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

Steve M. Lichtman – Analyst, Oppenheimer Securities
Brooks E. West – Analyst, Piper Jaffray, Inc.
Jacob A. Messina – Analyst, BMO Capital Markets (United States)
Chris Cooley – Analyst, Stephens, Inc.
Charles D. Croson – Analyst, Sidoti & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Endologix, Incorporated First Quarter 2013 Earnings Conference Call. At this time, all participants are in a listen-only mode. A 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. Please go ahead.

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 began, 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 the live broadcast April 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.

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

Thank you, Zack. We've had a good start to the year with strong sales results and continued progress in our new product pipeline. This includes the first cases in our limited market release of Nellix in Europe, CE Mark for the first Ventana sizes and the recent FDA approval for PEVAR. Based upon these accomplishments and our year-to-date results, we are reiterating our full-year

financial guidance of 19% to 25% top-line growth, positive cash flow from operations in the second half of the year and positive adjusted EBITDA for the full-year.

I will start today's call with a quick overview of our results for the quarter, followed by an update on the business and our new product pipeline. Then, I'll turn the call over to our CFO, Shelley Thunen, who will provide an overview of our financial results. After that, I'll come back on to review our key goals and then we'll open it up for questions.

Global revenue for the first quarter was a record $29.8 million, up 22% compared to the prior year. Based upon our most recent market data, we believe the global EVAR market is growing around 5% per year, so we are pleased to be increasing sales over four times the market rate. We estimate the total aortic endovascular market was $1.6 billion in 2012 and will grow to over $2 billion in 2016, representing a significant growth opportunity for Endologix and our pipeline of new technology.

In the U.S., sales were up 17% driven by increased volume with both existing and new customers, plus the addition of a few new sizes of AFX. We ended the quarter with 83 U.S. reps and clinical specialists and expect to finish the year around 88. International sales in Q1 were up 46% led by strong results in Europe. We ended the quarter with 22 European reps and clinical specialists and expect to exit the year with a European sales team of 30 professionals.

Now let me turn to an update on our new product pipeline. Recently, we received a CE Mark for a few of the Ventana sizes and have also now enrolled 76 patients in the U.S. clinical trial. In reviewing our first 120 global procedures with Ventana, we have seen good overall safety results but a higher than expected number of renal re-interventions. Before we continue enrolling patients in the IDE clinical study and progressing with the European limited introduction, we plan to integrate our next generation covered renal stent and conduct additional testing and training to optimize future outcomes.

We hope to begin enrolling patients in the IDE study again and start the limited market introduction in Europe by the end of this year. Although we are disappointed to have to delay the Ventana program, we are very encouraged by the significant physician interest in the device and remain committed to providing an off-the-shelf solution for patients with short aortic necks and juxtarenal aneurysms. If we resume enrollment in the IDE clinical study by the end of this year, we should be able to complete enrollment by the end of 2014, and submit the PMA in 2016. Outside the U.S. we hope to initiate a limited market introduction by the end of this year and transition to a full market release in Europe in the second half of 2014.

Now shifting gears to Nellix, we've started doing procedures with our CE Mark device in a number – in a small number of new centers in Europe. Early feedback from the physicians has been very positive and confirmed our belief that Nellix simplifies endovascular AAA procedures. We remain optimistic that the longer term experience will demonstrate improved outcomes and the ability to treat a broader range of patients than currently available devices.

So far, we have done 47 cases with the newest version of the device with the longest follow up out six months. In those patients, we have 100% technical success, no conversions, no ruptures and no endoleaks. So the early results are very encouraging. The limited Nellix release will continue for the reminder of this year with some incremental new physicians added to support our post Mark clinical trial. This will put us in a good position to establish a solid base of experienced users and proctors who are well versed in the Nellix procedure as we head into a broader European launch in 2014.

The early clinical experience with Nellix was highlighted earlier this month at the Charing Cross Meeting in London. This included several case reviews and a recorded live procedure. These presentations were well attended and confirmed that there is significant interest in Nellix from physicians around the world.

