PARTICIPANTS

Corporate Participants

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

Other Participants

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

Operator: Greetings and welcome to Endologix, Inc. Second Quarter 2014 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]

I would now like to turn the conference over to your host, Zack Kubow of The Ruth Group. Thank you. You may now 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 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, 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.

John D. McDermott, Chairman & Chief Executive Officer

Thanks, Zach. Good afternoon, everybody. We achieved strong results in the second quarter with improved performance in the U.S., another quarter of growth from the Nellix limited introduction in Europe and continued enrollment in our clinical studies. 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 second 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 $38.3 million in the second quarter of 2014, an increase of 13% year-over-year and 15% sequentially over Q1. International revenue grew 36% driven by our sales and clinical team in Europe that increased sales by 89% over Q2 last year.

In the U.S., revenue grew 6%, continuing the positive trend that began in the first quarter following a slow start to the year in January. In the U.S., we currently have 93 sales reps and clinical specialists and expect to finish the year just under 100, representing sales force growth of about 18% in 2014. This will position us nicely going into next year and provides additional depth and coverage for the anticipated launch of AFX 3 in 2015 and Nellix in 2016.

In Europe, we currently have a sales and clinical team of 28 and are planning to get up around 32 by the end of this year, which represents a sales force increase of 28% over 2013. This will give us a nice initial footprint in Europe and enough people to impact the market in 2015.

Looking forward into Q3 and Q4, we will be focused on our sales growth in the U.S., the gradual rollout of Nellix in Europe and enrollment of the Nellix clinical studies. We've made progress in the U.S. and continue to get positive physician feedback on VELA, our new Proximal Endograft.

We've also continued our Percutaneous EVAR training programs and so far this year, have trained 180 doctors. By the end of the 2014, we expect to have trained 500 physicians since starting this initiative last year. We've seen good growth from our PEVAR trained physicians and expect to continue the program in 2015.

Now, turning to Nellix. We're a little over a year into the limited market introduction in Europe and we're very pleased with the overall clinical results and high level of physician interest. In the second quarter, we completed 500 Nellix procedures and recently achieved the acquisition milestone of $10 million in trailing 12-month international sales. These results, together with the continued high demand for the product, give us the confidence in the potential for Nellix to become the market-leading device for the treatment of abdominal aortic aneurysms.

On the clinical front, the Nellix clinical studies are progressing nicely. We currently have just over 200 patients enrolled in the EVAS FORWARD global registry. This is a 300-patient prospective multi-center trial designed to capture real-world clinical results with the Nellix device. We expect the next clinical data presentation from the global registry to be sometime this fall.

For the EVAS FORWARD IDE, we currently have 75 patients enrolled and are forecasting to complete enrollment of all 180 patients around the end of this year. This would position us for a potential PMA approval in the US by the end of 2016.

So, overall, we made good progress in the second quarter and feel like we're well-positioned 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 second quarter of 2014. Total revenue for the second quarter increased by 13% year-over-year to $38.3 million. For the six months ended June 30, 2014, total revenue increased 12% to $71.6 million compared to $63.7 million for the six months ended June 30, 2013.

Domestic revenue in the second quarter increased by 6% year-over-year and 17% sequentially to $28 million. The increase in the U.S. was due to improving AFX procedure trends following a slow start to the year in the first quarter of 2014. International revenue increased by 36% year-over-year in the second quarter to $10.3 million. In Europe, revenue increased to $7.8 million, up 89% year-over-year and 19% sequentially. The international sales increase was primarily attributable to strong growth of Nellix sales.

Gross margin in the second quarter of 2014 as compared to the prior quarter a year ago remained stable at 74%. For the six months ended June 30, 2014, gross margin was 74% as compared to gross margin of 75% for the six months ended June 30, 2013. The decrease in gross margin for the six-month period was primarily driven by geography and product mix, with a greater proportion of sales from international market, which carry lower gross margins.

Operating expenses for the second quarter of 2014 were $32.3 million, compared to $27.5 million in the same period last year. Operating expenses for the six months ended 2014 were $61.9 million compared to $54.5 million for the six months ended June 30, 2013. The increase in operating expenses was driven by R&D, sales and marketing and G&A expenses.

Our GAAP net loss was $9 million or $0.14 per share in the second quarter of 2014 compared to net income of $5.7 million or $0.09 per share for the second quarter of 2013. In the second quarter of 2014 the accounting for the Nellix contingent consideration generated a non-cash expense of $3.8 million or $0.06 per share as compared to $7.6 million of benefit or $0.12 of income in the second quarter of 2013.

These fluctuations in net income due to Nellix contingent consideration are primarily due to the change in Endologix common stock price quarter to quarter. In June, we reached the first Nellix acquisition milestone payable in Endologix common stock to former Nellix shareholders. Therefore, the vast majority of fluctuations in this non-operating item will no longer affect our book results and EPS starting in the third quarter of 2014.

