PARTICIPANTS

Corporate Participants

Zack Kubow – Investor Contact, The Ruth Group, Inc.
John D. McDermott – Chairman, President & Chief Executive Officer, Endologix, Inc.
Shelley B. Thunen – Chief Financial Officer, Endologix, Inc.

Other Participants

Brooks E. West – Analyst, Piper Jaffray & Co (Broker)
Rick A. Wise – Analyst, Stifel, Nicolaus & Co., Inc.
Joanne K. Wuensch – Analyst, BMO Capital Markets (United States)
Steven M. Lichtman – Analyst, Oppenheimer & Co., Inc.
Chris Cooley – Analyst, Stephens, Inc.
Jason R. Mills – Analyst, Canaccord Genuity, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Endologix, Inc. First Quarter 2014 Earnings Conference Call. At this time all participants are in a listen-only mode. A question-and-answer will follow the formal presentation. [Operator Instructions] As a reminder this conference is being recorded.

It is now pleasure to introduce your host, Mr. Zach Kubow of The Ruth Group. Thank you, Mr. Kubow. You may begin.

Zack Kubow, Investor Contact, The Ruth Group, Inc.

Thanks, operator, and thanks, everyone, for participating in today's call. Joining me from the company are John McDermott, Chief Executive Officer and Shelley Thunen Chief Financial Officer. This call is also being broadcast live over the Internet at www.endologix.com and a replay of the call will be available on the company's website for 30 days.

Before we begin I would like to caution listeners that comments made by management during this conference call will include forward-looking statements within the meaning of federal securities laws. These forward-looking statements involve material risks and uncertainties. For a discussion of risk factors, I encourage you to review the Endologix's Annual Report on Form 10-K and subsequent reports as filed with the Securities and Exchange Commission.

Furthermore, the content of this conference call contains time-sensitive information that is accurate only as of the date of live broadcast, April 30, 2014. Endologix undertakes no obligation to revise or update any statements to reflect events or circumstances after the date of this call.

With that said, I'd like to turn the call over to John McDermott.

John D. McDermott, Chairman, President & Chief Executive Officer

Thanks, Zach. Good afternoon, everybody. In the first quarter of 2014 we made good progress across all of our growth initiatives. The limited launch of Nellix continues to go extremely well, our clinical studies are enrolling and our U.S. business is trending positive.

I'll begin the call today with a quick overview of our results for the quarter, followed by an update on our new products and growth drivers. Next I'll turn the call over to our CFO, Shelley Thunen, who will provide a more detailed review of our first quarter financial performance and full year guidance. After that I'll come back on to review our key goals for the rest of the year and then we'll open it up for questions.

We achieved total revenue of $33.3 million in the first quarter of 2014, an increase of 12% year-over-year. International revenue grew 83% driven by our direct sales and clinical team in Europe. The limited launch in Nellix continues to generate significant interest across Europe and we have also experienced good adoption of AFX. The growth in Europe was partially offset by a 3% decline in U.S. sales where we got off to a slow start to the year. Since January we've seen a month-by-month sequential improvement in the U.S. and are pleased with the progress and positive trends.

In mid February we launched the VELA Proximal Endograft in the U.S. and have received very positive physician feedback. The new system works together with our AFX bifurcated device and provides physicians with enhanced visibility and deployment accuracy.

Another important growth initiative in the U.S. is our ongoing PEVAR physician training program. So far this year we have trained over 80 physicians and are planning to train a total of 250 in 2014. Our hands-on courses provides physicians with the best practices learned from our PEVAR randomized, multicenter clinical trial. The results from the study were recently published in the Journal of Vascular Surgery and demonstrate a 30 minute faster procedure time, less blood loss, fewer complications, and a shorter recovery time.

In addition to providing the training courses, Endologix's sales and clinical specialists have been trained and certified on the PEVAR procedure, so we can provide a high level of support to our customers. We currently have 87 sales reps and clinical specialists in the U.S. and expect to finish the year around 90.

