Endologix Reports Second Quarter 2015 Financial Results

Nellix Systems Increase 40% Over Prior Year


John McDermott, Endologix Chairman and Chief Executive Officer, said, "Sales of Nellix Systems set a new record in the second quarter, increasing 29% sequentially over the first quarter and 40% over the second quarter of last year. These results reflect continued physician adoption of, and a growing interest in, Endovascular Aneurysm Sealing, or EVAS, with Nellix® as a very promising new therapy for patients with abdominal aortic aneurysms. During the second quarter, we also continued to advance clinical evidence in support of Nellix® with the presentation of the 300 patient Nellix global registry at the Charing Cross Symposium and presentation of the initial 30-day results from the U.S. IDE clinical trial at the Society of Vascular Surgery meeting. The clinical data presented at these meetings continues to demonstrate positive safety and efficacy results, and the lowest rates of endoleaks ever reported in prospective clinical studies for endovascular aneurysm devices. These results together with an increasing customer base and positive physician feedback, give us confidence in our continued growth prospects."

Financial Results

Global revenue in the second quarter of 2015 was $39.5 million, a 3% increase from $38.3 million in the second quarter of 2014. For the six months ended June 30, 2015, global revenue increased 6% to $76.1 million, compared to $71.6 million for the six months ended June 30, 2014. On a constant currency basis, revenue for the second quarter and six months ended June 30, 2015 increased 8% and 11%, respectively.

U.S. revenue in the second quarter of 2015 was $28.8 million, a 14% sequential increase from the first quarter of 2015 and a 3% increase compared with $28.0 million in the second quarter of 2014. International revenue was $10.7 million, a 4% increase compared to $10.3 million in the second quarter of 2014. On a constant currency basis, second quarter international revenue increased 20%. European revenue was $7.9 million, a 1% increase as compared to $7.8 million in the second quarter of 2014, but 23% growth on a constant currency basis.

Gross profit was $24.1 million in the second quarter of 2015, which represents a gross margin of 61%, compared to gross margin of 74% in the second quarter of 2014. Gross profit was $51.0 million for the six months ended June 30, 2015, representing a gross margin of 67%. This compares with gross margin of 74% for the six months ended June 30, 2014. The decrease in gross margin for the second quarter and six months ended June 30, 2015 was primarily due to a $4.3 million increase in the reserve for product inventory related to the Company's global transition to DURAPLY™ ePTFE Graft Material for the AFX® Endovascular AAA System, a reserve for the current AFX product in anticipation of FDA approval of AFX2 by the end of this year and a provision for Nellix inventory that will become obsolete due to quality and process improvements.

Total operating expenses were $36.3 million in the second quarter of 2015, compared to $32.3 million in the second quarter of 2014. Total operating expenses for the six months ended June 30, 2015 were $72.9 million, compared with $61.9 million for the six months ended June 30, 2014. The increase in operating expenses for the second quarter and six months ended June 30, 2015 was driven primarily by expansion of sales and clinical personnel in the U.S. and Europe and by research, development, clinical and regulatory expenses.

Endologix reported a net loss for the second quarter of 2015 of $13.0 million, or $(0.19) per share, compared with net loss of $9.0 million, or $(0.14) per share, for the second quarter of 2014. Endologix reported Adjusted Net Loss (non-GAAP and defined below) for the second quarter of 2015 of $12.0 million, or $(0.18) per share, compared with an Adjusted Net Loss for the second quarter of 2014 of $3.6 million, or $(0.06) per share.

For the six months ended June 30, 2015, Endologix reported a net loss of $24.2 million, or $(0.36) per share, compared to a net loss of $3.7 million, or $(0.06) per share, for the six months ended June 30, 2014. Endologix reported an Adjusted Net Loss (non-GAAP and defined below) for the six months ended June 30, 2015 of $21.3 million or $(0.32) per share, compared with an Adjusted Net Loss (non-GAAP and defined below) for the six months ended June 30, 2014 of $9.1 million or $(0.14).
Total cash, cash equivalents and marketable securities were $70.5 million as of June 30, 2015, compared to $86.7 million as of December 31, 2014.