Our adjusted net loss for the second quarter, which is book income, net income or loss, less the contingent consideration for Nellix and convertible debt expense, was $3.8 million loss or $0.06 per share loss as compared to a loss of $1.9 million or $0.03 per share loss in the second quarter of 2013. While revenue continued to increase at a rate of 13% in the second quarter of 2014, we increased our investments in R&D, clinical studies, sales and marketing and G&A, as we expected.

For the six months ended June 30, 2014, we reported a net loss of $3.7 million, or $0.06 per share, compared to a net loss of $3.7 million, or $0.06 per share, for the six months ended June 30, 2013.

Our adjusted net loss excluding the Nellix contingent consideration convertible debt expense for the six months ended June 30, 2014 was $8.9 million, or $0.14 per share, compared to an adjusted net loss for the six months ended June 30, 2013 of $6.1 million, or $0.10 per share.

On an adjusted EBITDA basis, a non-GAAP measure of GAAP income or loss, adding back non-cash benefit or charges, 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 second quarter of 2014 was $947,000, or $0.02 per share, compared to income of $456,000, or $0.01 per share in the second quarter of 2013. For the six months ended

June 30, 2014, adjusted EBITDA loss was $4 million, or $0.06 per share loss, compared to a loss of $64,000 in the prior year period.

Now, turning to the balance sheet. Accounts receivable days outstanding was 63 days at the end of the second quarter of 2014 compared to 65 days at the end of 2013 and 69 days at the end of March 2014. Our DSOs have continued to be excellent. U.S. DSOs were a bit lower than normal at the end of the second quarter while international DSOs remained stable. However, we continue to anticipate that DSOs will increase as our sales to international accounts continue to increase as a percent of revenue because they're traditionally slower to pay than our U.S. customers.

Inventory turnover was 1.5 turns at quarter-end compared to 1.6 turns at the end of March 2014. Inventory turns are as we expected, although slightly lower than historical numbers as we prepare for the move to our new manufacturing facilities in the fourth quarter and increase inventory levels for Nellix as revenue and demand increases.

We ended the quarter with cash and cash equivalents and investments of $110.8 million as compared to $119.6 million in cash and cash equivalents at the end of the first quarter. Principal uses of cash in second quarter were expected capital expenditures for a new facility and continued investment in inventory.

Now, turning to guidance. We are narrowing our revenue guidance to $148 million to $152 million, a 12% to 15% increase over 2013. This compares to the previous range of $146 million to $152 million. However, we have adjusted our geographic mix expectations with the U.S. revenue growth now expected to be 4% to 6% versus 6% to 10% previously, and international revenue growth now expected to be 42% to 46% compared to 26% to 30% previously.

Within revenue guidance, we typically expect seasonality in Europe in the third quarter, resulting in a sequential dip followed by growth from the broader market introduction of Nellix in the fourth quarter. In the U.S., we anticipate growth as compared to last year in each of the quarters in the second half, but we still anticipate summer seasonality in the third quarter. We continue to expect full year 2014 gross margin to be in the range of 73% to 75%.

On the bottom line, we are also narrowing our guidance within the previous guidance ranges. Projected 2014 GAAP guidance is $0.24 to $0.30 loss per share; projected 2014 non-GAAP adjusted net loss, which excludes the Nellix contingent consideration and convertible debt expense, is expected to be between $0.27 to $0.33 loss per share as compared to a wider range of $0.22 to $0.35 loss previously.

On an adjusted EBITDA basis, we are also narrowing our net loss expectations to $0.10 to $0.16 loss as compared to previous guidance of $0.04 to $0.17 loss per share for the year. Again, adjusted EBITDA per loss share is GAAP net loss per share 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 are also reiterating our cash expectation. 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 growth and increase in working capital for accounts receivable and inventories consistent with our growth. 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 & Chief Executive Officer

Thanks, Shelley. We're pleased with our progress in the second quarter of 2014 and remain confident in our full year revenue guidance as well as 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 revenue guidance. Second is to continue driving adoption in the U.S. of AFX, VELA and PEVAR. Third is to continue with the limited introduction of Nellix and begin a gradual rollout to more new customers in the fourth quarter. And fourth is to complete enrollment in the EVAS FORWARD IDE and the global registry around the end of this year.

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 Canaccord Genuity Growth Conference in August and the Credit Suisse Conference in September.

In addition, we plan to host an investor meeting in conjunction with the VEITH Symposium in New York on November 19. We'll provide additional information on this event in the fall.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Rick Wise from Stifel.

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: Good morning, John, or good afternoon, John and Shelley. Obviously, a terrific quarter and it's great to see the progress. John, can you talk a little bit more on your U.S. performance and the new guidance range? It seems like you made tremendous progress. If you aren't where you thought you'd be in terms of U.S. growth despite the obvious acceleration, help us understand where the delta is. Where are you relative to where you thought you'd be coming into the year? What's that about?

