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, Inc.
Steven M. Lichtman – Analyst, Oppenheimer Securities
Joanne K. Wuensch – Analyst, BMO Capital Markets (United States)
Chris Cooley – Analyst, Stephens, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Endologix Inc. Second Quarter 2013 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Zack 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, President and 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 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 the live broadcast, July 30, 2013. 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, Zack, and good afternoon, everyone. As previously announced, we had a strong revenue growth in the second quarter, driven by good clinical outcomes achieved by physicians with our AFX device and the support provided by our sales professionals and clinical specialists.

I'll begin the call today with a quick overview of our results for the quarter, followed by a business and pipeline update. Then I'll turn the call over to our CFO, Shelley Thunen, who will provide a detailed review of our financial results. 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.

Global revenue for the second quarter was a record $34 million, up 33% compared to the prior year. This included 23% growth in the U.S. and 81% international growth, driven by the ongoing success of the AFX system. AFX is the only EVAR device that offers the unique benefits of anatomical fixation, which allows physician to effectively treat a broad range of aortic anatomies with excellent clinical outcomes. In addition, over the last several years we have introduced enhancements and additional sizes that have made the device easier to use and expanded the addressable patient population.

In April, we received FDA approval for a percutaneous indication for AFX, making Endologix the first and only EVAR company to ever run a randomized multi-center clinical trial to evaluate the safety and effectiveness of the PEVAR procedure.

To our collaboration with Abbott, we now have the only EVAR sales force in the world that is trained on the PEVAR technique to provide clinical support and certification to physicians. We began PEVAR training sessions in May and to date have trained on almost 80 physicians on the procedure. Attendees include a mix of new and existing customers, and we've received positive feedback on the clinical benefit on the PEVAR procedure and the AFX system. We will continue to conduct training sessions each month over the remainder of the year and expect data from the PEVAR clinical trial to be published in the Journal of Vascular Surgery, which will further support the procedure, AFX, and our training programs.

Another important growth driver in the quarter was the effectiveness of our sales professionals and clinical specialists. We are gaining productivity from the addition of highly trained clinical specialists, which create bandwidth for our reps to introduce AFX to new customers and expand existing relationships. We ended the quarter with 82 U.S. and 21 European reps and clinical specialists. Over the reminder of the year, we will continue to add to both teams and expect to finish the year with 87 to 90 in the U.S. and 27 to 30 in Europe. The recruitment process is longer in Europe, but we are pleased with the caliber of people joining the team and think we're well positioned for the future.

Now let me turn to an update on our new product pipeline. I'll start with Nellix. As discussed on our second quarter preliminary results call, our limited market introduction outside the U.S. continues to go very well. We have now completed over 100 procedures in 13 different centers. The overall feedback continues to be positive, and physicians have been extremely supportive of collaborating with us on this exciting new technology.

During this limited market phase, we have learned a lot over the past few months about case planning, sizing, procedure steps, training, and further enhancements we want to make for future generations of the system. Over the remainder of 2013, we will gradually expand the limited market release to around 25 centers and take on more challenging anatomies. In 2014 we will continue to add centers and gradually transition into a controlled market launch in Europe.

In the U.S. we are currently working with the FDA on our IDE and remain hopeful that we can obtain approval for the study by the end of this year. If everything goes according to plan, we expect to begin enrollment in a few international clinical study sites in the fourth quarter. Based upon our current assumptions and timelines, we'll remain on track with the potential to achieve PMA approval in the U.S. in 2016.

Overall, we remain very enthusiastic about the long-term potential for Nellix to become the market-leading device for the treatment of abdominal aortic aneurysms. Excuse me.

Turning now to Ventana, we have continued to make progress since our call at the beginning of July. Design enhancements are showing encouraging preliminary results in bench testing, and we have learned a lot in our evaluation of the patients treated to date. As previously communicated, we expect to meet with the regulatory agencies over the next few months and firm up approval requirements and timelines.

Once again our physician partners have been very supportive and anxious to collaborate with us on the clinical validation and commercialization of an off-the-shelf system to treat patients with short neck and juxtarenal aortic aneurysms. We look forward to providing a detailed overview and timelines for the Ventana program toward the end of this year.