Now turning to Nellix, we continue to experience a high level of interest in the technology and the limited market release outside the U.S. is going very well. To-date we have completed around 750 commercial Nellix procedures and the clinical outcomes are positive. Over the next two quarters we will continue a limited market release while we increase our manufacturing capacity, and expand our sales and clinical teams in Europe.

In the fourth quarter, we plan to gradually add new customers and make Nellix more widely available in the European market. Our Nellix clinical studies are progressing nicely, and we just went over 100 patients enrolled in the EVAS FORWARD global registry. This is a prospective multicenter study designed to capture real world clinical results with the Nellix device. The preliminary data on the first 67 patients was presented by Dr. Matt Thompson at the Charing Cross meeting earlier this month in London. The results highlight the broad applicability of the technology, and demonstrated excellent procedural and short-term results.

For the EVAS FORWARD-IDE, we currently have 32 patients enrolled and expect to complete enrollment of all 180 patients by the end of this year. Based upon our current assumptions and timelines, we expect to achieve PMA approval in the U.S. by the end of 2016. Of course, we can't share the results of the IDE clinical study until the data has been submitted to the FDA, but we will provide periodic updates on the global registry.

Our next presentation of the Nellix registry data is planned for this fall. Also planned for later this year is the launch of VELA in Europe. Timing will depend on when we get the CE Mark, but our current best estimate is third quarter. To support the launch of VELA plus the transition to a full market rollout of Nellix, we're planning to go from our current 26 sales reps, clinical specialists, and agents up to 32 in Europe by the end of this year. We believe that these additions to our sales and

clinical teams together with our PEVAR training programs, our new product introductions, and our clinical studies position us very well for continued growth.

With that I'd like to hand the call over to Shelley Thunen for her financial review. Shelley?

Shelley B. Thunen, Chief Financial Officer

Good afternoon and thank you, John. Today we are pleased to report our financial results and key metrics for the first quarter of 2014. Total revenue for the first quarter increased by 12% year-over-year to $33.3 million. Domestic revenue in the first quarter decreased by 3% year-over-year to $24 million. As John mentioned, we got off to a slow start in the U.S. in January, but U.S. procedure volume has been growing steadily since then.

International revenue increased by 82% year-over-year in the first quarter to $9.3 million. In Europe, revenue increased to $6.6 million, up 97% year-over-year and 28% sequentially. Since we received CE Mark in mid Q1 2013, we have performed approximately 750 commercial Nellix procedures, and our AFX business also continues to grow.

Gross margin in the first quarter of 2014 was 73% compared to 76% in the prior year. The decrease in gross margin from the prior-year period is due to the higher mix of international sales which increased to 28% of revenue in the first quarter of 2014 as compared to 17% of revenue in the first quarter of 2013. While average selling prices have remained stable in the last year, international revenue has a lower gross margin due to lower average selling prices, and Nellix sales which have a higher cost than AFX.

Operating expenses for the first quarter of 2014 were $29.6 million compared to $27 million in the same period last year. The operating expense increase is primarily due to increased spending in research and development for Nellix, Ventana, and AFX 3 as well as increased sales and marketing expenses and general and administrative expense.

Our GAAP net income was $5.3 million or $0.08 per diluted share in the first quarter of 2014, compared to a net loss of $9.3 million or $0.15 per share for the first quarter of 2013. In the current quarter, the accounting for the Nellix contingent consideration generated income of $11.8 million or $0.18 per diluted share, which was almost entirely related to the decrease in Endologix's stock price from the previous measurement date of December 31st.

During 2014, we expect to reach the first net Nellix acquisition milestone payable in Endologix's stock to former Nellix shareholders. When this milestone is reached, the vast majority of fluctuation from this non-operating item will no longer affect our book results and EPS. Our adjusted net loss which is book net income or loss less contingent consideration for Nellix and debt expense for the first quarter was $5.1 million or $0.08 per share loss as compared to $4.1 million or $0.07 per share loss in the first quarter of 2013. The increase in the loss is due to a decrease in gross margin as previously discussed and an increase in spending for research and development consistent with our strategic plan to continue to develop both our EVAR and EVAS platforms as well as sales and marketing and general and administrative costs.