<A – John McDermott – Endologix, Inc.>: Yes, well, you know when we adjusted our numbers early in the year, that was our best estimate at the time. And so as we've now got a couple of quarters under our belt and we look out at the rest of the year, we felt it was just prudent to adjust a little bit – uncertainty of just about how much seasonality we will see – but we felt like that adjusted range was more appropriate. And although it's lower than we might have thought of going into the year, if you compare first half second half, second half growth rate in the U.S. right now is estimated at about 8% which is still two times the market growth rate. So although that's a number that's historically lower than what we've seen in the U.S., we're still capturing market share. And so you combine that 2x market growth rate together with what we see as very bullish results in Europe, we think we still got a nice growth profile.

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: Yeah, for sure. And I just wanted to understand that you've been very clear about talking to us about in recent months over the month over month sequential improvements, which I assume you're still seeing. But can you give us a little more color on rep productivity? The sales force is expanding a little faster than I thought; that seems good. At the start of the year you didn't include any rep productivity in your guidance, if I remember correctly. Does your new guidance include that productivity? Are you seeing the productivity you've seen frankly over the last five or six years?

<A – John McDermott – Endologix, Inc.>: Yeah. So the rep productivity is – has continued to be consistent with what we've seen in the past. Our overall average is about seven cases per month per rep, which is relatively flat year-over-year at this point now. We'll dilute that a little bit with some additional reps. We may measure kind of tenured reps versus new reps, because the new reps take a little while to come up to speed. The new reps will primarily benefit us next year.

And then we also have clinical specialists. And the clinical specialists tend to do about two times the number of cases per month as a rep, so on average around 14. So the productivity numbers have maintained and been pretty consistent. We think there's still growth opportunity there and we see that as the sales force gets more tenured, but it'll get diluted a little bit when we bring on some new rookies. So I think seven, moving on up to eight is a pretty way to think about it for the next year or so.

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: Yeah. It sounds like you're back to the pre-fourth-quarter 2013 run rate, right?

<A – John McDermott – Endologix, Inc.>: I don't have that number. You mean in terms of the run rate for the sales, domestically...

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: Yeah.

<A – John McDermott – Endologix, Inc.>: I don't know. Shelley?

<A – Shelley Thunen – Endologix, Inc.>: Yeah. No. I think we are. If we look at kind of overall first half growth versus first – the last year, it's about a 2% growth. And then, as John said, if you extrapolate the numbers, it's about an 8%. So it's a little lower growth rate than we got in the fourth quarter because we had a little – but I think that we're at not similar growth rates but certainly similar run rates.

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: All right. One last one. Nellix supply progress – it sounds like you're still on track for the 3Q, 4Q gradual capacity increase. Just when is that going to be fully up and running and supplying the market? And maybe you can give us a little color on, when you're at full capacity, let's say, by the end of the year or start of next year, what kind of revenue rate can you supply or support globally? Thanks.

<A – John McDermott – Endologix, Inc.>: Yeah. So, in terms of the move or the facility expansion, that is on track. In fact, we've got some people that are already starting now to move to the new facility. Operationally, we are going through our registration processes now, have had some inspections and are working through the approvals for the new facility. Expect to get those approvals and be operational in the new facility by the end of this quarter.

In terms of the capacity of the new facility, when we do our five-year plan, which we're finalizing and updating currently, we built that building with the anticipation that that facility could support our needs for at least another five years before we'd have to add additional capacity. So there's a tremendous amount of growth potential on the manufacturing side in that facility. So I don't expect production to be anything we talk about for the next few years.

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: Okay. Thank you.

Operator: Thank you. Our next question comes from Brooks West from Piper Jaffray.

<Q – Brooks West – Piper Jaffray & Co (Broker)>: Hi. Thanks for taking the question. John, another just follow-up on the U.S. market. Can you talk about the resolution of some of the negative dynamics in Q1, and I'm thinking about competitive launches and maybe some physicians who were excluded from some of the trials coming back into the fold?

<A – John McDermott – Endologix, Inc.>: Yes, we kicked back through that. And we're not monitoring that in the same level of detail that we were at the outset, but I would say we've seen progress across the board in those categories that affected us. We are starting to rebuild some of those relationships where physicians were frustrated with us on not being included in Nellix. I've seen progress there. As far the Cook phenomenon that we talked about previously, we've also seen progress there because some of the physicians that have now gone through the training have been frustrated that there's a very high case turndown rate for that device and so they've committed their infrarenal cases and not been able to get very many of these complex cases done. So we've seen some improvement there although there are still some folks that are working off their case volumes.

And then on the overall competitiveness, the competitive dynamic, I would say, that continues. All of the companies are working hard to hold on to what they've got. TriVascular is a new entrant, as you know, Lombard as well. And so I would expect the marketplace overall to be more competitive moving forward.
And our position within the market and the company's profile has also changed over the last year. Right now, if you annualize our Q2 domestic numbers, we're running between 16% and 17% market share and that's without even launching Nellix. So we are clearly much more on the radar screen of the competitors than we had been in the prior periods, which means just more counter detailing and just overall more competitive environment. That said, we feel we're well-positioned. With the sales force expansion, with AFX 3 in 2015 and Nellix in 2016, we like our domestic growth opportunities.