And lastly, we remained on track to initiate a limited market release of our AFX 2 device in the United States before the end of this year. The new system incorporates enhancements to our existing AFX aortic extension and was designed based upon input from physicians around the world. We plan to start the limited market release in Q4, and if everything goes as expected, we will transition to a full market release in 2014. We'll provide an update and more details on this device during our Q3 earnings call in October.

Before I hand the call over to Shelley, I'd like to also comment briefly on the 8-K we filed earlier this month about Stefan Schreck, our Chief Technology Officer. For some time now Stefan has been interested in transitioning to more of a technical role and moving away from the day-to-day operations of product development. With that in mind, several months ago we recruited Jim Machek as our Vice President of the Nellix technology. Jim has a long and successful track record in new product development at St. Jude, Covidien, and Medtronic including over 10 years in endovascular aortic stent grafts. Once Jim got settled in the organization, it was the good time for Stefan to take a few months off and come back later this year to focus on new technologies. This planned transition provides the Company with significant leadership depth in research and development and supports our mission to become the leading innovator in treatments for aortic disorders.

Now I'd like to hand the call over to Shelley Thunen for a 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 second quarter of 2013. Total revenue for the second quarter increased by 33% year-over-year to $34 million. For the first six months ended June 30, total revenues increased by 27% year-over-year to $63.7 million.

Domestic revenue in the second quarter increased by 23% year-over-year to $26.4 million. For the six months ended June 30, domestic revenue increased by 20% year-over-year to $51 million. Our domestic growth was driven by the introduction of a few new AFX sizes in the first quarter and expansion of the sales force and clinical professionals during the last year.

International revenues increased by 81% year-over-year to $7.6 million. For the six months ended June 30, international revenues increased by 67% year-over-year to $12.7 million. International revenue increases were primarily driven by continued adoption of AFX in the European market and the transition from a distributor to direct model in most of Western Europe.

Gross margin in the second quarter of 2013 was 74% compared to 75% in the prior year. For the six months ended June 30, gross margin was 75% compared to 77% in the prior year period. The decrease in gross margin for the three and six months ended June 30 was primarily due to the $1.2 million in inventory reserve taken in the second quarter of 2013, primarily for the obsolescence of

Ventana inventory due to planned product enhancement, secondly to product mix, and the greater proportion of international sales to U.S. sales as compared to the corresponding period of 2012.

Operating expenses for the second quarter of 2013 were $27.5 million compared to $24.8 million in the same period last year. For the six months ended June 30, operating expenses were $54. million (sic) [$54.5 million] compared to $47.6 million in the prior year period. Total operating expenses for the three and six months ended June 30, 2012 included $1.4 million of business development investments related to the acquisition of the Company's distribution partner in Italy and the exclusive rights acquired to the polymer technology utilized in the Nellix system.

Research, development, and clinical expenses in the second quarter were $6 million compared to $6.9 million in the second quarter of 2012. For the six months ended June 30, research, development, and clinical expenses were $11.9 million compared to $12.1 million in the prior year period. The decrease for the three and six months ended June 30, 2013 was primarily due to lower R&D expenses, partially offset by increase clinical and regulatory expenses to support the Ventana U.S. IDE study, Nellix and Ventana study follow-up costs, and regulatory costs associated with FDA and CE submissions. Excluding the one-time business development in Nellix polymer license in the second quarter of 2012, research and development expenses remained relatively flat.

Marketing and sales expenses grew from $13.1 million in the second quarter of 2012 to $16.5 million in the second quarter of 2013, a 26% increase on a revenue increase of 33%, reflecting U.S. operating leverage offset by continued investments building our European direct sales team, variable sales commission costs associated with our revenue growth, and an increase in non-cash stock comp expense primarily associated with stock option grants for top sales performers in the U.S. and hires made in Europe. For the six months ended June 30, marketing and sales expenses grew from $26.2 million to $32 million, a 22% increase on a revenue increase of 27%.

G&A expenses grew from $4.5 million in the second quarter of 2012 to $5 million in the second quarter of 2013. For the six months ended June 30, G&A expenses grew from $8.9 million in 2012 to $10.6 million in the first six months of 2013. The expense growth was driven primarily by investments in the European administrative and operations infrastructure, the federal medical device tax which took effect January 1 of this year, and growth in consulting and outside service expenses associated with our general business growth.

