporated therein by reference contains a misstatement of a material fact or omits to state a material fact required to be stated therein or necessary to make any statement therein not misleading, Issuer shall as promptly as practicable file any required document and prepare and furnish to MSCO a reasonable number of copies of such supplement or amendment thereto as may be necessary so that the Prospectus, as thereafter delivered to the purchasers of the Registered Securities, will not contain a misstatement of a material fact or omit to state a material fact required to be stated therein or necessary to make any statement therein not misleading.

(vi) On or prior to the Registered Share Delivery Date, Issuer shall enter into an agreement (a "**Transfer Agreement**") with MSCO (or any affiliate of MSCO designated by MSCO) relating to the public sale of the Registered Securities and substantially similar to underwriting agreements customary for underwritten offerings of equity securities for companies of comparable size, maturity and line of business, in form and substance reasonably satisfactory to MSCO (or such affiliate), which Transfer Agreement shall (without limiting the foregoing) contain provisions substantially similar to those contained in such underwriting agreements relating to:

(A) the indemnification of, and contribution in connection with the liability of, MSCO and its affiliates,

(B) the delivery to MSCO (or such affiliate) of customary letters and opinions (including, without limitation, accountants' comfort letters, opinions relating to the due authorization, valid issuance and fully paid and non-assessable nature of the Registered Securities and letters of counsel relating to the lack of material misstatements and omissions in the Registration Statement and the Prospectus); and

(C) the payment by Issuer of all fees and expenses in connection with such resale, including all registration costs and all reasonable fees and expenses of one counsel for MSCO (or such affiliate).

(vii) On the Registered Share Delivery Date, a notional balance (the "**Early Settlement Balance**") shall be established with an initial balance equal to the amount of the Early Settlement Payment. Following the delivery of Early Settlement Shares or any Make-Whole Shares, MSCO shall sell all such Early Settlement Shares or Make-Whole Shares in a commercially reasonable manner.

(viii) At the end of each day on which sales have been made pursuant to paragraph 8(a)(vii) above, the Early Settlement Balance shall be (A) reduced by an amount equal to the net proceeds to be received by MSCO upon settlement of such sales, and (B) increased by an amount (as reasonably determined by the Calculation Agent) equal to MSCO's funding cost with respect to the Early Settlement Balance as of the close of business on the day one Settlement Cycle prior to such day.

(ix) If, on any date, the Settlement Balance has been reduced to zero but not all of the Early Settlement Shares have been sold, no additional Early Settlement Shares shall be sold and MSCO shall promptly deliver to Issuer (A) any remaining Early Settlement Shares and (B) if the Early Settlement Balance has been reduced to an amount less than zero, an amount in cash equal to the absolute value of the then-current Early Settlement Balance.

(x) If, on any date, all of the Early Settlement Shares have been sold and the Settlement Balance has not been reduced to zero, Issuer shall, at its election, either pay the remaining Early Settlement Balance to MSCO in cash or promptly deliver to MSCO an additional number of Shares ("**Make-Whole Shares**") equal to (A) the Settlement Balance as of such date divided by (B) a price per Share as reasonably determined by the Calculation Agent. This clause (x) shall be applied successively until the Settlement Balance is reduced to zero.

(xi) If at any time the number of Shares covered by the Registration Statement is less than the number of Registered Securities required to be delivered pursuant to this Section 8(a), Issuer shall, at the request of MSCO, file additional registration statement(s) to register the sale of all Registered Securities required to be delivered to MSCO.

(xii) Issuer shall cooperate with MSCO and use its commercially reasonable efforts to take any other action necessary to effect the intent of the provisions set forth in this Section 8(a).

(xiii) The provisions of Section 8(b) shall apply to any then-current Early Settlement Balance if (i) on any given day, Issuer cannot satisfy any of the conditions set forth in this Section 8(a) or (ii) for a period of at least 10 consecutive Exchange Business Days, MSCO has determined that it is inadvisable to effect sales of Registered Securities, unless in either case Issuer pays such then-current Early Settlement Balance to MSCO in cash pursuant to the Registration Statement.