<Q – Brooks West – Piper Jaffray & Co (Broker)>: Thanks. And then just a follow-up also on the Nellix, I guess, more robust launch in Q4. Can you talk about – my understanding is you haven't been consigning inventory to either hospitals or dealers. I'm wondering could we see a bump from those kinds of revenues in Q4 and maybe, Shelley, can you give us a little bit of a sense of the cadence for international revenue growth from Q4 – excuse me – Q3 to Q4?

<A – Shelley Thunen – Endologix, Inc.>: Yeah. Do you want me to answer both or what?

<A – John McDermott – Endologix, Inc.>: Well, let me take the consignment question, Brooks. We – it's true – we have very few hospitals with consignment stock. And although we will increase that, I would not expect to increase that dramatically in Q4, because we still want to be involved and hands-on with as many cases as we can. And once you put stuff in on consignment, you've lost a little bit of the visibility to the anatomies and we're not quite ready for that.

So, over time, we'll broaden the consignment accounts, but it's not going to be a focus of our growth activities, Nellix-related. Most of the growth in Nellix accounts is going to come from just opening new accounts and making the product more widely available. So far, we've kept it to a relatively small number of centers in Europe.

<Q – Brooks West – Piper Jaffray & Co (Broker)>: And then, I guess, Shelley, before you go, John, consignment, but also could we see some stocking orders in Q4?

<A – John McDermott – Endologix, Inc.>: You'll see some, but not much. The growth in Europe is mostly direct. We do have some distributor business in Europe, but the significant majority of the revenue you're seeing out of Europe is direct. And even if we did consign, they wouldn't recognize those revenues until they used the device. So the stocking-related revenue from Nellix is going to be pretty minor.

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

<Q – Brooks West – Piper Jaffray & Co (Broker)>: Right.

<A – Shelley Thunen – Endologix, Inc.>: Yeah. And just to clarify, direct consignment at hospitals, we don't recognize revenue until the case is completed. And then distributors – while we're introducing Nellix to distributors in Europe – we're currently doing that, but that is a minor portion of our total European revenue. And we kind of anticipate that that will continue in the third and fourth quarters.

<Q – Brooks West – Piper Jaffray & Co (Broker)>: So then do you expect a big step-up in international revenue growth from Q3 to Q4 or how should we think about that?

<A – Shelley Thunen – Endologix, Inc.>: Yeah. I think that, as we guided, I expect in Europe that we will be down sequentially from the second quarter, which was very strong, in the third quarter just because of seasonality, and then back up as we enter our more robust market launch in Europe in the fourth quarter.

On other international sales, rest of the world, which is primarily Latin America and Asia and that is primarily distributor income, I expect that to remain relatively stable. We don't, see other than orders between things, we don't see a lot of growth in our international market in the third and fourth quarters. That business is relatively stable, although we could get a little bit as we introduce Nellix in 2014.

I think as we think about Japan, we've had variability in our orders quarter-to-quarter. That's really about their ordering pattern more than anything else. But we look at those markets primarily being

driven by Nellix as we go forward. I think particularly in Japan we're starting to see a lot more competition. We'll probably have three new entrants in that market in this year and early next year and we would expect reacceleration in that market as we get AFX in that market and then later Nellix.

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

Operator: Thank you. Our next question comes from Joanne Wuensch from BMO Capital Markets.

<Q – Joanne Wuensch – BMO Capital Markets (United States)>: Good afternoon and thank you for taking the question. It's two pieces of it. The first one is you comment about and I am going to quote you, a robust market launch in Europe that will begin in the fourth quarter. What does it take to do a robust market launch in Europe and if I think about that being our fourth quarter number, how does that flow into next year?

<A – Shelley Thunen – Endologix, Inc.>: And let me clarify. I hope I said this word in front of robust. We try and say more robust market launch. I think that we're trying to clarify that difference between more robust market launch than what we're doing now versus a full market launch. And so I do think there is some nuance in there, Joanne, as well. And we want to be careful about that. I think our focus is on adding hospitals that have higher volume rather than going out to everybody.

John, do you want to add a little bit about what...

<A – John McDermott – Endologix, Inc.>: No. I think it's – the way I would think of it, Joanne – is you're getting a little bit of a sense for our procedure growth quarter-over-quarter with in what I would characterize in still a relatively limited commercial phase. We'll take that up a notch in Q4. And what that means at a tactical level is we're going to broaden the number of accounts that we're interacting with and spreading the device more widely now that we feel like we've got enough experience and refined all the procedure steps and troubleshooting and sizing and everything. We feel well prepared to make the technology more widely available. I can't give you a number, obviously, but it'll be an expansion over the current run rates.

<Q – Joanne Wuensch – BMO Capital Markets (United States)>: Okay. And so the next piece of that question, getting past the fourth quarter into next year, what makes you move or how do you think about moving into a full launch?