Our GAAP net income was $5.7 million or $0.09 per share in the second quarter of 2013 compared to a net loss of $6.7 million or $0.11 per share for the second quarter of 2012. In the current quarter, the Nellix contingent consideration liability, which is payable in shares of Endologix common stock, decreased by $7.6 million or $0.12 a share, which was almost entirely related to the decrease in Endologix stock price by $2.87 or 18% from the previous measurement date at March 31, 2013.

As their stock price increases and decreases on a quarterly basis, the Nellix contingent consideration will fluctuate. Therefore we believe it is important to evaluate performance on adjusted non-GAAP income or loss, which excludes the Nellix contingent consideration and other one-time expenses. In the second quarter of 2013, on an adjusted non-GAAP basis, we reported a net loss of $1.9 million or $0.03 per share compared to an adjusted loss of $0.07 per share in the second quarter of 2012.

For the six months ended June 30, 2013 GAAP net loss was $3.7 million or $0.06 per share compared to a loss of $23.4 million or $0.40 a share in the prior year period. Adjusted non-GAAP loss, excluding business development cost and the Nellix consideration, for the six months ended June 30, 2013 was $6.1 million or $0.10 share per loss compared to non-GAAP adjusted loss of $0.14 per share in the prior year period.

On an adjusted EBITDA basis non-GAAP measure of the adjusted net loss – adding back all non-cash charges including the Nellix contingent consideration, stock-based compensation, depreciation and amortization, foreign currency exchange re-measurement, business development, and tax expense – our income in the second quarter of 2013 was $425,000 or $0.01 per share income compared to a loss of $2.2 million or $0.04 a share loss in the second quarter of 2012. For the six months ended June 30, 2013, adjusted EBITDA loss was $100,000 or $0.00 per share loss compared to a loss of $4.2 million or $0.07 a share loss in the prior year period.

On a sequential basis, revenues from the second quarter of 2013 as compared to the first quarter of 2013 increased $4.2 million or 14%, driven by an increase in international revenues of $2.5 million or 49% due to strong results in our direct markets in Europe and our distribution partners in the smaller European countries, Latin America, and Japan. U.S. sales increased sequentially $1.7 million, or 7%.

Sequentially, gross profit was down two percentage points to 74%, driven by a higher percentage of international revenue from 17% in the first quarter of 2013 to 22% in the second quarter of 2013, and the second quarter inventory reserves of $1.2 million, primarily for Ventana.
Total operating expenses increased by $500,000, a 2% increase, which compares favorably with a 14% sequential revenue increase.

Overall GAAP net income in the second quarter of 2013 was $0.09 per share, including the $0.12 benefit for the mark-to-market of the Nellix contingent consideration, as compared to a GAAP net loss of $0.15 a share in the first quarter of 2013.

Non-GAAP adjusted EBITDA in the second quarter of 2013 was $425,000 or $0.01 per share income as compared to a loss of $485,000 or $0.01 per share loss in the first quarter of 2013.

Now turning to the balance sheet, accounts receivable days outstanding was 76 days at the end of the second quarter of 2013 compared to 71 days at the close of 2012 and 78 days at March 31, 2013. We expect days sales outstanding to increase slightly as our sales to international accounts increase as a percentage of revenue because they're traditionally slower to pay than our U.S. customers. However, in the second quarter of 2013, our days sales outstanding improved as compared to the first quarter of 2013, as our operations and finance teams in Europe started to gain maturity this year, leading to improved collection processes and collection results in Europe.

Inventory turnover increased to two turns at quarter-end compared to 1.6 turns at March 31, primarily due to the $1.2 million inventory of reserve increase taken in the second quarter of 2013. We expect inventory turnover will return to and remain in the range of 1.5 turns despite preparation for the 2014 commercial launch of our Nellix system in Europe and introduction of AFX 2 at the end of this year.

We ended the quarter with cash, cash equivalents, and restricted cash of $45.2 million as compared to $42 million in cash at the end of the first quarter. All restrictions on the $5.4 million of restricted cash at June 30 were lifted in July. Taking this into account, during the second quarter of 2013, we were cash flow positive for the second quarter and cash flow breakeven in the first six months of this year.