(b) If Issuer timely elects to deliver Early Settlement Shares and Make-Whole Shares by means of a private placement, the following provisions shall apply:

(i) All Early Settlement Shares and Make-Whole Shares shall be delivered to MSCO (or any affiliate of MSCO designated by MSCO) pursuant to the exemption from the registration requirements of the Securities Act provided by Section 4(a)(2) thereof.

(ii) Issuer shall afford MSCO and any potential purchaser of any such Shares from MSCO (or any affiliate of MSCO designated by MSCO) identified by MSCO a commercially reasonable opportunity to conduct a due diligence investigation with respect to Issuer customary in scope for private placements of equity securities for companies of comparable size, maturity and line of business (including, without limitation, the right to have made available to them for inspection all financial and other records, pertinent corporate documents and other information reasonably requested by them in connection with underwritten offerings of this type) and Issuer shall not disclose material non-public information in connection with such due diligence investigation.

(iii) Issuer shall enter into an agreement (a "**Private Placement Agreement**") with MSCO (or any affiliate of MSCO designated by MSCO) in connection with the private placement of such Shares by Issuer to MSCO (or any such affiliate) and the private resale of such Shares by MSCO (or any such affiliate), substantially similar to private placement purchase agreements customary for private placements of equity securities for companies of comparable size, maturity and line of business, in form and substance commercially reasonably satisfactory to MSCO and Issuer, which Private Placement Agreement shall include, without limitation, provisions substantially similar to those contained in such private placement purchase agreements relating to the indemnification of, and contribution in connection with the liability of, MSCO and its affiliates, and shall provide for the payment by Issuer of all fees and expenses in connection with such resale, including all reasonable fees and expenses of one counsel for MSCO but not including any underwriter or broker discounts and commissions, and shall contain representations, warranties and agreements of Issuer and MSCO reasonably necessary or advisable to establish and maintain the availability of an exemption from the registration requirements of the Securities Act for such resales.

(iv) Issuer shall not take or cause to be taken any action that would make unavailable either (A) the exemption set forth in Section 4(a)(2) of the Securities Act for the sale of any Early Settlement Shares or Make-Whole Shares by Issuer to MSCO or (B) an exemption from the registration requirements of the Securities Act reasonably acceptable to MSCO for resales of Early Settlement Shares and Make-Whole Shares by MSCO.

(v) On the date requested by MSCO, Issuer shall deliver a number of Early Settlement Shares equal to the quotient of (A) the amount of the Early Settlement Payment divided by (B) a per Share value, determined by MSCO in a commercially reasonable manner, which value shall take into account transfer restrictions applicable to such Shares and may be based on indicative bids from institutional "accredited investors" (as defined in Rule 501 under the Securities Act), and the provisions of Section 8(a)(vii) through (x) shall apply to the Early Settlement Shares delivered pursuant to this Section 8(b)(v). For purposes of applying the foregoing, the Registered Share Delivery Date referred to in Section 8(a)(vii) shall be the date on which Issuer delivers the Early Settlement Shares.

(c) If Issuer elects to deliver Early Settlement Shares to settle its obligation to make an Early Settlement Payment, then, if necessary, Issuer shall use its commercially reasonable efforts to cause the number of authorized but unissued Shares of Common Stock to be increased to an amount sufficient to permit Issuer to fulfill its obligations under Sections 8(a) and/or 8(b) above.

9. Special Provisions for Merger Transactions.

Notwithstanding anything to the contrary herein or in the Equity Definitions:

(a) Issuer agrees that:

(i) It will not during the term of the Transaction make, or, to the extent within its control, permit to be made, any public announcement (as defined in Rule 165(f) under the Securities Act) of any Merger Transaction or potential Merger Transaction unless such public announcement is made prior to the open or after the close of the regular trading session on the Exchange for the Shares.