<A – John McDermott – Endologix, Inc.>: Yeah. We may be kind of hung up in the semantics a little bit. I define a full launch more with other products where we have lots and lots of consignments and we're making the product available basically to whoever wants it. And this is not that kind of product. It's a new technology. It's still relatively early in its life cycle and so I think we'll handle it maybe differently than the market. When people talk about full market launch, it's in a very unconstrained way. And I just don't see us getting to that for some time.

So what we'll talk about is continued controlled market introduction but offering it to more and more doctors. But I think we'll still be able to put up some very nice sequential growth numbers with a well-managed introduction of the product.

In Europe right now, we've had the product available for a short period of time, but we're already between 11% and 12% market share with a small team and a limited introduction. So we feel like we've got very substantial growth potential there.

<Q – Joanne Wuensch – BMO Capital Markets (United States)>: Okay. And then just one additional question. PEVAR – how is that doing in the United States? Could you give us an update on that, please?

<A – John McDermott – Endologix, Inc.>: Yeah. I think I mentioned, in my remarks, so far this year, we've trained 180 physicians. The goal by the end of the year is to get to around 250, which combined with last year will put us up at about 500 physicians trained year-to-date since starting the initiative last year.

We see very nice growth out of those physicians who go through the training program, so we expect to continue it, and it's going well. We get very good feedback from the physicians that attend that and think we have impacted and will continue to impact the market overall. The number of physicians that do PEVAR now is considerably higher than when we started this.

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

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

Operator: Thank you. Our next question comes from Jason Mills from Canaccord.

<Q – Jason Mills – Canaccord Genuity, Inc.>: Great. Thank you, John and Shelley. Thank you for taking the question. Can you hear me okay?

<A – John McDermott – Endologix, Inc.>: Yes. We hear you great, Jason.

<Q – Jason Mills – Canaccord Genuity, Inc.>: Great. John, first question is two parts, specific to Nellix in Europe. How – would like to know just sort of an update on the number of accounts at year-end, number of accounts expect to end the year at. I think last time we spoke you were at – sort of in the close to 100 or closing in on 100 – so where do you see that going?

And with respect to the nuanced language around full launch or more robust launch, following up on Joanne's question, obviously you're being very careful, as it seems very prudent to let physicians do it for patients that it's indicated for, and not opening it up to a – whoever wants it – would hopefully prevent the really, really difficult cases where, unfortunately, outcomes should be a little bit worse. I'm wondering as you get past the global registry enrollment, if – obviously you'd want the device to work well on every patient – but I'm wondering if that is the trigger for a more open launch of the product, getting past that or not every patient is going to be recorded in the registry.

<A – John McDermott – Endologix, Inc.>: Yes, it'll certainly help because then we'll have a good bit of prospective clinical data in a wide range of anatomies and that'll inform the training programs and the education of the clinical community. So I do think the registry data can be useful. They are, at this point, it just – what happens is when a physician starts to use Nellix, they quickly realize that they can do things with this technology that they cannot do with other devices. So they quickly want to start treating aneurysms that are well off the IFU.

And it looks like Nellix has great potential to do that but we want to just do that cautiously and that's why we're still a little bit reluctant to go with consignments in a broader introduction. Our preference would be to be in every one of those cases and work together with the clinical community to understand the boundaries, because we're going to – we're reshaping the boundaries of EVAR now with EVAS – and we just want to do that cautiously. So we're not trying to be overly conservative, but when you see and talk to physicians that now have access to it, they are treating and they want to treat patients that have been unable to treat with EVAR before. And we're just trying to do that slowly.

I can't give you an exact timeframe, but what I can tell you is even in this kind of approach, a relatively conservative rollout where we have considerable influence over the cases that are done, I still think we can get to market leadership. I don't think this approach is going to impede our ability to become market leader. I just think it's the right way to preserve the integrity of the technology for

the long-term. And at some point, we may talk about it in a more unconstrained type of a commercial environment, but for the time being I think we ought to all calibrate that we want to just take our time and do it right and show good sequential growth.

<Q – Jason Mills – Canaccord Genuity, Inc.>: And in Europe, I know it's a bit more fragmented than it is in the United States, so what is market leadership from a percentage standpoint mean in Europe?

<A – John McDermott – Endologix, Inc.>: Right now our estimate for Medtronic is 45%, so...

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

<A – John McDermott – Endologix, Inc.>: ...the new player comes – that's the current measurement. I don't think you have to be there. I mean, if – for our growth – I don't think you have to be at 45% to be market leader given the number of competitors in that market. I think your mid-30s% positions you as market leader in Europe, from what I can tell. That's how we've modeled it anyway.

<Q – Jason Mills – Canaccord Genuity, Inc.>: That's helpful. And the question on the number of customers, John, would you be willing to talk any more about that?

<A – John McDermott – Endologix, Inc.>: Sure. Yeah, I'm sorry. I didn't mean to ignore that. Our target has always been to finish the year at about 90 accounts and we're in good shape relative to that target. We may – we haven't decided yet what level of metrics we want to provide the marketplace moving forward. We're still sorting that out.