In an effort to gain U.S. FDA approval, we submitted our IDE earlier in the year and recently met with the agency. We help to receive approval in the third quarter and began enrolling patients in Q4. Based upon a projected time lines for trial enrollment and patient follow up, this positions us for a potential FDA approval of Nellix in the U.S. in 2016.

Turing to PEVAR, we're excited to have recently received FDA approval for a percutaneous indication for the AFX system. Endologix is the first and only company to run a randomized multicenter clinical trial to demonstrate the safety and effectiveness of percutaneous Aortic Aneurysm Repair.

Now that we have the approval, we can start providing physician training programs and already have several courses scheduled in May. The PEVAR training programs will be led by expert physicians who will instruct attendees on the percutaneous technique and best practices learned in the clinical trial. We expect these training programs to increase volumes in existing accounts and provide an opportunity to meet new customers and build relationships to support our continued growth in the U.S.

In addition to PEVAR, we are currently on track to begin a limited U.S. market introduction of a new AFX Aortic extension in late Q3 of this year. The new device has been developed to further simplify the procedure and enhance deployment accuracy. Physician feedback on the new system has been very encouraging and we look forward to rolling it out in the U.S. later this year.

Overall, Endologix is very well positioned to drive growth with AFX and PEVAR in the U.S. and continue building our business in international markets. In Europe, we are in the early stages of the limited rollout of Nellix and the physician interest is extremely high. So we believe we have a significant market opportunity.

Now 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 2013. Total revenue for the first quarter increased by 22% year-over-year to $29.8 million. Domestic revenue in the first quarter increased by 17% year-over-year to $24.7 million and international revenue increased by 46% year-over-year to $5.1 million. Our domestic growth was driven by the introduction of a few new sizes of AFX in the first quarter and expansion to the sales force and clinical specialists during the last year. International revenue increases were primarily driven by continued adoption of the AFX product in the European markets and the transition from a distributor to direct model in the larger European markets.

Gross margin in the first quarter of 2013 was 76% compared to 78% in the prior year. The decrease in gross margin was primarily due to product mix and the greater proportion of international sales to U.S. sales in the first quarter of 2013 as compared to the first quarter of 2012. Our first quarter 2013 margin of 76% was the same as the fourth quarter of 2012 and the entire 2012 year.

Operating expenses for the first quarter of 2013 were $27 million compared to $22.8 million in the same period last year. Research, development and clinical expenses in the first quarter were $5.9 million compared to $5.2 million in the first quarter of 2012. The 13% increase was primarily due to an increase in clinical expenses driven by the Ventana U.S. IDE study, Nellix and Ventana study follow-up costs and regulatory costs associated with FDA and CE submissions.

Research and development expenses remained essentially flat, while clinical studies regulatory expenses increased by $1 million, from $1.4 million in the first quarter of 2012 to $2.4 million in the first quarter of 2013, driven by the trial and regulatory activities just discussed.

Marketing and sales expenses grew from $13.5 million in the first quarter of 2012 to $15.2 million in the first quarter of 2013, a 13% increase on revenue increase of 22%, reflecting U.S. operating leverage offset by continued investments building our European direct sales team and variable sales commission costs associated with our revenue growth.

G&A expenses grew from $4.1 million in the first quarter of 2012 to $5.9 million in the first quarter of 2013. Again, 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.

During the first quarter of 2013, we recognized in other income a one-time $1.3 million dividend paid by our former product liability insurer. Our GAAP net loss was $9.3 million or $0.15 a share in the first quarter of 2013 compared to a net loss of $16.7 million or $0.29 a share for the first quarter of 2012.

In the current quarter, the Nellix contingent consideration liability, which is solely payable in Endologix shares, increased by $5.2 million or $0.08 a share, which was almost entirely related to the increase in the Endologix stock price from the previous measurement date at December 31.