(ii) To the extent that an announcement of a potential Merger Transaction occurs during the term of the Transaction and such announcement does not cause the Transaction to be cancelled or terminated in whole pursuant to "Extraordinary Events" in Section 2 above, then as soon as practicable following such announcement (but in any event prior to the next opening of the regular trading session on the Exchange), Issuer shall provide MSCO with written notice of such announcement; promptly (but in any event prior to the next opening of the regular trading session on the Exchange), Issuer shall provide MSCO with written notice specifying (x) Issuer's average daily "Rule 10b-18 purchases" (as defined in Rule 10b-18) during the three full calendar months immediately preceding the Announcement Date that were not effected through MSCO or its affiliates and (y) the number of Shares purchased pursuant to the block purchase proviso in Rule 10b-18(b)(4) under the Exchange Act for the three full calendar months preceding the Announcement Date. Such written notice shall be deemed to be a certification by Issuer to MSCO that such information is true and correct. Issuer understands that MSCO will use this information in calculating the trading volume for purposes of Rule 10b-18. In addition, Issuer shall promptly notify MSCO of the earlier to occur of the completion of such transaction and the completion of the vote by target shareholders. Issuer acknowledges that any such public announcement may trigger the provision set forth in Section 11 below. Accordingly, Issuer acknowledges that its actions in relation to any such announcement or transaction must comply with the standards set forth in Section 13(b) below.

(b) Upon the occurrence of any public announcement of a Merger Transaction, MSCO in its sole discretion may (i) apply the provisions of Section 11 below and/or (ii) treat the occurrence of such announcement as an Additional Termination Event with respect to which the Transaction shall be the sole Affected Transaction, Issuer shall be the sole Affected Party and MSCO shall be the party entitled to designate an Early Termination Date pursuant to Section 6(b) of the Agreement.

"**Merger Transaction**" means any merger, acquisition or similar transaction involving a recapitalization of Issuer as contemplated by Rule 10b-18(a)(13)(iv) under the Exchange Act.

10. Special Provisions for Acquisition Transaction Announcements.

(a) If an Acquisition Transaction Announcement occurs on or prior to the final Valuation Date, then the Forward Price shall be determined as if the words "minus (ii) the Discount" were deleted from the definition thereof. If an Acquisition Transaction Announcement occurs after the Trade Date but prior to the Lock-Out Date, the Lock-Out Date shall be deemed to be the date of such Acquisition Transaction Announcement.

(b) "**Acquisition Transaction Announcement**" means (i) the announcement of an Acquisition Transaction, (ii) an announcement that Issuer or any of its subsidiaries has entered into an agreement, a letter of intent or an understanding designed to result in an Acquisition Transaction, (iii) the announcement of the intention to solicit or enter into, or to explore strategic alternatives or other similar undertaking that may include, an Acquisition Transaction or (iv) any announcement subsequent to an Acquisition Transaction Announcement relating to a material amendment, extension, withdrawal or other material change to the subject matter of the previous Acquisition Transaction Announcement. For the avoidance of doubt, the term "announcement" as used in the definition of Acquisition Transaction Announcement refers to any public announcement whether made by Issuer or by a third party that is reasonably likely to be a party to the Acquisition Transaction.

(c) "**Acquisition Transaction**" means (i) any Merger Event (for purposes of this definition, the definition of Merger Event shall be read with the references therein to "100%" being replaced by "25%" and to "50%" by "75%" and without reference to the clause beginning immediately following the definition of Reverse Merger therein to the end of such definition), Tender Offer or Merger Transaction or any other transaction involving the merger of Issuer with or into any third party, (ii) the sale or transfer of all or substantially all of the assets or liabilities of Issuer, (iii) a recapitalization, reclassification, binding share exchange or other similar transaction, (iv) any acquisition, lease, exchange, transfer, disposition (including by way of spin-off or distribution) of assets or liabilities (including any capital stock or other ownership interests in subsidiaries) or other similar event by Issuer or any of its subsidiaries where the aggregate consideration transferable or receivable by or to Issuer or its subsidiaries exceeds 25% of the market capitalization of Issuer and (v) any transaction with respect to which Issuer or its board of directors has a legal obligation to make a recommendation to its shareholders in respect of such transaction (whether pursuant to Rule 14e-2 under the Exchange Act or otherwise).