What I can tell you is, right now, the device is well – is a bit ahead of our internal projections – both in terms of cases per account, the number of accounts and the ASPs. So, so far, there's been upside in our forecasts and I don't see any reason to think that will change. We may provide account target when we give guidance next year. But at this point, just know that we're in good shape to hit our 100 accounts by the end of the year target.

<Q – Jason Mills – Canaccord Genuity, Inc.>: Okay. And a few follow-ups. On the complex infrarenal plus the extrarenal market, any update there on Nellix and also the Ventana program and sort of, at this point in time, whether or not it's a dual program is still in your mind, spending similar amounts of resources on both programs or if there's any change to that?

<A – John McDermott – Endologix, Inc.>: It's unchanged. It's a dual approach at this point. And all of the learnings from the Ventana I clinical activities and development program, of course, feeding into these development efforts. And I'm encouraged by what we're starting to see here in terms of opportunities, both for what I'd call an EVAR as well as an EVAS approach and we still expect to enter into human implants in 2015 as we've talked about. At this point I can't tell you which platform or both, but I do still -- we're very focused on this more complex market and we think it's a major unmet need.

I can also tell you though, that within the Nellix registry, we are gathering perspective data on Nellix in very complex anatomies both with branches and super short necks. So we are developing data. In addition to the development program, we will have real world perspective clinical data on complex anatomies with the Nellix platform, so that'll also help inform our plans moving forward for complex anatomies.

<Q – Jason Mills – Canaccord Genuity, Inc.>: That's exciting stuff. Last question for me. I think you talked about being at 40% of the domestic centers, John. That was a surprise to some folks that we talked to, that you're not in 60% of U.S. EVAR centers. Where does that stand now? Has

that changed at all and sort of what is the dynamic by which you can change that and how do you go higher over time?

<A – John McDermott – Endologix, Inc.>: Yes, well clearly, Nellix changes that dynamic dramatically. I think we're still in that range of 40%. To be honest, I don't check it on a regular basis. It's kind of one of those points in time that we check periodically. We are seeing good, continued customer growth as evidenced by the overall sales growth above the market rate. But I believe that the combination of Nellix and AFX positions us very uniquely in the marketplace, both in terms of overall market share and procedures as well as the number – the percentage of accounts that we're in. So we'll – I think we'll continue to nibble away at it and we'll get some progress with what we've got planned in the pipeline between now and Nellix. But with Nellix I would expect those percentages to change materially.

<Q – Jason Mills – Canaccord Genuity, Inc.>: Thank you, John. Thanks, Shelley.

Operator: Thank you. Our next question comes from Chris Cooley from Stephens.

<Q – Chris Cooley – Stephens, Inc.>: Hey, good afternoon, and thanks so much for taking my questions. John and Shelley, I would appreciate if you could help us think a little bit about the drivers for your revised growth expectations in the U.S. I know we touched on it a little bit already, but could you maybe help us bucket it if we kind of think about what's coming from, let's say, a more favorable mix, what might be coming from maybe greater utilization as a result of PEVAR and what's – let's just – let's call it maybe organic or share reclaiming there from a post-competitive dynamic and I have just a couple of quick follow-ups.

<A – John McDermott – Endologix, Inc.>: Yeah, Chris. I don't have them broken down into buckets. I can tell you that one of the key contributors to the growth is the introduction of VELA, very positive physician feedback on that new product. So we have some physicians that may have had some exposure to the device in the past and liked it but maybe didn't like the way that the old deployment system worked. They've tried VELA. They like it. We're getting more cases. That's a pretty consistent theme. So I would say VELA is a key contributor.

And then that combined with PEVAR, I think, those are the two primary contributors to the U.S. We are seeing that we're making progress with some of the lost cases that we talked about in the early part of the year. But I do think VELA plays an active role in that because they give us a chance, they try VELA, it goes well and we start to pick up more business.

I do think also that maybe around the end of the year, we'll start to see some benefit from the new hires. But most of the sales force expansion in the U.S. we'll benefit from next year.

<Q – Chris Cooley – Stephens, Inc.>: Understood. And then maybe just another quick one on the U.S. marketplace. Clearly, with the value-added features of VELA and, certainly the benefits of PEVAR, one would think you'd be able to actually gain some pricing there. I know there's a lot of counter detailing going on right now. There's bundling.

Could you just maybe talk a little bit about the pricing environment, both in the U.S. as well as abroad for traditional devices? I know you said Nellix, of course, was holding nicely and taking some price, but if you think about maybe kind of the traditional EVAR devices.

<A – John McDermott – Endologix, Inc.>: Yeah. So far, what I've seen – what we've seen as an organization this year – is prices have been pretty stable. There is more contracting activity – contractual activity. But we haven't seen a noticeable impact on ASPs at least in the first half of the year. In Europe, I would say the market, the prices also seem to be relatively stable. We do, in situations, we are seeing competitors try to react with price when we show up with Nellix. So far that has not thwarted any of our efforts because they really want to use Nellix. But I get the sense

that in Europe also, the prices are relatively stable and we are so far have been successful in getting some premium. So I would characterize the EVAR market right now as prices are relatively stable. I think Nellix does have the opportunity may be to create more pricing tension. As competitors get threatened, we might see more pressure on price. But at this early stage, we're not seeing too much of it.

