PARTICIPANTS

Corporate Participants

Zack Kubow – Vice President, The Ruth Group
John D. McDermott – President, CEO, Director & Head-Investor Relations
Robert John Krist – Chief Financial Officer, Secretary & CAO

Other Participants

Steve M. Lichtman – Analyst, Oppenheimer Securities
Chris Cooley – Analyst, Stephens, Inc.
Brooks E. West – Analyst, Piper Jaffray, Inc.
John M. Putnam – Analyst, Capstone Investments

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Endologix Inc. Second Quarter 2012 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. Thank you, Mr. Kubow. You may begin.

Zack Kubow, Vice President, The Ruth Group

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 Bob Krist, Chief Financial Officer. This call is also being broadcast live over the Internet at www.endologix.com, and a replay of the call will be available on the company's website for 30 days.

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

Furthermore, the content of this conference call contains time-sensitive information that is accurate only as of the date of the live broadcast, July 26, 2012. Endologix undertakes no obligation to revise or update any statements to reflect events or circumstances after the date of this call.

With the said, I would like to turn the call over to John.

John D. McDermott, President, CEO, Director & Head-Investor Relations

Thanks, Jack. During the second quarter, we continue to drive growth in our core business and advance our new product pipeline. We have successfully launched the AFX system in the U.S. and Europe and are planning launches in the other markets in the second half of this year.

Our strong core business combined with significant opportunities for market expansion and share gains with PEVAR, Ventana, and Nellix give us a unique growth profile over the next several years.

I'll start today's call with a quick overview of our results for the quarter followed by an operational and pipeline update. Then I'll turn the call over to Bob for his financial review, and after that, I will come back on to discuss our goals for the remainder of the year.

Second quarter global revenue was up 33% to a record $25.5 million. In the U.S., we achieved 29% year-over-year growth driven by the continued effectiveness of our sales team and the clinical results with AFX. We ended the quarter with 71 U.S. reps and clinical specialists and are targeting to finish the year around 78 to 80.

In Europe, Q2 was our first full quarter with AFX and the team did a very nice job, growing 175% over last year. Although we're still in the early stages of building our European organization, we're very pleased with the caliber of talents and their early results. To further strengthen and expand our European business, during the quarter, we completed the acquisition of our Italian distributor. Italy is the second largest EVAR market in Europe, and we're excited to welcome four new people and an established network of sub-dealers.

Similar to our decision to go direct in other European markets, this enables us to build relationships with thought leading physicians and control the training and introduction of our new devices. With the addition of Italy, we now expect to finish 2012 with 28 to 32 dedicated employees in Europe, of which about 70% will be dedicated to clinical and sales support.

Now switching to the new product pipeline, we're pleased to announce the completion of our PEVAR clinical trial and submission of a PMA supplement to the FDA. We remain hopeful that we'll receive approval for a percutaneous indication in the United States by the end of this year.

For Nellix, we continue to wait for feedback from the notified body and are still expecting to receive the CE Mark on the current version of the device in the near term. Since submitting our original dossier back in December of last year, we have continued to do clinical cases and receive positive feedback from physicians. Most recently, we received a reported case of thrombosis, which is a known complication in EVAR. Although our thrombosis rate with Nellix is still well within the rates reported in the literature for other devices, we have determined that some minor process and design enhancements will enable us to further optimize the device.

So, we have adjusted our plans to implement these improvements prior to filing the IDE and initiating our European limited market introduction. We expect this change to push back our estimated IDE filing from Q3 2012 to Q1 2013, and a limited market introduction in Europe from Q3 2012 to Q2 2013.

Although it's a difficult decision to impose a delay on the program, we think it's the right thing to do for the long-term clinical and commercial success of the technology. To further demonstrate our confident in the Nellix platform, during the quarter we entered into an exclusive worldwide license agreement for the polymer technology used in the Nellix system. This agreement includes 23 issued patents covering a wide range of polymers and hydrogels for the treatment of aortic and peripheral aneurysms. The agreement further strengthens our intellectual property position with Nellix and significantly increases competitive barriers to entry.

Turning to Ventana, during the quarter we completed our international clinical study and filed the CE Mark submission with our notified body in Europe. We hope to receive CE Mark approval before the end of this year and begin a limited market introduction in selected centers. Our European team has already identified the initial key opinion leaders that will participate in the limited market introduction of Ventana.