11. MSCO Adjustments.

In the event that MSCO reasonably determines, based on advice of counsel, that it is appropriate with regard to any legal, regulatory or self-regulatory requirements or related policies and procedures (whether or not such requirements, policies or procedures are imposed by law or have been voluntarily adopted by MSCO, and including, without limitation, Rule 10b-18, Rule 10b-5, Regulations 13D-G and Regulations 14 D-E under the Exchange Act, provided that such requirements, policies and procedures are generally applicable in similar situations and applied in a consistent manner in similar transactions), for MSCO to refrain from purchasing Shares or engaging in other market activity or to purchase fewer than the number of Shares or to engage in fewer or smaller other market transactions MSCO would otherwise purchase or engage in on any Trading Day on or prior to the last day of the Calculation Period, then MSCO may, in its reasonable discretion, elect that a Market Disruption shall be deemed to have occurred on such Trading Day. Such Trading Day shall be treated as a Disrupted Day in full. MSCO shall notify Issuer upon the exercise of MSCO's rights pursuant to this Section 11 and shall subsequently notify Issuer on the day MSCO believes that the circumstances giving rise to such exercise have changed.

12. Covenants.

Issuer covenants and agrees that:

(a) Until the end of the Potential Purchase Period (as defined below), neither it nor any of its affiliated purchasers (as defined in Rule 10b-18 under the Exchange Act) shall directly or indirectly (which shall be deemed to include the writing or purchase of any cash-settled or other derivative or structured Share repurchase transaction with a hedging period, calculation period or settlement valuation period or similar period that overlaps with the Transaction) purchase, offer to purchase, place any bid or limit order relating to a purchase of or commence any tender offer relating to Shares (or any security convertible into or exchangeable for Shares) without the prior written approval of MSCO or take any other action that would cause the purchase by MSCO of any Shares in connection with this Agreement not to qualify for the safe harbor provided in Rule 10b-18 under the Exchange Act (assuming for the purposes of this paragraph that such safe harbor were otherwise available for such purchases).

Notwithstanding the immediately preceding paragraph or anything herein to the contrary (i) an agent independent of Issuer may purchase Shares on behalf of an issuer plan sponsored by Issuer or any affiliate in accordance with the requirements of Section 10b-18(a)(13)(ii) under the Exchange Act (with "issuer plan" and "agent independent of Issuer" each being used herein as defined in Rule 10b-18), (ii) Issuer or any "affiliated purchaser" may purchase Shares in (x) unsolicited transactions or (y) privately negotiated (off-market) transactions, in each case, that are not and are not reasonably likely to result in "Rule 10b-18 purchases" (as defined in Rule 10b-18), in each case, without MSCO's consent, and (iii) Issuer may repurchase Shares from holders of awards granted under Issuer's equity incentive plans for the purpose of paying the tax withholding obligations arising from the vesting of, or paying the exercise price in connection with the exercise of, or reacquiring Shares as a result of the forfeiture of, any such awards (collectively, (i) through (iii) referred to herein as the "**Permitted Purchases**").

"**Potential Purchase Period**" means the period from, and including, the Trade Date to, and including, the latest of (i) the last day of the Calculation Period, (ii) the earlier of (A) the date ten Exchange Business Days immediately following the last day of the Calculation Period and (B) the Scheduled Valuation Date and (iii) if an Early Termination Date occurs or the Transaction is cancelled pursuant to Article 12 of the Equity Definitions, a date determined by MSCO in its commercially reasonable discretion and communicated to Issuer no later than the Exchange Business Day immediately following such date.

(b) It will comply with all laws, rules and regulations applicable to it (including, without limitation, the Securities Act and the Exchange Act) in connection with the transactions contemplated by this Confirmation.

(c) Without limiting the generality of Section 13.1 of the Equity Definitions, it is not relying, and has not relied, upon MSCO or any of its representatives or advisors with respect to the legal, accounting, tax or other implications of this Agreement and that it has conducted its own analyses of the legal, accounting, tax and other implications of this Agreement, and that MSCO and its affiliates may from time to time effect transactions for their own account or the account of customers and hold positions in securities or options on securities of Issuer and that MSCO and its affiliates may continue to conduct such transactions during the term of this Agreement. Without limiting the generality of the foregoing, Issuer acknowledges that MSCO is not making any representations or warranties or taking any position or expressing any view with respect to the treatment of the Transaction under any accounting standards including ASC Topic 260, *Earnings Per Share*, ASC Topic 815, *Derivatives and Hedging*, or ASC Topic 480, *Distinguishing Liabilities from Equity* and ASC 815-40, *Derivatives and Hedging – Contracts in Entity's Own Equity* (or any successor issue statements) or under FASB's Liabilities & Equity Project.