On an adjusted EBITDA basis, a non-GAAP measure of GAAP income or loss adding back non-cash charges or benefit, including the Nellix contingent consideration, stock based compensation, depreciation, amortization, interest expense, tax and foreign currency re-measurement gains and losses, our net loss in the first quarter of 2014 was $3.1 million or $0.05 per share loss, compared to a loss of $485,000 or $0.01 per share loss in the first quarter of 2013. While adjusted net loss was a penny different between the first quarter of 2013 and 2014, the difference in adjusted EBITDA is $0.04 a share as the add-back for stock based compensation and foreign currency re-measurement with the larger dollar amount in the first quarter of 2013.

Now turning to the balance sheet. Accounts receivable days outstanding was 69 days at the end of the first quarter of 2014, compared to 78 days at March 31, 2013 and 65 days at the close of 2013. Inventory turnover was 1.6 turns at quarter end compared to 1.7 turns at the end of last year. Both DSOs and inventory turnover were as we expected during quarters.

We ended the quarter with cash and cash equivalents and investments of $119.6 million as compared to $126.5 million in cash and cash equivalents at the end of 2013. Principal uses of cash in the first quarter were continued investment in inventories to support our revenue growth and capital expenditures for our new facility we expect to occupy in the second half of 2014.

Now turning to guidance, we continue to expect revenue to be in the range of $146 million to $152 million an 11% to 15% increase over 2013. We further continue to expect U.S. revenue to increase 6% to 10% and international revenue to increase 26% to 30%. We expect gross margin to be in the range of 73% to 75% as international revenue will grow at a faster rate than U.S. revenue. Gross margins internationally are lower than the U.S. as average selling prices are lower and we use distributors in some international markets.

On the bottom line, we project 2014 non-GAAP adjusted net loss between $0.22 and $0.35 per share. Adjusted net loss is GAAP loss without the effect of fluctuations in the Nellix contingent consideration due to changes in Endologix's common stock price or interest expense from our convertible debt.

On an adjusted EBITDA basis, we continue to expect to have a net loss of $0.04 to $0.17 per share for the year. Adjusted EBITDA again is loss per share GAAP net loss without the effect of Nellix contingent consideration, debt expense, non-cash expenses such as depreciation, stock based compensation and foreign currency remeasurement. Not included in this loss per share guidance however are potential adverse litigation outcomes and the effects of possible business development transactions.

We expect to end 2014 with approximately $101 million to $106 million in cash, using between $20 million to $25 million in 2014. 2014 cash use includes approximately $12 million in capital expenditures primarily for leasehold improvements and equipment for our new facility in Irvine to support our current and expected revenue and increase in use of working capital for accounts receivable and inventories consistent with our growth and net loss for the year. With the remaining cash of over $100 million at year-end, we believe we have sufficient cash resources to continue to fund the business in future years.

I will now turn the call back to John.

John D. McDermott, Chairman, President & Chief Executive Officer

Thanks, Shelley. We're pleased with our progress in the first quarter of 2014 and remain confident in the long-term growth potential of the business. Following are our key goals and priorities for the rest of the year. First and foremost is to achieve our financial guidance. Second is to drive adoption of our new VELA Proximal Endograft. Third is to continue expanding the PEVAR market and our share through the physician training programs. Fourth is to continue with the gradual commercial rollout of Nellix. And fifth is to complete enrollment in the EVAS FORWARD-IDE and Global Registry.

By achieving these goals, we will continue on our path toward becoming the leading innovator in endovascular aortic aneurysm repair. We look forward to keeping you posted on our progress and are planning to participate in the Deutsche Bank and Bank of America Healthcare Conferences in

May and Jefferies Healthcare Conference in June. We look forward to seeing many of you at these events.