Our focus will be on achieving positive clinical outcomes and building training centers with these KOL, followed by a broader launch in 2013. In the U.S., we now have 20 patients enrolled in Ventana IDE and 19 of our 25 clinical study sites are screening patients. Based upon the current enrollment rate, we anticipate that we will complete enrollment of all 122 patients during the first half of next year. This will be followed by a one year follow-up period after which we will gather up the data and submit our PMA to the FDA. Depending on the final enrollment and clinical results, we could potentially get approval of Ventana in the U.S. by the end of 2014.

Also in the second quarter, we completed an equity financing and raised net proceeds of $40.1 million. These resources will enable us to continue investing with confidence in our growth initiatives and execute carefully selected strategic business development opportunities such as the acquisition of our Italian distributor and the exclusive license agreement for the Nellix polymer technology.

Overall, Endologix remains well positioned to continue growing and gaining market share. Our sales teams are driving adoption of AFX, and we believe that we have the most innovative new product pipeline in the endovascular aortic repair market. Despite the updated timeline for Nellix, we're confirming our full year 2012 revenue guidance of $102 million to $107 million. We expect our year-over-year growth rate to slow in the second half due to the launch of AFX last year in Q3 and increased competitive activity, but think that we can still grow within the range of 22% to 28% for the full year 2012.

Based upon the incremental inventory costs associated with the transition from IntuiTrak to AFX and the additional investments related to the Nellix process and design enhancements, we are adjusting our full year forecasted loss per share from $0.12 to $0.18 down to $0.20 to $0.24. Making these additional investments now will put us in a strong position going into 2013. We remain very excited about our growth prospects and the long-term outlook for the company.

With that, I'll turn it over to Bob for his financial review. Bob?

Robert John Krist, Chief Financial Officer, Secretary & CAO

Thank you, John, and good afternoon all. Today, I will provide a brief overview of our financial results and key metrics for the second quarter of 2012. Total revenue for both the second quarter and the six months to-date increased by 33% year-over-year to $25.5 million and $50 million respectively. Domestic revenue in the second quarter increased by 29% year-over-year to $21.4 million and was up by 1.4% sequentially from the first quarter.

Domestic growth over prior year was driven by a 20% increase in productivity in terms of cases per sales representative. This productivity gain highlights the impact of having more clinical specialists to support cases, and therefore increase the selling time available to sales reps. Revenue dollars per case also increased with the AFX product in 2012 relative to IntuiTrak in 2011.

Second quarter international revenue increased by 61% year-over-year and by 20% sequentially, largely driven by the $2 million sales performance in Europe, which was up year-over-year by 175%. Sales to distributors in other rest of world markets also increased at an 18% rate overall.

Gross margin in the quarter was 75.4% compared to 78.4% in the second quarter of last year. The decrease in gross margin was driven by approximately $0.5 million of inventory charges, primarily related to product line transitions from IntuiTrak to AFX in international markets; and to a lesser extent by royalty expense resulting from our license agreement with C.R. Bard, which we completed in the fourth quarter of last year.

As a reminder, let me point out that the royalty does not apply to AFX, Ventana or the Nellix product lines, only to IntuiTrak. And after 2012, IntuiTrak will be sold only in Japan.

The sequential decline from 77.9% gross margin in the first quarter also included the relative decline in the euro to dollar exchange rates and impacted gross margin by about 0.25 point. So while the gross margin in the first six months of 2012 was more significantly impacted by inventory charges, the Bard royalty will be a continuing factor and the current weakness in the euro may continue to persist through the year. Given all of this, my outlook for the full year gross margin will range between 76% and 78%.

Operating expenses for the second quarter were $24.8 million, compared to $20.2 million in the same period last year. Of this $4.6 million increase, $1.4 million was related to the business development transactions mentioned by John, the acquisition of our distribution rights in Italy and the exclusive license rights to the polymer technology in the Nellix product. The remaining $3.2 million represents a 16% increase, which compares to the 33% revenue growth as well as the direct investments being made in Europe.

Research, development and clinical expenses grew to $6.9 million from $6.1 million in the second quarter of 2011. However, this increase includes $1 million for the polymer technology license fee.

Marketing and sales expenses grew from $10.8 million in the second quarter of 2011 to $13.1 million in the second quarter of 2012, due to the growth in the base business, principally the addition of new sales territories and variable commissions on the 29% increase in U.S. revenue and expenses related to developing our direct sales organization in Europe. For the U.S. only, sales and marketing expenses increased by 10% compared to the second quarter of 2011.