Financial Guidance

Based on the Company's results to date and outlook for the remainder of 2015, Endologix is revising its revenue guidance (based on an estimated foreign currency exchange rate) to be in the range of $154 million to $157 million, or growth of 4% to 6%, down from previous reported revenue guidance of $159 million to $165 million, or growth of 8% to 12% over 2014. This updated revenue guidance equates to constant currency guidance in the range of $160 million to $163 million, or constant currency growth of 8% to 10% from 2014. Endologix is also updating its GAAP Loss Per Share guidance to a range of $(0.72) to $(0.77) and an Adjusted Loss Per Share (non-GAAP and defined below) guidance to a range of $(0.64) to $(0.68) per share on a GAAP and Adjusted basis from prior guidance due to the lower revenue guidance and increased reserve for product inventory during the second quarter.

Conference Call Information

Endologix's management will host a conference call today to discuss these topics, beginning at 5:00 P.M. Eastern time (2:00 P.M. Pacific time). To participate via telephone please call (877) 407-0789 from the U.S. or 1-(201)-689-8562 from outside the U.S. A telephone replay will be available for seven days following the completion of the call by dialing (877) 870-5176 from the U.S. or 1-(858)-384-5517 from outside the U.S., and entering pin number 13613919. The conference call will be broadcast live over the Internet at www.endologix.com. After the live webcast, a webcast replay of the call and a transcript of the call will be available online from the investor relations page of Endologix's website through August 3, 2016.

About Endologix

Endologix, Inc. develops and manufactures minimally invasive treatments for aortic disorders. Endologix's focus is endovascular stent grafts for the treatment of abdominal aortic aneurysms (AAA). AAA is a weakening of the wall of the aorta, the largest artery in the body, resulting in a balloon-like enlargement. Once AAA develops, it continues to enlarge and, if left untreated, becomes increasingly susceptible to rupture. The overall patient mortality rate for ruptured AAA is approximately 80%, making it a leading cause of death in the U.S. Additional information can be found on Endologix's website at www.endologix.com.

The Nellix® EndoVascular Aneurysm Sealing System has obtained CE Mark in the EU and is only approved as an investigational device in the United States.

Cautions Regarding Forward-Looking Statements

"Except for historical information contained herein, this news release contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including with respect to sales of, continued physician adoption of and interest in Nellix®, the progress of clinical trials, the results of clinical trials, our ability to obtain regulatory approval of our products, our ability to increase revenue through sales of our existing products and related new products, and 2015 financial guidance, the accuracy of which are necessarily subject to risks and uncertainties, that may cause Endologix's actual results to differ materially and adversely from the statements contained herein. Some of the potential risks and uncertainties that could cause actual results to differ materially and adversely from anticipated results include continued market acceptance of Endologix® products, the success of clinical trials relating to Endologix's products under development, product research and development efforts, uncertainty in the process of obtaining regulatory approval for Endologix's products, risks associated with international operations, including currency exchange rate fluctuations, Endologix's ability to protect its intellectual property rights and proprietary technologies, and other economic, business, competitive and regulatory factors. Undue reliance should not be placed on forward-looking statements, which speak only as of the date they are made. Endologix undertakes no obligation to update any forward looking statements to reflect new information, events or circumstances after the date they are made, or to reflect the occurrence of unanticipated events. Please refer to Endologix's filings with the Securities and Exchange Commission including its Annual Report on Form 10-K for the year ended December 31, 2014, for more detailed information regarding these risks and uncertainties and other factors that may cause actual results to differ materially from those expressed or implied."