(d) Neither it nor any affiliates shall take any action that would cause a restricted period (as defined in Regulation M under the Exchange Act ("**Regulation M**")) to be applicable to any purchases of Shares, or of any security for which Shares is a reference security (as defined in Regulation M), by Issuer or any affiliated purchasers (as defined in Regulation M) of Issuer during the Potential Purchase Period.

(e) It will not make any election or take any other action in connection with the Transaction while aware of any material nonpublic information regarding Issuer or the Shares.

13. Representations, Warranties and Acknowledgments.

(a) Issuer hereby represents and warrants to MSCO on the date hereof and on and as of the Initial Share Delivery Date that:

(i) (A) None of Issuer and its officers and directors is aware of any material nonpublic information regarding Issuer or the Shares, and Issuer is entering into the Transaction in good faith and not as part of a plan or scheme to evade the prohibitions of federal securities laws, including, without limitation, Rule 10b-5 under the Exchange Act and (B) Issuer agrees not to alter or deviate from the terms of the Agreement or enter into or alter a corresponding or hedging transaction or position with respect to the Shares (including, without limitation, with respect to any securities convertible or exchangeable into the Shares) during the term of the Agreement. Without limiting the generality of the foregoing, all reports and other documents filed by Issuer with the Securities and Exchange Commission pursuant to the Exchange Act when considered as a whole (with the more recent such reports and documents deemed to amend inconsistent statements contained in any earlier such reports and documents) do not contain any untrue statement of a material fact or any omission of a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading.

(ii) The transactions contemplated by this Confirmation have been authorized under Issuer's publicly announced program to repurchase Shares.

(iii) Issuer is not entering into this Agreement to facilitate a distribution of the Shares (or any security convertible into or exchangeable for Shares) or in connection with a future issuance of securities.

(iv) Issuer is not entering into this Agreement to create actual or apparent trading activity in the Shares (or any security convertible into or exchangeable for Shares) or to raise or depress the price of the Shares (or any security convertible into or exchangeable for Shares) in violation of the federal securities laws.

(v) There have been no purchases of Shares in Rule 10b-18 purchases of blocks pursuant to the once-a-week block exception contained in Rule 10b-18(b)(4) by or for Issuer or any of its affiliated purchasers during each of the four calendar weeks preceding the Trade Date and during the calendar week in which the Trade Date occurs ("Rule 10b-18 purchase", "blocks" and "affiliated purchaser" each being used as defined in Rule 10b-18).

(vi) Issuer is as of the date hereof, and after giving effect to the transactions contemplated hereby will be, Solvent. As used in this paragraph, the term "**Solvent**" means, with respect to a particular date, that on such date (A) the present fair market value (or present fair saleable value) of the assets of Issuer is not less than the total amount required to pay the liabilities of Issuer on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured, (B) Issuer is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business, (C) assuming consummation of the transactions as contemplated by this Agreement, Issuer is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature, (D) Issuer is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which Issuer is engaged, (E) Issuer is not a defendant in any civil action that could reasonably be expected to result in a judgment that Issuer is or would become unable to satisfy, (F) Issuer is not "insolvent" (as such term is defined under Section 101(32) of the U.S. Bankruptcy Code (Title 11 of the United States Code) (the "**Bankruptcy Code**")) and (G) Issuer would be able to purchase Shares with an aggregate purchase price equal to the Prepayment Amount in compliance with the corporate laws of the jurisdiction of its incorporation.

(vii) Issuer is not, and after giving effect to the transactions contemplated hereby will not be, required to register as an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

(viii) No state or local (including non-U.S. jurisdictions) law, rule, regulation or regulatory order applicable to the Shares would give rise to any reporting, consent, registration or other requirement (including without limitation a requirement to obtain prior approval from any person or entity) as a result of MSCO or its affiliates owning or holding (however defined) Shares other than any such law, rule, regulation or regulatory order that applies solely as a result of the business, identity, place of business or jurisdiction of organization of MSCO or any such affiliate.