In summary, in the second quarter of 2013, we continued to gain leverage in our U.S. business and international revenue expansion, consistent with the continued investments in our European business. This led to continued strong revenue growth driven by our AFX, stable gross margins excluding the one-time inventory reserves during the quarter, and improved operating leverage.

During the quarter, we also entered into a long-term lease agreement for a new facility effective January 1, 2014 to support our continued growth. The new facility will double our space and give us the room we need to execute our growth strategy.

Now turning to guidance, for the full year 2013, we are reiterating our revenue guidance, with revenues expected to be in the range of $128 million to $134 million, a 21% to 26% increase over 2012. Our revenue guidance assumes seasonality in both Europe and the U.S. during the third quarter, which we have already begun to experience.

We expect 2013 adjusted net loss to be between $0.18 and $0.22 a share. We expect 2013 adjusted EBITDA, which excludes non-cash expenses such as stock-based compensation and changes in the estimated Nellix consideration, to be between $0.02 per share and a profit of $0.02 per share. This puts us in a position to use a small amount of cash for the entire 2013-year and generate cash flow during the second half of the year, excluding business development investments.

In addition, we expect to incur almost $2 million in business development during the third quarter, of which a little bit less than half will be paid in stock rather than cash. We will incur $1 million to maintain our exclusive license for our Nellix polymer and the balance for an exclusive patent license for expected future use in our products.
Not included in the loss per share guidance, however, are potential adverse litigation outcomes, fair value adjustments associated with the Nellix contingent consideration, the $2 million for business development investments incurred in the third quarter of 2013, and any other possible business development transactions.

I will now return the call back to John.

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

Thanks, Shelley. We're extremely pleased with our sales performance so far this year and remain confident in the long-term potential of our new product pipeline. Following are our key goals for the remainder of 2013: first, is to achieve our revenue guidance and generate positive cash flow from operations during the second half of 2013; next, continue to gain market share in the U.S. by driving our PEVAR initiative and the AFX enhancements; next, finalize the preliminary testing on the Ventana design enhancements and meet with the regulatory agencies to determine the best commercialization path and timelines; next, gain FDA approval for the Nellix IDE clinical study; and last, begin enrollment in the Nellix IDE with our physicians in the international trial sites.

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 Canaccord Growth Conference in August, the Stifel Healthcare Conference and the Credit Suisse conferences in September. We look forward to seeing many of you there.

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

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, at this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Brooks West from Piper Jaffray. Please proceed with your question.

<Q – Brooks West – Piper Jaffray, Inc.>: Thanks. Can you hear me?

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

<Q – Brooks West – Piper Jaffray, Inc.>: Hey, John. John, I was hoping you'd give a little bit more color around the impact of PEVAR. And I know it's early, but is it a door opener? Are you seeing increased penetration? Not looking for numbers specifically, but just looking around. How are you seeing the impact of that – of your business?

<A – John McDermott – Endologix, Inc.>: Well, absent numbers, what I can tell you, as I mentioned on the call, it is a mix of existing and new customers – roughly two-thirds/one-third existing versus new. I won't give you the absolute sales increases related to the attendees for the courses at this point, but I can tell you it's positive. And it's encouraging in terms of us continuing these courses and running this certainly through the end of this year and into next year.

So it is a door opener. It does kind of build on itself, in that as you get into a market and more and more guys get trained on percutaneous technique, then more physicians are interested that haven't been through the certification process. So I think we're still in the early stages of this.

<Q – Brooks West – Piper Jaffray, Inc.>: And, John, just as a follow-up, what are the percentage of patients that are considered to be eligible for percutaneous, and are you seeing physicians start to take their AFX volumes up toward that kind of level?

<A – John McDermott – Endologix, Inc.>: Yeah, so you'll get different answers to that question depending on which physicians you ask. There are – some doctors will tell you that they routinely do it 100% of the time. What we teach in the course is, based upon our experience in the clinical trial, is probably closer to 70% to 80% of the patients are good candidates. What you want to avoid typically is patients with circumferential calcium and a couple of other criteria. But generally, it's the vast majority of those patients.

What was the second part of your question, Brooks?

<Q – Brooks West – Piper Jaffray, Inc.>: That covers it. And that's it for me. Thanks, John.