G&A – pardon me. G&A expense grew from $3.3 million in the second quarter of 2011 to $4.5 million in the current quarter. $1 million of the increase was in Europe, while G&A growth in the U.S. was about 5% year over prior year.

And to highlight the expense leverage, which is occurring in the U.S. but is difficult to see in the consolidated numbers, operating expenses net of business development for the U.S. only increased from 2011 by 7% for the second quarter and by 9% for the six months to-date.

So in total, for the second quarter 2012, our GAAP net loss was $6.7 million or $0.11 per share, compared to a net loss of $13.7 million or $0.24 per share for the second quarter of 2011. On an adjusted non-GAAP basis, which excludes the fair value adjustment related to the contingent purchase price liability from the Nellix acquisition, we reported an adjusted net loss in the second quarter of 2012 of $5.5 million or $0.09 per share, and a $9.7 million loss or $0.17 per share for the six months ended June 2012. Both the $0.09 loss for the second quarter and the $0.17 loss for the six months include approximately $0.02 per share of expenses related to the business development transactions.

The Nellix contingent payment liability is non-cash and is solely payable in shares of Endologix common stock. In this case, the $1.2 million increase in the contingent consideration liability was almost entirely related to the increase in Endologix stock price from the previous measurement date at March 31.

Now turning briefly to the balance sheet, accounts receivable days outstanding were 64 at the end of the second quarter 2012 compared to 59 days at the close of 2011, reflecting an increasing mix of international accounts to the total. Inventory turnover remained at 1.2 turns at quarter end, unchanged from year end 2011. We do expect that inventory turnover will improve gradually over the second half of 2012, but remain in a range from 1.2 turns to 1.5 turns.

During the second quarter, we used $3.5 million in cash, about half of which was related to the two business development transactions mentioned earlier. And as John highlighted during the second quarter, we sold 3.1 million shares of Endologix stock and raised $40.1 million of net proceeds and ended the quarter with $51.2 million in cash. We have no outstanding bank debt, though we do have a $20 million revolving line of credit available. In addition, we expect operating cash flow to turn positive before the end of 2012.

So in summary, we are leveraging nicely our market share capture and sales growth in the United States. And the progress made to-date by our OUS team is validating the substantial investment we are making in Europe, and we believe that we have the necessary financial resources in place to support the continued execution of our growth strategy.

With that, I'll turn the call back to John.

John D. McDermott, President, CEO, Director & Head-Investor Relations

Okay. Thanks, Bob. We're pleased with our results in Q2 and the strength of our core business. The new product pipeline looks very promising and we're well positioned for continued growth and market share gains.

Following are our key goals for the rest of 2012: to achieve our sales guidance by driving AFX, including launching in Latin America later this year; to launch IntuiTrak in Japan; continue building our organization with talented and experienced professionals; gain CE Mark approval for Ventana, implement the Nellix process and design enhancements as discussed earlier; drive enrollment in the U.S. Ventana IDE clinical study; and lastly, gain FDA approval for our percutaneous EVAR indication.

By achieving these goals, we will continue on our path toward becoming the leading innovator in endovascular aneurism repair. We look forward to keeping you posted on our progress and are planning to participate in the Morgan Stanley Healthcare and Lazard Corporate Access conferences in September. We look forward to seeing many of you there.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Steven Lichtman from Oppenheimer & Company. Please proceed with your question.

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

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

<Q – Steve Lichtman – Oppenheimer Securities>: So John, on the enhancement to Nellix, can you walk us through a little bit more in terms of what kind of changes you're going to need to make to the product? And in terms of the push-out in terms of the launch in Europe, is it because you need to do a supplemental filing there or is it just you think it will take that long to actually do the enhancement to the device?

<A – John McDermott – Endologix, Inc.>: Yeah. So I – Steve, I can't go into too much detail on the enhancements. What I can tell you is that they're not big technical challenges or complete – it's not a complete redesign, I think of them more as incremental enhancements. But the reason they impact the timeline is is because we do have to revalidate and test those incremental improvements and then go back through a regulatory turn.

So just to kind of bring everybody up to speed with the Nellix CE Mark, we submitted originally in December to the Notified Body, received some questions, responded to those in May, and anticipated an approval sometime around now. And most recently had an interaction with the Notified Body and learned that the delay has been related to their inability to find a clinical reviewer that didn't have a conflict of interest. So as we're starting to build our business in Europe, there's fewer and fewer people available that don't know about the product or aren't somehow trying to get involved with it.