(b) Issuer acknowledges and agrees that the Initial Shares may be sold short to Issuer. Issuer further acknowledges and agrees that MSCO may purchase Shares in connection with the Transaction, which Shares may be used to cover all or a portion of such short sale or may be delivered to Issuer. Such purchases and any other market activity by MSCO will be conducted independently of Issuer by MSCO as principal for its own account. All of the actions to be taken by MSCO in connection with the Transaction shall be taken by MSCO independently and without any advance or subsequent consultation with Issuer. It is the intent of the parties that the Transaction comply with the requirements of Rule 10b5-1(c)(1)(i)(B) of the Exchange Act, and the parties agree that this Confirmation shall be interpreted to comply with the requirements of such Rule, and Issuer shall not take any action that results in the Transaction not so complying with such requirements. Without limiting the generality of the preceding sentence, Issuer acknowledges and agrees that (A) Issuer does not have, and shall not attempt to exercise, any influence over how, when or whether MSCO effects any market transactions in connection with the Transaction and (B) neither Issuer nor its officers or employees shall, directly or indirectly, communicate any information regarding Issuer or the Shares to any employee of MSCO or its Affiliates that have been identified by MSCO to Issuer in writing as employees responsible for executing market transactions in connection with the Transaction. Issuer also acknowledges and agrees that any amendment, modification, waiver or termination of this Confirmation must be effected in accordance with the requirements for the amendment or termination of a "plan" as defined in Rule 10b5-1(c) under the Exchange Act. Without limiting the generality of the foregoing, any such amendment, modification, waiver or termination shall be made in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5 under the Exchange Act, and no such amendment, modification or waiver shall be made at any time at which Issuer or any officer or director of Issuer is aware of any material nonpublic information regarding Issuer or the Shares.

(c) Each of Issuer and MSCO represents and warrants to the other that it is an "eligible contract participant" as defined in Section 1a(12) of the U.S. Commodity Exchange Act, as amended.

(d) Each of Issuer and MSCO acknowledges that the offer and sale of the Transaction to it is intended to be exempt from registration under the Securities Act by virtue of Section 4(2) thereof. Accordingly, it represents and warrants to the other party that (i) it has the financial ability to bear the economic risk of its investment in the Transaction and is able to bear a total loss of its investment, (ii) it is an "accredited investor" as that term is defined in Regulation D as promulgated under the Securities Act, (iii) it is entering into the Transaction for its own account and without a view to the distribution or resale thereof and (iv) the assignment, transfer or other disposition of the Transaction has not been and will not be registered under the Securities Act.

14. Acknowledgements of Issuer Regarding Hedging and Market Activity.

Issuer agrees, understands and acknowledges that:

(a) during the period from (and including) the Trade Date to (and including) the Settlement Date, MSCO and its Affiliates may buy or sell Shares or other securities or buy or sell options or futures contracts or enter into swaps or other derivative transactions in order to adjust its Hedge Position with respect to the Transaction;

(b) MSCO and its Affiliates also may be active in the market for the Shares or options, futures contracts, swaps or other derivative transactions relating to the Shares other than in connection with hedging activities in relation to the Transaction;

(c) MSCO shall make its own determination as to whether, when and in what manner any hedging or market activities in Issuer's securities or other securities or transactions shall be conducted and shall do so in a manner that it deems appropriate to hedge its price and market risk with respect to the Transaction; and

(d) any such market activities of MSCO and its Affiliates may affect the market price and volatility of the Shares, including the 10b-18 VWAP and the Forward Price, each in a manner that may be adverse to Issuer.