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

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

<Q – Steve Lichtman – Oppenheimer Securities>: Thank you. Hi, guys.

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

<A – Shelley Thunen – Endologix, Inc.>: Hi.

<Q – Steve Lichtman – Oppenheimer Securities>: I guess the first question I had was just on AFX 2. Can you talk – it sounds like it's getting a little closer here, obviously. Can you talk maybe a little bit more about some of the improved functionality that we'll see in that system versus AFX, John?

<A – John McDermott – Endologix, Inc.>: Yeah, the primary – again it's a – if you think of AFX as primarily a two-component system – you've got the main body bifurcated device and then you've got the aortic extension, which bridges between the bifurcation and the renal arteries – this is that second piece that bridges between the bifurcated piece and the renal arteries.

The primary enhancements to that system are visibility and ease of use, which clinically result in more precise placement. And so we've worked on it now for a while. And as I mentioned in the prepared remarks, the design has really been built upon physician input. We're in the regulatory process now for that device and remain on track to start a limited release by the end of this year.

<Q – Steve Lichtman – Oppenheimer Securities>: And is that a U.S. and Europe release at that -

<A – John McDermott – Endologix, Inc.>: It'll just be U.S. initially. Right now, our view is the folks in Europe are going to have their hands full with Nellix. We want to – thankfully, we're in a position to have more than one new product opportunity. So we'll have them stay focused on Nellix for the time being, and then we'll roll in AFX to – later in 2014.

<Q – Steve Lichtman – Oppenheimer Securities>: Got it. And then just my second question is sort on the cadence of the quarters here and the seasonality that you mentioned. In the second quarter, did – was – there was a little bit of catch-up in Japan from the first quarter. Is that right? So the base from which we're talking was maybe a little bit elevated in 2Q internationally. Is that fair?

<A – Shelley Thunen – Endologix, Inc.>: Yes, that is fair. What you'll see is probably consistency in Japan going out through the balance of the year. If you recall in the first quarter, we got a bit more orders than we could fulfill in the first quarter because they're the only customer that still takes IntuiTrak, a version previous to AFX. And second quarter was up a bit, but I think you'll see consistency in the third quarter and fourth quarter from our Japan distributor.

<Q – Steve Lichtman – Oppenheimer Securities>: Consistency when we look at the average over the first half – is that right?

<A – Shelley Thunen – Endologix, Inc.>: Correct.

<Q – Steve Lichtman – Oppenheimer Securities>: Okay. So the second quarter, again, as we think about the seasonality coming down from third quarter, we should be mindful that 2Q internationally maybe was a little bit elevated. Again, the blend over the first half was okay.

<A – Shelley Thunen – Endologix, Inc.>: Correct.

<Q – Steve Lichtman – Oppenheimer Securities>: Okay, great. Thank you.

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)>: Thank you very much, and good afternoon. Can you give us an update on how comfortable you feel regarding the changes that you've made on Ventana? It sounds as if you've identified what the problem is, but any type of additional color you can give in that area would be helpful.

<A – John McDermott – Endologix, Inc.>: Well, Joanne, so as we've talked about in the past, we're evaluating all of the patients that have been treated in the clinical trials and concurrently developed several different design iterations, and have been putting them through testing. What I can say is the early testing results are encouraging. We do believe that we can re-create on the

bench some of the failure modes we've seen clinically. So I would say directionally we feel positive about what we've done so far and the path we're on.
What will be occurring now over the next few months is finalization of the testing, kind of narrowing in the design criteria, as well as meeting with our key clinical advisors to share with them the results of our findings, and leading into then our discussions with the FDA and the notified bodies on different clinical path and regulatory scenarios to determine what's the shortest route back to market.

<Q – Joanne Wuensch – BMO Capital Markets (United States)>: Okay. I'll keep my question short. Thank you very much.

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

Operator: Our next question comes – I'm sorry. [Operator Instructions] Our next question comes from the line of Chris Cooley from Stephens. Please proceed with your question.

<Q – Chris Cooley – Stephens, Inc.>: Thank you. Good evening. I appreciate you taking the questions. John, if you could, could you maybe give us a little bit more color around Nellix? And specifically what I'm interested in is, as you start to roll the product out into new sites, talk to us a little bit about the time requirements from the reps' perspective in terms of proctoring and converting that facility. And just trying to think about that as we build in kind of some cost assumptions not only into the back half, but also obviously out into 2014, which I don't think you want to give guidance on yet. And then I have just a quick follow-up.