Excluding that impact, on an adjusted non-GAAP basis, we reported a net loss in the first quarter of 2013 of $4.1 million or $0.07 a share compared to an adjusted loss of $0.07 a share in the first quarter of 2012. On an adjusted EBITDA basis, the non-GAAP measure of the adjusted net loss, adding back non-cash charges including the Nellix contingent consideration, stock-based compensation, depreciation, amortization, foreign currency exchange re-measurement and tax expense, our loss in the first quarter of 2013 was $485,000 or $0.01 a share compared to $2 million or $0.03 a share loss in the first quarter of 2012.

On a sequential basis, revenues in the first quarter of 2013 as compared to the fourth quarter of 2012 increased a total of $562,000, or 2%, driven by an increase in U.S. sales of $1.3 million, or 6%. International revenues decreased a total of $760,000, or 13%, with increases in the direct European business offset by lower distributor revenues, primarily in Japan, as distributor shipments can vary quarter to quarter. However, our Japanese distributor reported strong adoption of IntuiTrak, which they just began selling this quarter, with a significant increase in their sell-through revenues as compared to the first quarter of last year.

Gross profit was the same at 76%, total operating expenses were $766,000 or 3% lower. Overall, the GAAP net loss from the first quarter of 2013 was a $0.15 loss, again remembering the $0.08 loss for the mark-to-market of the Nellix contingent consideration, as compared to GAAP net loss of $0.11 a share in the fourth quarter of 2012.

Non-GAAP adjusted EBITDA in the first quarter of 2013 was $485,000, or $0.01 a share loss, as compared to a loss of $2 million, or $0.03 per share loss in the fourth quarter of 2012.

Now turning briefly to the balance sheet. Accounts receivable days outstanding was 78 days at the end of the first quarter of 2013 compared to 71 days at the close of 2012, reflecting an increasing mix of direct sale international accounts which are traditionally slower to pay than our U.S. customers.

Inventory turnover increased to 1.6 turns at quarter-end compared to 1.5 turns at December 31. We expect inventory turnover will remain in the range of 1.5 turns, despite the launch of our Nellix system in Europe and introduction of a new AFX aortic extension in the third quarter of this year.

During the first quarter of 2013, we used $3.1 million of cash. Most of the use of cash was related to increasing accounts receivable balances. We ended the quarter with a cash balance of $42 million and an unused $20 million revolving line of credit.

In summary, in the first quarter of 2013, we continue to gain leverage in our U.S. business and international revenue expansion consistent with the continued investment in our European business. This led to continued strong revenue growth driven by our AFX product, stable gross margins and improving operating leverage,

Which brings us to guidance, for the full-year 2013, we are reiterating our revenue guidance with revenues expected to be in the range of $126 million to $133 million, a 19% to 25% increase over 2012. We continue to project 2013 guidance of a GAAP loss between $0.14 per share and $0.17 per share, although more likely at the low end of guidance or closer to the $0.17 share loss.

With a temporary pause to the U.S. Ventana IDE clinical trial and slightly higher Nellix revenues anticipated due to the earlier market introduction, we expect gross margins in the middle of the year to be slightly lower than the 76% achieved in 2012, then increasing as previously guided in the fourth quarter. This refinement within our guidance is due to the higher cost of the Nellix product at low volume in the early stages of introduction.

This net loss guidance continues to take into account the continued growth of the direct sales force in Europe to support the AFX market penetration and the launch of Nellix, the federal medical device excise tax which went into effect January 1 of this year, the estimated legal fees for the Acacia patent matter, estimated non-cash expenses, primarily from stock based compensation, of $11 million to $12 million and the $1.3 million dividend payment from our former product liability insurer that we recorded this first quarter.

On an adjusted EBITDA basis, which excludes non-cash expenses such as stock-based compensation and changes in the estimated Nellix consideration, we continue to expect to have a net profit between $0.01 and $0.05 per share for the year. This puts us in a position to use a small amount of cash for the entire 2013 year but to generate cash flow in the second half of the year.