15. Indemnification.

In the event that MSCO becomes involved in any capacity in any third-party action, proceeding or investigation brought by or against any person in connection with any matter referred to in this Agreement, Issuer will reimburse MSCO for its reasonable legal and other expenses (including the cost of any investigation and preparation) incurred in connection therewith. Issuer also will indemnify and hold MSCO harmless against any losses, claims, damages or liabilities to which it may become subject in connection with any matter referred to in this Confirmation. If for any reason the foregoing indemnification is unavailable to MSCO or insufficient to hold it harmless, then Issuer shall contribute to the amount paid or payable by MSCO as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative fault of Issuer on one hand and MSCO on the other hand with respect to such loss, claim, damage, or liability and any other relevant equitable considerations. The reimbursement, indemnity and contribution obligations of Issuer under this Section 15 shall be in addition to any liability that Issuer may otherwise have, shall extend upon the same terms and conditions to any Affiliate of MSCO and the partners, directors, officers, agents, employees and controlling persons (if any), as the case may be, of MSCO and any such Affiliate and shall be binding upon and inure to the benefit of any successors, assigns, heirs and personal representatives of Issuer, MSCO, any such Affiliate and any such person. Issuer also agrees that neither MSCO nor any of such Affiliates, partners, directors, officers, agents, employees or controlling persons shall have any liability to Issuer for or in connection with any matter referred to in this Confirmation. Notwithstanding the foregoing, the reimbursement, indemnity, contribution and exculpation obligations of Issuer under this Section 15 shall not apply for the benefit of any person to the extent that any losses, claims, damages, liabilities or expenses result from the negligence or bad faith of such person in effecting the Transaction. The foregoing provisions shall survive any termination or completion of the Transaction. The foregoing reimbursement, indemnity and contribution obligations of Issuer shall be paid promptly in cash.

16. Other Provisions.

(a) Issuer agrees and acknowledges that MSCO is a "financial institution" and "financial participant" within the meaning of Sections 101(22) and 101(22A) of the Bankruptcy Code. The parties hereto further agree and acknowledge that it is the intent of the parties that (A) this Confirmation is a "securities contract," as such term is defined in Section 741(7) of the Bankruptcy Code, with respect to which each payment and delivery hereunder or in connection herewith is a "termination value," "payment amount" or "other transfer obligation" within the meaning of Section 362 of the Bankruptcy Code and a "settlement payment," within the meaning of Section 546 of the Bankruptcy Code, and (B) MSCO is entitled to the protections afforded by, among other sections, Sections 362(b)(6), 362(b)(17), 362(o), 546(e), 555 and 561 of the Bankruptcy Code.

(b) MSCO and Issuer hereby agree and acknowledge that MSCO has authorized Issuer to disclose the Transaction to any and all persons, and there are no express or implied agreements, arrangements or understandings to the contrary, and authorizes Issuer to use any information that Issuer receives or has received with respect to the Transaction in any manner.

(c) In the event Issuer becomes the subject of proceedings ("**Bankruptcy Proceedings**") under the Bankruptcy Code or any other applicable bankruptcy or insolvency statute, any rights or claims of MSCO hereunder in respect of the Transaction shall rank for all purposes no higher than, but on a parity with, the rights or claims of holders of Shares, and MSCO hereby agrees that its rights and claims hereunder shall be subordinated to those of all parties with claims or rights against Issuer (other than common stockholders) to the extent necessary to assure such ranking. Without limiting the generality of the foregoing, after the commencement of Bankruptcy Proceedings, the claims of MSCO hereunder shall for all purposes have rights equivalent to the rights of a holder of a percentage of the Shares equal to the aggregate amount of such claims (the "**Claim Amount**") taken as a percentage of the sum of (i) the Claim Amount and (ii) the aggregate fair market value of all outstanding Shares on the record date for distributions made to the holders of such Shares in the related Bankruptcy Proceedings. Notwithstanding any right it might otherwise have to assert a higher priority claim in any such Bankruptcy Proceedings, MSCO shall be entitled to receive a distribution solely to the extent and only in the form that a holder of such percentage of the Shares would be entitled to receive in such Bankruptcy Proceedings, and, from and after the commencement of such Bankruptcy Proceedings, MSCO expressly waives (i) any other rights or distributions to which it might otherwise be entitled in such Bankruptcy Proceedings in respect of its rights and claims hereunder and (ii) any rights of setoff it might otherwise be entitled to assert in respect of such rights and claims.

(d) Notwithstanding any provision of this Confirmation or any other agreement between the parties to the contrary, neither the obligations of Issuer nor the obligations of MSCO hereunder are secured by any collateral, security interest, pledge or lien.

(e) Each party waives any and all rights it may have to set off obligations arising under the Agreement and the Transaction against other obligations between the parties, whether arising under any other agreement, applicable law or otherwise.