<A – John McDermott – Endologix, Inc.>: Sure. So just from a process perspective, although the system itself is very simple, it is different. So we spend a little time with the folks in the operating room just to kind of acclimate them to some of the new components and things that they aren't accustomed to seeing. As far as the physicians are concerned, they will have to go see a case or at a minimum a videotaped procedure. But ideally so far the centers that have been brought up so far have actually gone to see procedures.

And then their first cases are proctored. So we'll have a physician go and proctor those cases, as well as of course one of our Company representatives will attend those procedures as well. And integrated into that training, there's didactic as well as they will deploy several devices into models.

So there is at this point a fairly comprehensive training. We want to just be conservative and work through all the details. I would say, as we develop more and more cases and more experience, we'll be able to streamline aspects of it. But for the next year or so, I think it would be fairly training-intensive to bring up these sites.

And as I mentioned in the remarks, we're right now at 13, we will very gradually trend up toward the mid-20s by the end of this year. We expect August to be kind of quiet, August and most of September in some markets, just because of holiday in Europe, and then it should get a little busier in the fourth quarter.

<Q – Chris Cooley – Stephens, Inc.>: Okay, great. And then if I could just follow up on Brooks' earlier question regarding PEVAR, you gave us a great split, and I appreciate that, between existing and new users. But a little bit curious – when you look at the sales to date or the uses to date in that regard, what percentage of these cases were already being done off-label versus maybe incremental volume for you guys going forward doing an on-label PEVAR? I think the market's around 25%, 30% of cases are done bilaterally right now off-label. Can you give us some color around that?

<A – John McDermott – Endologix, Inc.>: Yeah, it's a good question. Unfortunately, Chris, I don't have a detailed answer of the on/off-label mix. What we have measured so far is just our historical

run rates in the existing accounts before training and after training, and of course all the cases post-training with a new physician is incremental.

As for their mix, I don't know that; that's a good question. I know that is one of the follow-on survey questions. So after they go through a course, we ask them for feedback just on the content and how we can support them moving forward. It's a follow-on question that we do solicit feedback on, but I don't know that number off the top of my head. And it would probably be better for us to get a few more months under our belt to get a good idea of their mix of PEVAR pre- and post-training. So that might be a good question for the next call.

<Q – Chris Cooley – Stephens, Inc.>: Okay, thanks so much.

Operator: [Operator Instructions] Our next question comes from the line of Rick Wise from Stifel Nicolaus. Please process with your question.

<Q>: Hey, guys, it's actually [ph] Matt Blackman (35:07) in for Rick, how are you?

<A – Shelley Thunen – Endologix, Inc.>: Hi, Matt.

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

<Q>: John, a question for you to start – could you just tell us where you are sort of broadly speaking in the European sales force build-out? And I'm talking more in terms of geographies and countries Do the 21 reps now cover all the major countries, or are there still some hires that need to go on in some key territories?

<A – John McDermott – Endologix, Inc.>: That 21 is pretty equally spread over most of the major Western European markets. We do have some – in some of the smaller European countries, we do use dealers, and we also compliment on a few areas agents. But for the most part, those are our folks. And we haven't yet disclosed kind of a head count by country. I don't know that we'll do it at that level. But there aren't any major markets that are uncovered at this point.

<Q>: Okay, that's helpful. And then, Shelley, just a couple of quick questions for you. On gross margin, I just want to be clear here. If I exclude that Ventana write-down, would your gross margin have been closer to 77%? Is that the way to think about it?

<A – Shelley Thunen – Endologix, Inc.>: Yes.

<Q>: Okay. And then could you just give – and I may have missed it in the release, but the international breakout EU versus rest of the world?

<A – Shelley Thunen – Endologix, Inc.>: I didn't give that in the release. I don't have those numbers handy on me, but we will disclose that in our 10-Q filing.

<Q>: Okay, that's great. Thanks so much.

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

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

Okay. Well, thanks everyone for joining the call today and for your interest in Endologix. So we'll look forward to seeing you at the upcoming conferences and keeping you updated on our progress. Have a good evening.

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