So when we spoke with them very recently, they committed to provide us with feedback in September. So what we expect now is to get the current generation of the device CE Marked here in the September-October timeframe, while we're busy implementing our enhancements and testing them. And then we will file for a minor modification to that CE Mark in the first quarter with the expectation that we would get a new CE on the final product in Q2 2013. And that's the timeline as we've got it laid out in the regulatory status.

<Q – Steve Lichtman – Oppenheimer Securities>: And based upon history and based upon your interactions with the agency when – in Europe, when you talk about doing a minor enhancement, I mean what should we be thinking about in terms of turnaround versus sort of a first-time submission and is there some potential upside to the 2Q 2013?

<A – John McDermott – Endologix, Inc.>: Yeah. It's – I think the way that we've laid it out is a reasonable set of expectations. If we can get all of our work done on the enhancement and get that submission in the earlier part of Q1, then we should be able to turn – they should be able to turn that around. It's reasonable to expect they could give us a CE certainly before the end of Q2. So I would stick with that. That's our best estimate today based upon the anticipated timelines for these improvements.

<Q – Steve Lichtman – Oppenheimer Securities>: And in terms of the one case that you reported, you indicated it's well within the rates for other devices. So why the sort of the conservatism in terms of making the change?

<A – John McDermott – Endologix, Inc.>: Yeah. I'm sure for some people who are going read this as being conservative, and just to kind of put it in perspective, if you go into the literature, what you'll find is limb thrombosis rates typically in the 3% to 5% range and many papers that – with

rates even higher than that. We've had one out of 60, so we're less than 2%. But we think we can do better. And our view is that we would rather make those enhancements right now before we enter the U.S. clinical study and the international clinical trials.

We think we've still got a big enough advantage in terms of timing on any of our competitors with a sac filling type of technology. So in our view, although we certainly don't like to hold the program back, we think it's better to do it now than to try to do it later on while we're in these trials.

<Q – Steve Lichtman – Oppenheimer Securities>: Okay. And then in terms – couple other quick ones. In terms of the Europe overall, you talked about you're very happy with the talent that you're seeing. You talked last quarter about it's just a – it's a slow process of bringing them on board. Can you get us up to date in terms of the speed with which you're able to bring on some of the competitive talent that you've referred to?

<A – John McDermott – Endologix, Inc.>: Yeah. So we finished 2011 with 12 people in total, of which six were designated to do cases. Today, we stand at 23 and about half of them can support cases. Now this includes a couple of sales agents. By the end of this year, now with the Italian distributor acquisition, we're forecasting to finish between 28 in 32, of which about 20 should be capable of supporting cases. Keep in mind, there is a six-month training lag. So we won't have 20 certified at the end of the year, but that's how many we should have on board. So it has been a little bit slower than we planned, but I am very pleased with the caliber of the talent and the results of the people that we have hired so far.

<Q – Steve Lichtman – Oppenheimer Securities>: Okay, great. And then in terms of next year, the big drivers, you'll have Ventana, and in the beginning of the year you're going to do a slow roll-out I assume in the first half and then full roll-out second half, and then you'll have IntuiTrak in Japan starting the end of this year, is that right?

<A – John McDermott – Endologix, Inc.>: That's right. Plus, in the United States, we expect to have a full year with PEVAR. And we'll be just launching AFX through some of our other international distributors in the latter part of this year, so we'll have a full year of that as well. So I think there is several growth drivers in position.

<Q – Steve Lichtman – Oppenheimer Securities>: And AFX2 potentially next year?

<A – John McDermott – Endologix, Inc.>: Yeah, probably closer to the end of the year.

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

<A – John McDermott – Endologix, Inc.>: You're welcome.

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

<Q – Chris Cooley – Stephens, Inc.>: Thank you. And appreciate you taking the questions this afternoon.

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

<Q – Chris Cooley – Stephens, Inc.>: Briefly update us, one on the Cook litigation, I know there was a ruling there recently. And then could you also talk about the competitive dynamics that you're seeing in the marketplace. I believe when you started, the expectations were a little bit softer second half growth, I understand the comparable but just would like to get a little bit more color there on what you're seeing competitively in the marketplace? Thank you.