Discussion of Non-GAAP Financial Measures

Endologix's management believes that the non-GAAP measures of (1) "Adjusted Net Income (Loss)" and (2) "Adjusted Net Income (Loss) Per Share", (3) "Adjusted EBITDA", and (4) "Adjusted EBITDA Per Share" enhance an investor's overall understanding of Endologix's financial and operating performance and its future prospects by (i) being more reflective of core operating performance and (ii) being more comparable with financial results over various periods. Endologix's management uses these financial measures for strategic decision making, forecasting future financial results, and
evaluating current period financial and operating performance. The presentation of non-GAAP financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

Adjusted Net Income (Loss) and Adjusted Net Income (Loss) Per Share Definitions:

“GAAP” is generally accepted accounting principles in the United States.

(1) “Adjusted Net Income (Loss)” is a non-GAAP measure defined by Endologix as net income (loss) under GAAP, excluding: (i) the fair value adjustment to the Nellix acquisition contingent consideration; (ii) interest expense from the Company’s convertible debt; (iii) foreign currency (gains) or losses; (iv) legal settlement costs; (v) contract termination and business acquisition expenses; and (vi) business development expenses, including licensing costs related to research and development activities.

In the three and six months ended June 30, 2015, this GAAP adjustment to net loss specifically represents: (i) the fair value adjustment to the Nellix acquisition contingent consideration liability; (ii) interest expense from the Company’s convertible debt; (iii) foreign currency (gains) or losses; and (iv) business development expenses.

In the three and six months ended June 30, 2014, this GAAP adjustment to net loss specifically represents: (i) the fair value adjustment to the Nellix acquisition contingent consideration liability; (ii) interest expense from the Company’s convertible debt; and (iii) foreign currency (gains) or losses.

In future periods, Adjusted Net Income (Loss) will continue to exclude: (i) the fair value adjustments to the Nellix contingent consideration liability; (ii) interest expense from the Company’s convertible debt; (iii) foreign currency (gains) or losses; (iv) legal settlement costs; (v) contract termination and business acquisition expenses; (vi) business development expenses; and (vii) other non-recurring expenses or income, as described by Endologix.

(2) “Adjusted Net Income (Loss) per Share” is a non-GAAP measure defined by Endologix as Adjusted Net Income (Loss) divided by the average shares outstanding (basic and diluted, as applicable under GAAP) for the corresponding period.

Adjusted EBITDA and Adjusted EBITDA Per Share Definitions:

(3) “Adjusted EBITDA” is a non-GAAP measure defined by Endologix as “Adjusted Net Income (Loss)” plus income tax (benefit) expense, depreciation and amortization expense, and stock-based compensation expense.

(4) “Adjusted EBITDA per Share” is a non-GAAP measure defined by Endologix as Adjusted EBITDA divided by average shares outstanding (basic and diluted, as applicable under GAAP) for the corresponding period.
<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
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<th>Six Months Ended</th>
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<tbody>
<tr>
<td><strong>Net Loss to Adjusted Net Loss and Adjusted Net Loss Per Share:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>$ (13,001)</td>
<td>$ (8,993)</td>
<td>$ (24,215)</td>
<td>$ (3,698)</td>
<td>$ (24,215)</td>
<td>$ (3,698)</td>
</tr>
<tr>
<td>Fair value adjustment to Nellix contingent consideration liability</td>
<td>100</td>
<td>3,772</td>
<td>200</td>
<td>(8,028)</td>
<td>200</td>
<td>(8,028)</td>
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<tr>
<td>Interest expense</td>
<td>1,493</td>
<td>1,448</td>
<td>2,955</td>
<td>2,839</td>
<td>2,955</td>
<td>2,839</td>
</tr>
<tr>
<td>Foreign currency (gain) loss</td>
<td>(766)</td>
<td>155</td>
<td>(655)</td>
<td>(212)</td>
<td>(655)</td>
<td>(212)</td>
</tr>
<tr>
<td>Business development expenses</td>
<td>176</td>
<td>—</td>
<td>426</td>
<td>—</td>
<td>426</td>
<td>—</td>
</tr>
<tr>
<td>(1) Adjusted Net Loss</td>
<td>$ (11,998)</td>
<td>$ (3,618)</td>
<td>$ (21,289)</td>
<td>$ (9,099)</td>
<td>$ (21,289)</td>
<td>$ (9,099)</td>
</tr>
<tr>
<td>(2) Adjusted Net Loss Per Share</td>
<td>$ (0.18)</td>
<td>$ (0.06)</td>
<td>$ (0.32)</td>
<td>$ (0.06)</td>
<td>$ (0.32)</td>
<td>$ (0.06)</td>
</tr>
</tbody>
</table>