Not included in this loss per share guidance, however, are potential adverse litigation outcomes, fair value adjustments associated with the Nellix contingent consideration and the effects of possible business development transactions.

I will now turn the call back to John.

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

Thank you, Shelley. We are pleased with our sales performance and new product pipeline progress in the first quarter. Following our key goals for the remainder of 2013: To achieve our revenue guidance and generate positive cash flow from operations in the second half of 2013; continue to gain market share in the U.S. by driving our PEVAR initiative and AFX enhancements; successful limited market introduction of Nellix in several international markets; resume enrollment in our Ventana IDE clinical trial and initiate our limited rollout in selected centers outside the United States by the end of this year; and last, receive FDA approval and began enrollment in the Nellix IDE clinical study.

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

With that we will open it for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you [Operator Instructions]. Our first question comes from Steven Lichtman with Oppenheimer. Please ask your question.

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

<A – John McDermott – Endologix, Inc.>: Hi Steven.

<Q – Steve Lichtman – Oppenheimer Securities>: John, can you talk about what exactly the renal re-intervention is, and what it means clinically relative to Ventana patients, and what is it about the next generation renal stent that you think will address the issue?

<A – John McDermott – Endologix, Inc.>: A renal re-intervention is just when we have to go back into a patient to get adequate blood fall to their kidneys. So that can happen for a variety of reasons, Steve, it can be caused by a stent deformation, a kink, procedurally the device could be put in misaligned, there is a lot of different aspects and different things that can cause a re-intervention.

So one of the things that we think will improve those results is our new generation renal stent graft, we call it, well doesn't matter what we call it, but anyway, it's a new generation device that was designed specifically to provide flexibility at the distal end of the device.

The other thing we've learned through this first 120 patients is there is a variety of procedural techniques, and different centers are doing it differently, and there is clearly an opportunity to drive more consistency in those techniques by providing enhanced physician training.

And lastly, we also want to take a close look at the first 120 patients and look at the overall sizing algorithm and some of the other unique design characteristics, just to make sure there isn't some other fine tuning. So, we will be, think of this kind of as a three-pronged effort moving forward.

<Q – Steve Lichtman – Oppenheimer Securities>: And does the – and how did the – this become discovered?. Is it present clinically or is just on follow-up and looking at the flow? How was it actually sort of discovered?

<A – John McDermott – Endologix, Inc.>: It can be both. It can be both. It can be identified on follow-up where a physician sees a flow restriction and wants to preemptively re-intervene or a patient can present symptomatically.

<Q – Steve Lichtman – Oppenheimer Securities>: Okay. And then on the fix, have you been able to do any sort of bench testing or sort of what gives you the confidence that the fix will sort of address some of the issues you discussed?

<A – John McDermott – Endologix, Inc.>: Yeah. We're in the early stages of that. So, these areas that I've identified, we feel pretty strongly that it's not just one thing, that there is several things we can do on a consolidated basis to improve the results. But we believe that within those three categories, we'll capture opportunities to improve performance.

<Q – Steve Lichtman – Oppenheimer Securities>: And what should we be thinking about milestone-wise over the next several months? What will you be able to give us in terms of an update on the 2Q call for instance. I mean what's going to be happening here over the next few months? Will it, just the training, what should we be hearing from you guys?

<A – John McDermott – Endologix, Inc.>: Yeah so we already have received our conditional IDE approval for the renal stent graft, for the new one. So our centers will be moving ahead with their

IRBs on that. We will initiate some enhanced training for those centers and then we'll be conducting our additional testing. So, at the end of the Q2 call, I don't expect us to be back in action. As I pointed out, our goal is to be implanting patients again in the study by the end of this year, but we'll be able to give you a more general update after the Q2 and Q3 calls about narrowing down the root causes and our level of confidence in the fix.