<Q – Chris Cooley – Stephens, Inc.>: Understood. And just maybe one final one for me, then I'll get back in the queue. On Nellix, I realize this was a very small percentage of cases but there was a little bit of discussion of course at the end of last year about endopools or endoleaks. I know we didn't see much of that in our discussions post-Charing Cross, but just wanted to know if you had any additional feedback on that front. Is that a phenomenon that you see increasing, has it been stable or where that really hasn't continued to manifest itself? Just kind of curious what kind of incremental color you can provide there. Thanks so much.

<A – John McDermott – Endologix, Inc.>: Yes, I'll give you a little bit of benchmarking. And this will be anecdotal because we're gathering the prospective data, so the best data I can give you will be from the registry and it will be this fall. So what I can do is share with you the data get that gets reported to us relative to the number of cases. And obviously that's not scientific but it – for some benchmarking. The reports of any endoleaks with Nellix are very, very low. In fact, I think if you took type ones, twos, threes, and fours and you put them altogether the sense I get for it is we're probably somewhere under 1% with all endoleaks.

If you looked at the comparable EVAR literature with prospective – currently available EVAR devices – you'd see just type two endoleak rates in the 15% to 30% range. And then you'd add the other types of endoleaks to that and you'd probably end up with a blended rate somewhere in the mid to high 20s%.

So, obviously, our less than 1% is underreported because they're commercial cases and it's not in a controlled clinical trial, but it still gives you at least a broad range of spectrum on which to consider. So the endoleak rate early on seems to be substantially below what's seen with the EVAR devices. And we'll, again, have the prospective data from the registry and provide an update on that, probably at the VEITH meeting in November.

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

Operator: Thank you. Our next question comes from Steven Lichtman from Oppenheimer.

<Q – Steve Lichtman – Oppenheimer & Co., Inc. (Broker)>: Thank you. Hi, guys. John, just on the guidance in the U.S., you noted earlier the improvements in – on the issues from earlier this year. Is the lowered U.S. guidance versus previous then a reflection of the competitive environment? Maybe a little bit more color on that would be helpful.

<A – John McDermott – Endologix, Inc.>: Yeah. It's just a reflection of updating our run rates and forecasts. And as we looked at the previous six to ten and we looked at our trends and our average daily sales by rep, we just felt that that was going to be on the high end and that this new range better reflected where we expected.

There isn't any particular driver to it, Steve. It's a combination of the factors that we've talked about previously. We just feel it's a more accurate range for the rest of the year. So we felt it was appropriate to reset it.

<Q – Steve Lichtman – Oppenheimer & Co., Inc. (Broker)>: Okay. Got it. And then, just in the U.S., it looks like sales force numbers moved a bit higher. Is that right? It looks like that you went from 90 to now, I'm thinking, more like 100. And is that front-line reps or going to be more clinical case support?

<A – John McDermott – Endologix, Inc.>: Yeah. So the answer to that first question, it is an increase, and it's primarily just based on our early – honestly – our early experience with Nellix in Europe. It's clear we're just going to need more people and the opportunity is substantial. And I want to have plenty of time to get the team built and trained and ready for U.S. introduction.

And so we can start to do that more gradually now and get a little benefit out of that in 2015. So, we're just getting ready for what we think is a big opportunity. And we've also been able to attract some very high caliber people lately. So it's a bit opportunistic. But the number is up.

What was your second question, Steve?

<Q – Steve Lichtman – Oppenheimer & Co., Inc. (Broker)>: No, that was really it. And then, this is my last question, just on the Nellix trial in the U.S. are all sites up and running? Just to get to the 180 by year-end, it seems like the pace will need to pick up. Will there be more sites coming on in the back half or are you expecting more per current site? Just any thoughts on that.

<A – John McDermott – Endologix, Inc.>: Yes it's a good question. So 29 of the 30 are up, so we have one more that's going through their training, actually next week – or the week after, excuse me – and then they'll be finalized and up and running. You're right, if you just kind of spread what's left to do over the remaining months – and we actually have it spread down to the week level, of course – there does need to be an increase in the volume. We are already seeing that though in the number of screens that are coming in as well as the number of cases that are in the queue.

We started the initiative and it's been a little slower early because we required all the physicians that were participating in the study to come to Irvine for their training because we think it's the best way to give them comprehensive training. That though does create a little bit of a logistics challenge for busy doctors. So we didn't get as many of the physicians trained as fast as we would've liked in a perfect world. Most of that though is behind us. Now, we are adding some additional physicians in some of the facilities but I would say the pace has picked up nicely. And I don't know if we will make it by the end of the year but that's certainly our goal, and if we don't, it'll be close.

<Q – Steve Lichtman – Oppenheimer & Co., Inc. (Broker)>: Okay. Got it. Great. Thanks, John.

Operator: Thank you. Our next question comes from Matt Keeler from Credit Suisse.