| **Adjusted Net Loss to Adjusted EBITDA and Adjusted EBITDA Per Share:** |                     |       |       |                 |       |       |
| Adjusted Net Loss              | $ (11,998)         | $ (3,618) | $ (21,289) | $ (9,099) | $ (21,289) | $ (9,099) |
| Income tax expense (benefit)   | 61                 | (80)  | 153   | 136 | 153 | 136 |
| Depreciation and amortization  | 1,444              | 611   | 2,933 | 1,213 | 2,933 | 1,213 |
| Stock-based compensation expense | 2,408              | 2,140 | 4,619 | 3,753 | 4,619 | 3,753 |
| (3) Adjusted EBITDA            | $ (8,085)          | $ (947) | $ (13,584) | $ (3,997) | $ (13,584) | $ (3,997) |
| (4) Adjusted EBITDA Per Share  | $ (0.12)           | $ (0.02) | $ (0.20) | $ (0.06) | $ (0.20) | $ (0.06) |

ENDOLOGIX, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited
(In thousands)

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2015</th>
<th>December 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
<td>2014</td>
</tr>
<tr>
<td>Basic and diluted net loss per share</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares used in computing basic and diluted net loss per share</td>
<td>67,615</td>
<td>62,699</td>
</tr>
</tbody>
</table>
### ASSETS

Current assets:
- Cash and cash equivalents: $36,269, 26,798
- Marketable securities: 34,257, 59,871
- Accounts receivable, net allowance for doubtful accounts of $181 and $185, respectively: 29,138, 26,113
- Other receivables: 121, 498
- Inventories: 30,588, 31,325
- Prepaid expenses and other current assets: 2,592, 3,162

**Total current assets:** 132,965, 147,767

- Property and equipment, net: 24,808, 25,696
- Goodwill: 28,709, 28,866
- Intangibles, net: 42,702, 43,465
- Deposits and other assets: 2,138, 2,415

**Total assets:** $231,322, $248,209

### LIABILITIES AND STOCKHOLDERS’ EQUITY

Current liabilities:
- Accounts payable: $11,760, 11,027
- Accrued payroll: 11,469, 13,337
- Accrued expenses and other current liabilities: 4,979, 5,260

**Total current liabilities:** 28,208, 29,624

- Deferred income tax: 879, 879
- Deferred rent: 8,078, 8,060
- Other liabilities: 349, 489
- Contingently issuable common stock: 14,800, 14,600
- Convertible notes: 72,156, 70,407

**Total liabilities:** 124,470, 124,059

Stockholders’ equity:
- Convertible preferred stock, $0.001 par value; 5,000,000 shares authorized. No shares issued and outstanding: —, —
- Common stock, $0.001 par value; 100,000,000 shares authorized. 67,947,684 and 67,321,769 shares issued, respectively. 67,767,730 and 67,159,511 shares outstanding, respectively: 68, 67
- Treasury stock, at cost, 179,954 and 162,258 shares, respectively: (2,619), (2,328)
- Additional paid-in capital: 381,516, 372,639
- Accumulated deficit: (272,715), (248,500)
- Accumulated other comprehensive income: 602, 2,272

**Total stockholders’ equity:** 106,852, 124,150

**Total liabilities and stockholders’ equity:** $231,322, $248,209

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Source: Endologix

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