(f) Notwithstanding anything to the contrary herein, MSCO may, by prior notice to Issuer, satisfy its obligation to deliver any Shares or other securities on any date due (an "**Original Delivery Date**") by making separate deliveries of Shares or such securities, as the case may be, at more than one time on or prior to such Original Delivery Date, so long as the aggregate number of Shares and other securities so delivered on or prior to such Original Delivery Date is equal to the number required to be delivered on such Original Delivery Date.

(g) It shall constitute an Additional Termination Event with respect to which the Transaction is the sole Affected Transaction and Issuer is the sole Affected Party and MSCO shall be the party entitled to designate an Early Termination Date pursuant to Section 6(b) of the Agreement if, at any time on or prior to the Valuation Date, the price per Share on the Exchange, as determined by the Calculation Agent, is at or below the Threshold Price (as specified in Schedule I).

17. Share Cap.

Notwithstanding any other provision of this Confirmation or the Agreement to the contrary, in no event shall Issuer be required to deliver to MSCO in the aggregate a number of Shares that exceeds the Share Cap as of the date of delivery (as specified in Schedule I), subject to reduction by the number of Shares delivered hereunder by Issuer on any prior date.

18. Transfer and Assignment.

MSCO may transfer or assign its rights and obligations hereunder and under the Agreement, in whole or in part, to any of its Affiliates of equivalent credit quality (or whose obligations are guaranteed by an entity of equivalent credit quality) without the consent of Issuer. MSCO will provide prompt written notice of any such transfer to Issuer.

19. Governing Law; Jurisdiction; Waiver.

THIS CONFIRMATION AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO THIS CONFIRMATION SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK. THE PARTIES HERETO IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK AND THE UNITED STATES COURT FOR THE SOUTHERN DISTRICT OF NEW YORK IN CONNECTION WITH ALL MATTERS RELATING HERETO AND WAIVE ANY OBJECTION TO THE LAYING OF VENUE IN, AND ANY CLAIM OF INCONVENIENT FORUM WITH RESPECT TO, THESE COURTS.

EACH PARTY HEREBY IRREVOCABLY WAIVES (ON ITS OWN BEHALF AND, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ON BEHALF OF ITS STOCKHOLDERS) ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THE TRANSACTION OR THE ACTIONS OF ISSUER OR ITS AFFILIATES IN THE NEGOTIATION, PERFORMANCE OR ENFORCEMENT HEREOF.

Remainder of Page Intentionally Blank

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing this Confirmation and returning it to us by facsimile to the number provided on the attached facsimile cover page.

Confirmed as of the date first written above:

ANIKA THERAPEUTICS, INC.

By: /s/ Joseph Darling
Name: Joseph Darling
Title: President and Chief Executive Officer

MORGAN STANLEY & CO. LLC

By: /s/ Darren McCarley
Name: Darren McCarley
Title: Managing Director

Exhibit 31.1

CERTIFICATION

I, Joseph G. Darling, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended June 30, 2018 of Anika Therapeutics, 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(s) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2018

/s/ JOSEPH G. DARLING
Joseph G. Darling
President and Chief Executive Officer
Principal Executive Officer

Exhibit 31.2

CERTIFICATION

I, Sylvia Cheung, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended June 30, 2018 of Anika Therapeutics, 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(s) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2018

/s/ SYLVIA CHEUNG
Sylvia Cheung
Chief Financial Officer
Principal Financial Officer

Exhibit 32.1

Section 906 Certification

The undersigned officers of Anika Therapeutics, Inc. (the "Company") hereby certify to their knowledge and in their respective capacities that the Company's quarterly report on Form 10-Q to which this certification is attached (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 31, 2018

/s/ JOSEPH G. DARLING
Joseph G. Darling.
President and Chief Executive Officer
Principal Executive Officer

Date: July 31, 2018

/s/ SYLVIA CHEUNG
Sylvia Cheung
Chief Financial Officer
Principal Financial Officer

This certification shall not be deemed "filed" for any purpose, nor shall it be deemed to be incorporated by reference into any filing, under the Securities Act of 1933, as amended, or the Exchange Act.