<Q – Matt Keeler – Credit Suisse Securities (USA) LLC (Broker)>: Hey, John. Hey, Shelley. Thanks for taking the question. Actually a couple of questions. First, I was wondering if you could give us more color on the Nellix modifications that you expect to have available this summer. Can you maybe tell us what's involved there and when you expect to have those commercially available?

<A – John McDermott – Endologix, Inc.>: Yes, so we're right now in the process of implementing a few minor tweaks. I don't want to go into too much detail about what they are, just for competitive and other reasons. I don't think they're material product changes, so I would just say they're enhancements based on our early experience and physician input. And we plan to have those integrated into the product line in late Q3, early Q4 timeframe. And everything is on track with those.

Then we have another wave of enhancements that will be implemented in the second half of next year and some of those enhancements, depending on their timing, will make their way into the final PMA product. So we've got some early enhancements and then another wave of enhancements next year.

<Q – Matt Keeler – Credit Suisse Securities (USA) LLC (Broker)>: Okay. And then, once you have Nellix capacity ramped in Europe, are there any reimbursement or other regulatory constraints that you have to deal with that might limit geographic expansion or is it basically dictated then by head count and demand?

<A – John McDermott – Endologix, Inc.>: Well, in the U.S. it'll be head count and demand. In Europe, it's largely head count and demand with a few exceptions. You've got France and Belgium, which have their own unique reimbursement requirements; we're working our way through those now. And then in all the other markets, it really becomes both a question of head count, clinical capability and the regulatory registration. So we've got a whole map constructed of the markets that we want to go into and the different time periods and then the head count resource requirements to do those cases well and establish those relationships.

So we – this has got several years of incremental markets and incremental growth opportunities – but it's a combination of variables depending upon the market.

<Q – Matt Keeler – Credit Suisse Securities (USA) LLC (Broker)>: Okay. And just one follow-up, and then I'll drop. The early, key markets for you, I guess, as we think about 4Q and 2015, ex-U.S.?

<A – John McDermott – Endologix, Inc.>: Well, yeah, so 4Q is going to be primarily Europe. We have – we do have some business in New Zealand and we may start a little bit of limited business in Latin America. But that'll just be early cases, and that'll broaden out in 2015. So those are the primary markets for Nellix at the end of – in Q4 and in 2015. And then we'll provide a little bit more clarity – when we give guidance next year – we can talk a little bit more about our planned geographic expansion. I don't want to get into too much detail with that right now.

<Q – Matt Keeler – Credit Suisse Securities (USA) LLC (Broker)>: Perfect. Thanks so much.

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

Operator: Thank you. Our next question comes from Chris Pasquale from JPMorgan.

<Q – Chris Pasquale – JPMorgan Securities LLC>: Thanks. I want to follow up on the increased hiring target for the U.S. We've been hearing that it's a pretty competitive environment for reps right now. So how easy are you finding it to attract talent and where are those hires coming from?

<A – John McDermott – Endologix, Inc.>: Most of them are coming from the traditional peripheral vascular companies. So the guys that sell peripheral stents, balloons, filters, like Bard, Covidien, Cordis, Boston Scientific. There's a variety of them and it tends to be the natural evolution for the top performing, clinically astute reps to evolve into EVAR. So that's where most of them come from.

<Q – Chris Pasquale – JPMorgan Securities LLC>: And will those additional 10 or so heads contribute in a meaningful way to sales this year? Is that a factor as you kind of think about your U.S. projections for the full year or is it really going to be to de minimis?

<A – John McDermott – Endologix, Inc.>: I would say it's pretty de minimis. We make it a little bit at the end of the year but most of it is really to be well-positioned for next year. And again, as I said earlier, as we look at now our – the demand and what we're seeing for Nellix in Europe – I just think it's prudent for us to start to plan and build a bigger team. So that's part of what's driving this.

<Q – Chris Pasquale – JPMorgan Securities LLC>: Okay. And then I just wanted to confirm the math on Nellix. Did I hear you correctly that the 500 procedures you talked about all occurred

during 2Q? I think before I think before I think before you have been giving updates on procedures as of the dates of the quarterly call. So I just wanted to make sure we're thinking about that correctly.

<A – John McDermott – Endologix, Inc.>: Yes. No, that's why we're just going to provide this quarterly update and then we'll probably stop with the procedure-by-procedure update. So, we did 500 in Q2 and we did 300 in Q1. So it gives you a little bit of a sense of the trajectory. Now, again, as Shelley pointed out, Q3 has got the seasonality impact from Europe but we would certainly expect Q4 to be above Q2.

<Q – Chris Pasquale – JPMorgan Securities LLC>: Great. Thanks, John.

<A – John McDermott – Endologix, Inc.>: You bet.

Operator: Think you. I will now turn the call back over to our speakers for closing comments.

John D. McDermott, Chairman & Chief Executive Officer

All right, well, thanks to everyone for calling in and joining the call this evening and for interest in Endologix. We look for to seeing you at the upcoming conferences. Have a good evening.

Operator: Thank you. This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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