<Q – Steve Lichtman – Oppenheimer Securities>: Okay. And then just lastly on PEVAR, I guess you said you're are starting some training next month, any sort of early read in terms of interest level, the competitive docs versus current docs, any kind of color you can give on that?

<A – John McDermott – Endologix, Inc.>: Yeah. So far it looks very good. We have got several courses on the books for May, several of which are already overbooked. So there has been a lot of interest, both coming to the website and through the direct sales force effort. So we are off to a good start, it looks very encouraging.

<Q – Steve Lichtman – Oppenheimer Securities>: Okay, great. Thanks John.

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

Operator: Your next question comes from Brooks West with Piper Jaffray. Please state your question.

<Q – Brooks West – Piper Jaffray, Inc.>: Hi, thanks for taking the questions.

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

<Q – Brooks West – Piper Jaffray, Inc.>: Just, John back on the Ventana timelines, you said you did get a CE Mark for Ventana and I'm wondering what is the impact of the change to the regulatory timeframe over there? I mean do you need to go back with a letter to file and get another approval or how does that work?

<A – John McDermott – Endologix, Inc.>: Well, it depends on the final adjustments that we make to the system. So we will certainly be interacting with the notified body. It will be more than a letter to file. We will sit down with them and walk them through our plans, our training. We don't yet have CE Mark for the new generation of the renal stent graft, so that's something that we will be working on. So there will be a refreshed regulatory process related to the CE Mark.

<Q – Brooks West – Piper Jaffray, Inc.>: Okay. And I mean, does that involve enrolling some patients or any thought process there?

<A – John McDermott – Endologix, Inc.>: It might. The other thing we can do is we have the potential to move forward in Europe with the custom made device program. So we don't necessarily have to wait for CE Mark, of any refresh to Ventana or the renal stent graft, but we'd like to complete our analysis of the first 120 patients and take our time and do it right. Again, our goal is to start the limited market introduction in Europe by the end of this year. And we can do that with CE product or we can do that through the custom program. Obviously we'd like to do it with CE, but we've got a couple ways to get it done.

<Q – Brooks West – Piper Jaffray, Inc.>: And then John, what was the incidence of the failure rate in Ventana in the 120 cases?

<A – John McDermott – Endologix, Inc.>: Well it's – not really across the 120 patients because you've got, it's mostly targeted at the IDE clinical trial – and it's difficult to compare our results to the literature, because it's a new category and there is a lot of different definitions for renal related events. So, what I can tell you is that when we do meta analysis on what's published in the

literature, it looks like a renal intervention rate between 3% and 9%, and we are trending above that level with our current data.

<Q – Brooks West – Piper Jaffray, Inc.>: Okay. And I mean will you say how far above or...

<A – John McDermott – Endologix, Inc.>: No, not at this point, because I think it could be misleading given the differences in the definitions and the end points in the other published literature. So, just sufficed to say, it's higher than we'd like, we feel like we can significantly improve it and we'd like to put things on hold for a little while to do just that.

<Q – Brooks West – Piper Jaffray, Inc.>: And then just two more on the kind of U.S. timeline. With, I think you said 76 patients enrolled in the trial. Have you had a discussion with FDA on how you're going to treat those first 76 patients, do you need to restart the trial, can you do some kind of a blended analysis, question number one. And then question number two, what does this do again to the push out of the ultimate U.S. launch?

<A – John McDermott – Endologix, Inc.>: Yeah, so the first question, we have just had our first conversation with the FDA this afternoon. So in terms of how much, how many of the patients that have already been enrolled and how many more might we have to do or what are those changes, it's really Brooks too early for me to speculate.

We have a good relationship with the agency and I expect that to continue and be very collaborative. There is a few different ways we can approach this, and I would say at this point, it's just a little too early for me to provide guidance there. That may be something we could start to provide clarity on over the next several months. But we've had one brief conversation with the FDA, we need to go meet with them, walk them through our plan and then we can provide you a little more detail. Our objective, as I mentioned, is to start enrolling patients in the study again by the end of this year.