With that, we'll open it up for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Brooks West from Piper Jaffray. Please proceed with your question.

<Q – Brooks West – Piper Jaffray & Co (Broker)>: Hi. Can you hear me?

<A – John McDermott – Endologix, Inc.>: Yes. Hey, Brooks.

<Q – Brooks West – Piper Jaffray & Co (Broker)>: Hey, John, Shelley. Thanks for taking the question. John, I just wanted to dig a little bit more into your guidance and specifically the guidance for U.S. growth of 6% to 10%. Obviously, you're starting off here at negative 3%. Could you just kind of walk us through the cadence and the milestones kind of needed to hit that, even the bottom end of that guidance throughout the year? And then as a part of that, John, you had mentioned three main factors that clipped you guys in the U.S. One was competitive trialing. One was the push out of the Ventana sites. And then one was the disappointment in the sites that didn't make it into the U.S. trial. As a part of that answer, could you also just update us on where you are in correcting those three factors?

<A – John McDermott – Endologix, Inc.>: Yeah. Brooks I'll start with the last part of that first. And then, Shelley, you can dive in here if I've missed anything.

<A – Shelley Thunen – Endologix, Inc.>: Okay, thank you.

<A – John McDermott – Endologix, Inc.>: I would say as it relates to the factors that got us off to a difficult start, we've seen progress across the board with all of those. I don't want to spend too much time going through each one individually, but what I can say is we're seeing some progress in each of the categories and probably, most importantly, very good physician feedback with VELA. So it's clear that we're regaining some of our momentum. Still, there's a lot of moving parts and it's definitely a more competitive market than it was a year ago, but the combination of AFX and VELA gives us some unique advantages, and we've got a great sales force, so I expect us to keep growing.

In terms of the cadence, we historically don't provide, and don't plan to at this point, quarterly guidance, but we do anticipate good sequential improvement quarter-over-quarter from the U.S. business, and we still think that that range is appropriate for the U.S. Shelley? Go ahead.

<Q – Brooks West – Piper Jaffray & Co (Broker)>: So, Shelley maybe you can think about maybe adding to that. I ,mean it looks like you need to be exiting the year with the U.S., call it a Q4 growth rate in the U.S. of somewhere in the mid to high teens to make that guidance range work. Is that a fair way to think about it?

<A – Shelley Thunen – Endologix, Inc.>: Yeah. While we're not giving guidance on a quarterly basis, I think that our sequential growth during the first four months of the year has been very, it's continued, it's consistent, certainly the second half is going to have to be a higher growth rate than the first half. But I think that's about as specific as we're going to get. But certainly I think most people expect that we will get double-digit growth in the second half in order to achieve that 6% to 10% for the entire year.

<Q – Brooks West – Piper Jaffray & Co (Broker)>: Great. And obviously John, I mean the trends you're seeing exiting Q4 and so far in Q2 are giving you confidence in hitting those guidance ranges?

<A – John McDermott – Endologix, Inc.>: Yeah, they are. We're kind of right where we expected to be at this point. January was a tough start to the year, February was better, March was better and still April even better. So it's definitely moving in the right direction.

<Q – Brooks West – Piper Jaffray & Co (Broker)>: Great. Thanks so much.

<A – John McDermott – Endologix, Inc.>: Okay.

Operator: Our next question comes from the line of Rick Wise from Stifel. Please proceed with your question.

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: Hi, John. Hi, Shelley. I apologize, I'm in an airport, it gets noisy. On Nellix, John, you talked about the Nellix enhancement. Are you still on track for that this summer? And are you still on track for the third quarter approval of the clean room and the increased supply in the fourth quarter? On track? Is it potentially faster? Just any additional color would be welcome?