<A – John McDermott – Endologix, Inc.>: Sure. First of all for Cook, we did have – we've actually filed a couple of motions, the first of which was to dismiss the case related to a previous settlement agreement that we had with them, so the judge ruled to not allow that motion, which doesn't change our plans at this point. The court date has been set for the end of October. If one of these motions knocked it out early, that was great – that would be great, but our plan has been always to just proceed to trial. And so really the plan is unchanged from the standpoint of the timing of the litigation.

As it relates to the increased competitive activity, as you know, Medtronic got approval and introduced at the SVS there, what they call Endurant II, which is really just a couple of sizes and one profile improvement on one size. Cook has received their FDA approval for their custom fenestrated device, and as a reminder what's different about that is it does require the six to eight week lead time for the physicians to get the device and it doesn't compete directly in the infrarenal business, but of course, they are trying to leverage that to pull through infrarenal business. And in addition to that, in the later part of the year, we expect both Lombard and TriVascular to get their approvals.

So, we don't see any of these as big threats to market share, but we do think that the physicians will want to trial the devices and that there will be some impact. So we're busy preparing our teams to counter detail and reinforce the benefits of our current devices. And again despite that competitive activity, we feel good about sticking with our revenue guidance range of $102 million to $107 million.

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

Operator: Our next question comes from the line of Brooks West from Piper Jaffray. Please proceed with your question.

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

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

<Q – Brooks West – Piper Jaffray, Inc.>: Hey, John. Thanks for taking the questions. Just wanted a size on the Bard royalty, could you help us size the annual amount of that, and then what – how long do you think you're going to pay that in Japan before you get in the next generation product launch there?

<A – Bob Krist – Endologix, Inc.>: So, Brooks this is Bob...

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

<A – Bob Krist – Endologix, Inc.>: ...and you're correct in that that royalty obligation will exist only as to Japan after the end of 2012. In all likelihood, we will continue to sell IntuiTrak for two, two plus years in Japan. So my guess is you could count on that having some affect at least through 2014, and perhaps beyond that.

In an absolute sense, the number will be declining as a consequence of IntuiTrak sales relative or declining an impact on the gross margin, as IntuiTrak sales become a smaller percentage of total sales. Order of magnitude for 2012 where you have still certain other distribution partners transitioning away from IntuiTrak, I would see that the effect is in the range of one to two points of gross margin, and diminishing thereafter.

<Q – Brooks West – Piper Jaffray, Inc.>: Okay. Thank you for that. And then, John, you haven't talked a lot about Latin America. Can you kind of size the opportunity down there, and expectations for say your first year of launch in those markets?

<A – John McDermott – Endologix, Inc.>: Yeah. We historically haven't put dollar amounts on those. What I can tell you just the size in the current situation is we actually sell more in the non-European international markets than we do in Europe, just to kind of give it some perspective relative to the other markets.

Our primary areas are Argentina and Brazil with a growing business in Mexico. And we think there is going to be good growth in those markets over the next several years. Some of them have regulatory requirements more linked to the U.S. and others more CE. So you will see a blended introduction of the pipeline in these various markets over the next few years, but I think they are good growth opportunities for us.

<Q – Brooks West – Piper Jaffray, Inc.>: Okay. Thanks for that and then one more if I could. Just on the Nellix delay and Ventana, obviously there could be some concern on the push out of Nellix, I mean it feels like you're certainly doing all the right things. In our physician work, we've certainly found there to be tremendous near-term excitement for Ventana and some healthy interest but also skepticism just given how different of a device Nellix is. Could you kind of comment on that and kind of how you are looking at Ventana and the potential pull through for AFX for next year?

<A – John McDermott – Endologix, Inc.>: Well, yeah. So for Ventana specifically, you're right, there is a lot of physician interest and the nice connection with the base business is that the Ventana device actually works in conjunction with AFX, so Ventana is positioned on the top of AFX to treat these more complex anatomies. So for clinicians who are interested in learning how to use Ventana, now is a good time for them to get familiar with AFX. And so there is some pull through. It's a bit of a difficult number to quantify, but I can tell you it does provide our folks in the field with some good discussion topic. And then what – did you have a question on Nellix, Brooks, I want to make sure I address that if you did.

<Q – Brooks West – Piper Jaffray, Inc.>: Well, I guess, I'm just trying to – given the push out in Nellix and as people are looking forward to next year, I wanted to kind of get your thoughts on the importance of and potential of the Ventana launch and contrast that maybe with having Nellix pushed out maybe six to nine months from what people were...?