<Q – Brooks West – Piper Jaffray, Inc.>: Okay. And so with your ultimate U.S. timeline, that adds about six months or what are your thoughts there?

<A – John McDermott – Endologix, Inc.>: Yeah, again, it's difficult to know exactly how many more patients we'll have to do and how many of the patients that have already been done that we can use. But if you, just a back of the envelope estimate at this point, if we start enrolling by the end of this year, and let's say we enroll patients over the course of next year and then follow those patients for a year, that would position us for a 2016 PMA.

<Q – Brooks West – Piper Jaffray, Inc.>: Okay.

<A – John McDermott – Endologix, Inc.>: I hope that proves to be conservative, but that's the best I know sitting here today.

<Q – Brooks West – Piper Jaffray, Inc.>: Thanks, John.

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

Operator: Our next question comes from Joanne Wuensch with BMO Capital Markets. Please state your question.

<Q – Jacob Messina – BMO Capital Markets (United States)>: This is Jake in for Joanne. Thanks for taking the questions. Just a clarification on Ventana in Europe, was it the two sizes you got approved or were there more so far approved for CE Mark?

<A – John McDermott – Endologix, Inc.>: It was actually I think four sizes, Jake, but it represented 30% to 40% of our volume experience worldwide.

<Q – Jacob Messina – BMO Capital Markets (United States)>: Great. Thank you. And then, just in terms of the European study for Nellix and new centers there, you are doing the 200 patient post-approval, how many centers are you going to be training for that? And that hasn't started yet. Is that correct?

<A – John McDermott – Endologix, Inc.>: That's correct. That has not started yet and I think we've got that scoped around 30 sites.

<Q – Jacob Messina – BMO Capital Markets (United States)>: 30 sites, okay. So most of the roll-out there has been to sites that were already involved with the product?

<A – John McDermott – Endologix, Inc.>: Yeah, so far it's a small number of sites. So we've had a couple of centers that have been using the device and working with us on our early clinical experience. We recently rolled it out to a few more. So we've been doing cases in six centers. And then over the next few months, we'll probably double that number. And then as we transition into the fourth quarter, we'll start adding to that and moving into a more full market introduction next year.

<Q – Jacob Messina – BMO Capital Markets (United States)>: Great. And then maybe just lastly from me, if you're able to provide the geographic breakdown on some level this quarter and then what you think the ramp in the different markets looks like over the course of the year. That would be very helpful, thank you so much.

<A – Shelley Thunen – Endologix, Inc.>: It's Shelley. I'll talk about the geographic numbers a little bit and then John can talk about the ramp going forward in the year. As we noted in the first quarter, U.S. sales were $24.7 million. Our European sales were $3.4 million; that was up over 100%, it was up 112% from the comparable period a year ago.

And then rest of the world was $1.6 million. Those are distributor sales in Japan and Latin America primarily, and that was down slightly, about 14%, from the prior year. And as I mentioned, it just has to do with the lumpiness in the way in which we might ship to a distributor. Those orders tend to be larger and, but, so that was a total of $29.8 million in revenue for the first quarter. John, do you want to talk about the...?

<A – John McDermott – Endologix, Inc.>: Yeah, Jake, ask me the question again, so I make sure I'm on point. What did you want to know about, was it revenue trend, or was it...?

<Q – Jacob Messina – BMO Capital Markets (United States)>: Yeah, just the expectation for build in the different geographies and where you're focusing your investment.

<A – John McDermott – Endologix, Inc.>: Well, we do expect, for full-year, revenue growth OUS [outside US] to be 40% to 50% and in the U.S. 15% to 20%, and as we bring more centers online with Nellix, that will generally be incremental. So, I think that we would see more growth OUS than inside the U.S. in the second half of the year.

<Q – Jacob Messina – BMO Capital Markets (United States)>: Thank you.

Operator: [Operator Instructions] Our next question comes from Chris Cooley with Stephens. Please state your question.