<A – John McDermott – Endologix, Inc.>: Sure. Yeah. No, right now everything related to the facility is still tracking to our original plan, which is Q3. So we've got, there's a lot to do. Obviously, we've got to get the regulatory agencies in and get the approvals and the inspections and get all that behind us. But, so far everything looks to be really pretty much right on schedule. I think the other part of your question was Nellix improvements. We've got a whole series of minor product enhancements that we will integrate probably over the next couple of years. But we do have a few more near term that will likely be rolled out later this summer. In fact, we first just did some cases here recently with some of the enhancements. And a little bit more work to do, but that all looks like it's progressing nicely. So right now everything is on schedule.

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: So you did something like, if I calculate correctly or heard correctly, 300 Nellix commercial in the first quarter, that's about the same as the fourth quarter. And so we should assume that's the max quarterly run rate until you get that additional supply, correct?

<A – Shelley Thunen – Endologix, Inc.>: I would say that about – we roll the numbers forward just a little bit to current, but it is correct around 300 procedures in the first quarter this year. I don't know that that is our max, we can continue to ramp our production here quite nicely. But I do think that we want to warn people that we continue to be somewhat product-constrained as well as we're continuing to train our own personnel in Europe during the second and third quarter. And we would expect more of a ramp, obviously, in the fourth quarter, as we've indicated before, consistent with the new facility coming on board with product as well as fully staffing our clinical and sales personnel and continued training in Europe.

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: Great. And two last quick ones. I just want to make sure, I think I heard that I understand what you were saying, John. But in the U.S. in the first quarter, you – did the quarter unfold? Are the numbers that you're reporting as you thought they would be when you reported and gave us the guidance for the year and talked about the first quarter, is it better than or right in line with, worse than you thought?

<A – John McDermott – Endologix, Inc.>: Yeah. On a global basis, it's pretty much what we thought. I would say, the Europe was a little better than we thought at that point in time and the U.S. a little worse, but not by meaningful margins. So I would say on a macro level, we're trending kind of like we thought we would be.

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: Yeah. And just last quickly, on VELA, maybe you could give us a little more color. Are you opening up new accounts with VELA, predominantly existing accounts, just again any extra color would be welcome. Thank you.

<A – John McDermott – Endologix, Inc.>: Sure. Yeah. No, it's a combination. So the first place we took VELA since it replaced our former Proximal Endograft was to our existing customers and have done a good job of starting to get more there as well as then introducing it to new customers. So I would say the focus so far in the early stages of the introduction have been on existing customers. But it's a terrific product to take to new customers or somebody that might have tried the device at some point in the history and didn't like it for whatever reason. This device is really easy to use. It's got great visibility and control. So initially it's been focused on existing. But we're transitioning now to new accounts, and the feedback is positive.

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: Thanks so much.

Operator: Our next question comes from the line of Joanne Wuensch from BMO Capital Markets. Please proceed with your question.

<Q – Joanne Wuensch – BMO Capital Markets (United States)>: Good evening, and thank you for taking the question. I have two questions. One has to do with the competitive landscape. Is there any update or commentary that you can make on that as that was one of the pressures that you quoted for the results for the lower guidance for the year?

<A – John McDermott – Endologix, Inc.>: Yeah. Joanne, nothing material has changed on a competitive front from earlier in the year. TriVascular, as you know, TriVascular and Lombard both completed their IPOs I think since our last call. And we don't see too much activity yet from Lombard. I imagine they're still building their sales force. TriVascular has been more busy. Most of what we see there though is still trialing as opposed to lost accounts. But there is more competitive activity there. I can't say we see a lot more activity or programs or initiatives coming out of the other more established competitors at this point.

<Q – Joanne Wuensch – BMO Capital Markets (United States)>: Okay. And while you don't want to give quarter-by-quarter guidance, can you at least tell us if you feel comfortable with the consensus revenue number for the second quarter?

<A – Shelley Thunen – Endologix, Inc.>: Joanne, as you know, we don't comment on consensus, but we do feel that our guidance that we gave a few months ago, as well as today, is consistent with our first quarter results.