<A – John McDermott – Endologix, Inc.>: Yeah. So again, it mostly affects Europe at this point. So although it wasn't our plan, it does provide us with an opportunity to focus a little bit more near term on Ventana in that we won't be running two concurrent limited market introductions.

So at the end of this year, we can start our efforts with Ventana, building the training centers. Again, it will still be limited but it will enable us to get more focused interaction on Ventana in Europe instead of trying to launch Ventana and Nellix at the same time.

We also believe and are getting good feedback in the limited time that AFX has been on the market in Europe, you've seen at least a glimpse of the numbers today. I can't say we will replace all of the forecasted 2012 Nellix revenue, but we think we'll be able to cover some of that with just more AFX sales. So the way this is staggering, it does give us more time to focus on Ventana at the end of this year and the first part of next year and then start our limited market introduction with Nellix sometime after Q2 2013.

<Q – Brooks West – Piper Jaffray, Inc.>: Great. I appreciate the color.

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

Operator: [Operator Instructions] Our next question comes from the line of John Putnam from Capstone Investments. Please proceed with your question.

<Q – John Putnam – Capstone Investments>: Yeah, thanks very much and good afternoon. I was wondering, John, the agreement on the polymer for Nellix, have you disclosed who it's with?

<A – John McDermott – Endologix, Inc.>: No, we haven't. The terms and the parties are confidential at this point.

<Q – John Putnam – Capstone Investments>: Okay. And is it a license for the use of the polymer in other products that might come along in the future?

<A – John McDermott – Endologix, Inc.>: Well, the license does include – it's really more of an indication as opposed to anything else and its indication is for aortic and peripheral aneurysms. Now to be clear, our mission is very focused on aortic. So we don't have any near-term plans to get into the periphery, but the license does include that.

And also just a little bit more information; we had a non-exclusive license to this group of patents before. And just given our continued bullishness on the platform in general, we felt that it was important that we take that exclusive. And so that's really the nature of it. We also as a part of that agreement, I can't tell you the specifics, but we do have some provisions for joint development activities, which we think longer term will enhance the margins of the product line as well.

<Q – John Putnam – Capstone Investments>: Okay, thanks. And turning to Japan, can you give us a little bit more color, I guess, on how quickly you think you can ramp there and is the strategy to follow IntuiTrak with AFX there and how many years it will take you to get it approved?

<A – John McDermott – Endologix, Inc.>: Yeah, I'll answer the last question first. The strategy is to follow IntuiTrak with AFX, and we'll do that just as soon as we get IntuiTrak done. We did actually have the Ministry of Health from Japan here during the quarter, that went well. And although we still don't have an answer, right now the expectation is they will give us an answer in Q4.

That won't necessarily generate a large stocking order per se, but that will get us going. And then once we have that approval, we will quickly follow it with an AFX submission. As Bob pointed out, it's probably – 2014 might be a little ambitious. So I would say 2015 is probably slightly more realistic, they are little slower and they don't have the same system here with the supplement as we do so.

<Q – John Putnam – Capstone Investments>: Okay. And you're going to use the local distribution, is that correct?

<A – John McDermott – Endologix, Inc.>: We have – yes, we have a partner in Japan that we've had for many years. They actually invested early on in the company when we did a clinical study in Japan with the first generation device, and they do a nice job. They've actually got a comparable market share position in Japan to ours in the U.S. and they are selling our very first generation device.

So, they're pretty excited about getting IntuiTrak, even though it sounds like they are a generation behind which they are here, they've done really well with the first generation device, so I think they will do good with the new one.

<Q – John Putnam – Capstone Investments>: Great. And then one final question, domestically, do you think you gained share in the market this past quarter and what do you think your share might be?

<A – John McDermott – Endologix, Inc.>: I think when I look at our case run rate right now, I think we're still in that 11% to 12% range. Obviously with 30% growth over prior year, we're up,

because the market is not growing that fast, but when I look at the run rate, I still peg it's about the 11% to 12% range.

<Q – John Putnam – Capstone Investments>: Great. Thanks very much.

<A – John McDermott – Endologix, Inc.>: You're welcome.

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

John D. McDermott, President, CEO, Director & Head-Investor Relations

Okay. Thanks operator. I would like to just 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. Thanks very much.

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