<Q – Chris Cooley – Stephens, Inc.>: Thank you and good afternoon.

<A – John McDermott – Endologix, Inc.>: Hi, Chris.

<Q – Chris Cooley – Stephens, Inc.>: John, I was hoping maybe – I just want to press you a little bit here more on the renal re-intervention rate and specifically what you're hoping to achieve with enhanced flexibility at the distal end. I'm curious if you're seeing an issue there where you can't land the graft, are you getting better [ph] radioplasticity (34:14) at that end, so you can see where it is? I'm just trying to get a better understanding of what you're trying to achieve with that one tweak, what you saw in those initial patients, and then I have a follow-up.

<A – John McDermott – Endologix, Inc.>: Well, the further, the deeper you go into the renal artery, the more flexation there is. And so one of the unique attributes of Ventana is, it's got these movable fenestrations and in some cases, those fenestrations can actually be pushed into the renal arteries, which could result in the renal stent graft being too deep or in the more flexible region of the renal artery. That's a training issue and an opportunity for relatively straightforward improvement. Having said that, we do think that can still happen from time to time and there isn't – there is no device that has been developed specifically for this indication. So we developed one, which involves a design that provides more flexibility at the distal edge of the stent. So when you're in the more flexible area of the renal artery, you have the ability to be more accommodating for that.

<Q – Chris Cooley – Stephens, Inc.>: Okay. And then maybe just as an offshoot to that, and so if you were – just kind of put it in two buckets, design versus technique, and you look at the incidents undisclosed at this point in terms of your re-interventions, how much would you attribute to both camps on design versus technique?

<A – John McDermott – Endologix, Inc.>: Yeah, it's too hard to know yet, Chris. Yeah, we've got to go back and look at all 120 patients that have been implanted and get all the follow-up data we can and dissect exactly that; how many of these are related to the renal stent graft. It can also be flaring, did they put an adequate flare on the orifice to the renal? So, it's not always going to be just a question of depth. There can be a variety of technique and procedural issues. All of those have to get dissected and we've got to reevaluate the sizing matrix. Interestingly, we've been able to do these 120 patients with only five product codes. And so we want to go back and take a close look at those and make sure that we've optimized the size range with various anatomies that we've seen, really benefit from this first 120 patient experience. So I can't dissect it for you yet, but that's the effort that we will be conducting over the next several months.

<Q – Chris Cooley – Stephens, Inc.>: Great. And if I could squeeze just one other quick one in and just when I think about how this impacts the P&L for the full year, obviously you have the temporary delay in the trial in terms of enrollment, but you have added clinical development type costs. Could you kind of just walk us through kind of what the net effect would be, or is anticipated to be, on the P&L again? Maybe that's one for Shelley, thanks so much.

<A – Shelley Thunen – Endologix, Inc.>: Good afternoon, Chris. We are maintaining our revenue guidance. As you know, both Ventana and Nellix were intended to be limited launch rollouts, followed by post-market studies. And so, what we are doing is we got Nellix a little early; that's going very well.

<Q – Chris Cooley – Stephens, Inc.>: Right.

<A – Shelley Thunen – Endologix, Inc.>: So we anticipate that Nellix revenues will be a little higher.

<Q – Chris Cooley – Stephens, Inc.>: I guess Shelley, if I could, I guess what I was really trying to drive at was the expense, I think I understand the revenue put and take, but just from an expense standpoint?

<A – Shelley Thunen – Endologix, Inc.>: Yeah, and as I mentioned, gross margins are a little bit lower on Nellix. But at the moment, I have not adjusted the expense line. Our clinical trial expenses may be a bit lower, but we might have some other investigation costs that are a little bit higher. So I'm not looking at that changing at all and that's why in part, we are guiding that the difference in – minor difference in revenues and gross margin would fall to the bottom line.

<Q – Chris Cooley – Stephens, Inc.>: Understood, thank you so much.