<Q – Joanne Wuensch – BMO Capital Markets (United States)>: Okay. Thank you.

Operator: Our next question comes from the like of Steven Lichtman from Oppenheimer. Please proceed with your question.

<Q – Steve Lichtman – Oppenheimer & Co., Inc.>: Thank you. Hi, guys. John, I think on the PEVAR, you're going to train about as many docs this year as you did last year. Can you give us a sense in terms of the mix of new docs versus current, and what sort of hit rate if there are new docs you have in terms of converting them over to Endologix products?

<A – John McDermott – Endologix, Inc.>: Yeah. Steve, I actually just checked that this morning. Of the physicians that we've trained so far this year, it's about 50/50. 50% are existing customers and 50% are new. It's a little early to measure what we call a hit rate, if you will, with these guys. We do tend to monitor their activity with us, following the course, and we continue to see what we've seen in the past which is our business in those accounts that have been trained is up over the base business. But it's a little too early for me to give you a specific percentage of stick – kind of a stick rate after those courses. Historically it's been pretty high, at least in terms of getting somebody started, then it's our job to build that business. But historically, guys come out of those courses and they do try the device.

<Q – Steve Lichtman – Oppenheimer & Co., Inc.>: Okay. And John, you talked on the competition relative to a couple of the new guys. Relative to Cook and some of the pullover on juxtarenal, any update there on sort of what – how that process or that issue is playing out?

<A – John McDermott – Endologix, Inc.>: Yes. It hasn't really changed, I wouldn't say we've seen more or less activity there. They continue to leverage their custom program. The part of the problem is, as you start getting down into the smaller accounts, those accounts don't have enough volume, in many cases, to support that level of time and energy into a custom program. So as you would imagine, their initial focus was on the larger volume accounts, and I think it starts to lose a little bit of steam as you get into the smaller accounts which represents the majority of the market.

<Q – Steve Lichtman – Oppenheimer & Co., Inc.>: Okay. And the John, where do you peg – you guys peg market growth in the U.S. at this point?

<A – John McDermott – Endologix, Inc.>: We're estimating at 3% to 4%, Steve.

<Q – Steve Lichtman – Oppenheimer & Co., Inc.>: Okay. And then lastly, Shelley, you talked about gross margins 73% to 74% so obviously, it implies a better gross margin the next few. So if that's all mix, you assume the U.S. business relative to total picks up over the next few quarters, is that correct?

<A – Shelley Thunen – Endologix, Inc.>: Yes. It is really mix, geography, and product.

<Q – Steve Lichtman – Oppenheimer & Co., Inc.>: Okay. Great. Thanks, guys.

Operator: [Operator Instructions] Our next question comes from the line of Chris Cooley from Stephens. Please proceed with your questions.

<Q – Chris Cooley – Stephens, Inc.>: Good afternoon. Thanks for taking the questions. I apologize I'm traveling today. Can you hear me okay?

<A – John McDermott – Endologix, Inc.>: Yeah. We can hear you fine.

<A – Shelley Thunen – Endologix, Inc.>: Good afternoon.

<Q – Chris Cooley – Stephens, Inc.>: Okay, thanks. Thanks. Two questions. One, if you think about the supply issue in the third quarter, can you give us a feel for how that supply – how the incremental supply for Nellix comes online and what levels you can support in terms of sales? Just trying to think about the potential step up that's realizable both this year and then as we get out into 2015? And then I just had a quick follow up on the domestic position in guidance. Thanks.

<A – John McDermott – Endologix, Inc.>: Yeah. I would say, first of all, it doesn't get completely lifted in Q3. So it'll be happening during Q3. I think what I would tend to think of is in Q4 we should be unconstrained relative to our manufacturing supply. I think our constraint in Q4 is probably going to be more one of just size and certification process of the sales force. So we're continuing to add people, but it is time consuming and you want to get these folks well trained. But that's all right because we don't – again, as we've talked about before, there isn't anybody really breathing down our neck with a competitive offering to Nellix, and we'd really like to be able to take our time and do it right. So, although we'll have the operational constraint off, we'll gradually be building out the sales and clinical team and training them and expanding that and that should be concurrent with our market share capture as we transition out of the end of this year.