Operator: Our next question comes from Charles Croson with Sidoti & Company. Pleas state your question.

<Q – Charles Croson – Sidoti & Co. LLC>: Hi, guys. How's it going? Can you hear me okay?

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

<Q – Charles Croson – Sidoti & Co. LLC>: Great. Thanks. So John, not to beat this one on too much, but on Ventana again, it does sound like you need to go back, it sounds like you're focused on at least one area where – what needs to be fixed. But it does sound like you have some more research in there in what exactly needs to be done. What is the risk here in that this gets pushed out even further, that you find something else? The reason I ask is because it sounds like this just popped up a little bit and this issue might have just crept up within the quarter. Was this something that you knew that you kind of had to fix and then it just finally got to a point where you had to address it full on?

<A – John McDermott – Endologix, Inc.>: Well, no, let me address the first part of that. It's really hard to make any clinical efficacy judgments with less than a 100 patient experience. These are complex patients that are very sick and so, we had seen even in our early experience some renal events. In fact, we had two publications this month in the Journal of Vascular Surgery, both our pilot study as well as our CE cohort, and those are both published and you can look at that data with a relatively low rate of renal interventions. So, we have been tracking this and monitoring it and collaborating with the physicians, and as we were tracking our results with the benchmarks, we just decided that it was higher than we'd like, and it was better to take a pause, reevaluate the situation and just keep plowing patients into the study and end up missing an endpoint.

So the decision might seem sudden but we have been tracking it and now that we have got enough patients, we have got a better idea of the statistics behind hitting the endpoint and we think it is better to take a pause. In terms of the question about our level of confidence and the possibility of a further delay, I mean we think we have narrowed it down to these areas, but we haven't done the work yet.

<Q – Charles Croson – Sidoti & Co. LLC>: Okay.

<A – John McDermott – Endologix, Inc.>: So we're giving you our best estimate based upon our experience. Now I would say that, and I think that we've demonstrated, when we had to pull back a little bit on Nellix, we communicated that we wanted to make some changes and we provided the timeframe for doing that, and we delivered on that. So I mean, as a benchmark of one, I think we understand how to do this and we'll move through it very carefully, but we'll do it right.

<Q – Charles Croson – Sidoti & Co. LLC>: Okay, that's helpful. And then just two more quickies here, the AFX enhancements you did recently, and then the one that you are going to do or launch in Q3, can you just speak to those a little bit more?

<A – John McDermott – Endologix, Inc.>: Yeah, so what we did in the first part of the year is we rolled out a new size, actually a larger diameter limb for our main body device, which was one size gap in our portfolio. And that's gotten very favorable feedback from clinicians and I think in part

contributed to our good first quarter. In the third quarter, the latter part of the third quarter, we have developed a new device which we currently called AFX 2, which is a new aortic extension, and that has been designed just to further simplify the ease of use as well as the deployment accuracy. So, we'll start with the limited market introduction in that with that in the latter part of Q3, and then transition to more of a full market by the end of the year, first part of the following year.

<Q – Charles Croson – Sidoti & Co. LLC>: Okay, that's helpful, thanks. And then one last quick one here for Shelley, what was the impact of the device tax in a dollar sense?

<A – Shelley Thunen – Endologix, Inc.>: We aren't publishing that, but it is a little less than 1% of our total U.S. revenue. The stated rate is 2.3% but it is more like a manufacturers tax, so it is in the $200,000, under the $250,000, in the quarter range.

<Q – Charles Croson – Sidoti & Co. LLC>: Okay, all right. That is helpful. Thanks. I will hop back in the queue then.

Operator: [Operator Instructions]. There are no further questions at this time. I will now turn the conference back to John McDermott for closing remarks. Thank you.

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

Okay, thank you operator. I would like to thank everyone for joining the call today and for your interest in Endologix. We look forward to seeing you at the upcoming conferences and keeping you updated on our progress. Have a good evening.

Operator: This concludes today's conference. All parties may disconnect. Have a day.