<Q – Chris Cooley – Stephens, Inc.>: And just as a final, just kind of a follow-up, when we think about the 6% to 10% growth for the U.S. this year, help us think a little bit about how much of that

range is attributable to kind of a correction, if you will, or a reversion to normal with you having addressed those three primary factors versus maybe just a little bit better at blocking and tackling from your sales force? And in that answer, could you also incorporate what you're seeing in terms of pricing in the U.S. and what kind of pricing assumptions are baked into that 6% to 10% growth for the full year? Thanks so much.

<A – John McDermott – Endologix, Inc.>: Yeah. Chris, in terms of pricing, we haven't assumed any price increases over the course of the year, so we've just forecasted prices flat and that's been holding at this point. So we haven't seen anything, at least in the first four months of the year that would suggest a weakening in price.

In terms of the way the sales build over the course of the year, well, we certainly just started out in a hole, as we've talked about before. And the forecasted increase is really a combination of more physicians trained on PEVAR as well as a slightly larger sales team in the United States which will, most of that increase in the sales team in the United States will be accomplished in the first part of the year. So, we'll start to benefit from those hires near the end of the year. So it's really the combination of those things that help us get back up above double-digit growth in the U.S. as we transition in the second half.

<Q – Chris Cooley – Stephens, Inc.>: Okay. Just to clarify, [indiscernible] (32:37) limit the accounts that were disappointed with the trial? You don't really need that to revert to get to the 6% to 10%? Did I hear you say that right or is...?

<A – John McDermott – Endologix, Inc.>: Yeah. I think the way we think about it, Chris, is that those impact, trialing isn't going to be a full-year thing. I would think, for the most part, for the people who want to trial a new device, they should have done it at least in the first half or the first three quarters. So the trialing impact should start to diminish certainly over the course of the year is the way we think about it. And also, time is our friend as it relates to the disappointed Nellix site as well as those guys who are doing Cook cases to get into the program. So, time works to our advantage on those variables as well, which is what helps support incremental adds to the procedure schedule in the second half.

<Q – Chris Cooley – Stephens, Inc.>: Thank you very much.

Operator: Our next question comes from the line of Jason Mills from Canaccord Genuity. Please proceed with your question.

<Q – Jason Mills – Canaccord Genuity, Inc.>: Hi, John and Shelley. Thanks for taking the question. John, if you don't mind let's start in Europe following up on a couple of other questions. I'm curious with Nellix and the limited launch, if you could give us some color, qualitatively or quantitatively, where you have been with Nellix for a few quarters now? What are you seeing in terms of month-to-month trends and their use of the product as they use it more? And sort of in Europe, in the few centers where it's been the longest, can you give us a sense for what your share is within those accounts? Just obviously as we think about what the potential is for this product when you fully launch it?

<A – John McDermott – Endologix, Inc.>: Yeah. So in the accounts typically how it starts is somebody will use it. They'll do a couple of fairly straightforward cases just to get familiar with the differences in the procedure. And then they'll start to explore a little bit. Generally, it all starts out as a relatively small portion of their total experience. But what we've seen over time is that it tends to grow kind of steadily and to become their predominant graft. And for those physicians who have been – started with us last year, there's a handful, it's kind of their go to product now. So I don't want to say 100%, but I would say well over 50% of the time they'll pick a Nellix. Now, that's a small number of accounts at this point in time, but if we want to look at those accounts that have had access to the device for a longer period of time, that's what we tend to see.

<Q – Jason Mills – Canaccord Genuity, Inc.>: Did you see the same phenomena, John, with the previous generation products where you develop a really good relationship with a company and Endologix share would go to the levels they'd gone initially with Nellix or is this a new phenomenon for you to some extent?

<A – John McDermott – Endologix, Inc.>: Yeah. I would say this is a little higher or deeper penetration than we saw, for example, with AFX.

<Q – Jason Mills – Canaccord Genuity, Inc.>: Okay.

<A – John McDermott – Endologix, Inc.>: A lot of times what happens is guys will start using AFX for very specific anatomies and then sometimes it grows into their workhorse device. That phenomenon seems to happen a little faster with Nellix for some reason. Nellix early, we're not really even in a commercial environment, but that's my subjective perspective on it right now.

<Q – Jason Mills – Canaccord Genuity, Inc.>: No, that's helpful. And the revenue that we're trying to back into with Nellix based on the information you've given us, is that, you said commercial cases, so I presume there isn't any stocked units that's contributing to that relatively good $6.6 million number, correct?

<A – Shelley Thunen – Endologix, Inc.>: No. We're selling through on all of that product and we don't stock consignment. If a doctor, which is rare, has some of our product in the hospital, that is consignment inventory. It's not sold through inventory.

<A – John McDermott – Endologix, Inc.>: In the $6.6 million, there's a little bit of distributor. There's a few small dealers, but it's a small number.

<A – Shelley Thunen – Endologix, Inc.>: Really tiny.

<A – John McDermott – Endologix, Inc.>: Yeah.

<A – Shelley Thunen – Endologix, Inc.>: Really tiny.

<Q – Jason Mills – Canaccord Genuity, Inc.>: Okay. A few follow-up questions and I'll let you go. On the ASP, can you give us a sense for the ASP differential? What you're getting early with Nellix versus AFX?

<A – John McDermott – Endologix, Inc.>: I'd say it's about a 10% premium over FX.

<A – Shelley Thunen – Endologix, Inc.>: It's a little bit of a premium, but not huge.

<Q – Jason Mills – Canaccord Genuity, Inc.>: Okay. And then lastly in the U.S., John, you talked – I think you talked about this on the conference call too. One of the contributors to the guidance you gave with respect to the U.S., and we've gone over some of the other ones, but one was VELA and not having – had it launched during the first quarter, I think you said contributed to – you had several new customers, new customers to Endologix that were looking to – had cases lined up to do VELA. And I think you quantified that at around 100. Now I'm guessing you got some of those back with AFX, but I'm guessing the majority maybe you didn't. Could you give – the entire 100 were obviously somewhere around $1.5 million? That's a meaningful amount of revenue. I'm wondering if you could just give us a sense for whether or not you got those customers that were excited about VELA, have they been in the door yet in what we may expect with new customers over the next couple of quarters with it?

<A – John McDermott – Endologix, Inc.>: Yeah. So the 100, just to clarify, the 100 that we talked about before, that was cases that we had kind of in the queue. A good number of those were new, but not all of that was new. So it's not uncommon that we don't have – more common I should say that we don't have a 100% of a guy's business. So when I said we had 100 cases, those were cases that we had either on the books or expected to get on the books in the near term that got pushed with the delay. Some of those were new and some of those were existing, probably more existing than new. That being said, now that we have transitioned to our entire U.S. business to VELA and moved over all of our existing accounts to that device, there is more energy going into new accounts. And as I mentioned earlier, the feedback has been very positive. So far there's been good reception to VELA in new accounts, and I would expect us to continue to push into new accounts over the balance of the year.

<Q – Jason Mills – Canaccord Genuity, Inc.>: Okay. Thanks, guys.

Operator: There are no further questions in queue. I'd like to hand the call back over to management for closing comments.

John D. McDermott, Chairman, President & Chief Executive Officer

Okay. Well, I'd like to thank everyone for joining the call today and for your interest in Endologix. We look forward to seeing you at the upcoming investor conferences. Have a great afternoon. Bye.

Operator: Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.

corrected transcript