PARTICIPANTS

Corporate Participants

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John D. McDermott – President, CEO, Director & Head-Investor Relations
Robert John Krist – Chief Financial Officer, Secretary & CAO

Other Participants

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

MANAGEMENT DISCUSSION SECTION

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

Zack Kubow, Investor Relations, 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 Annual Report on Form 10-K and subsequent reports as filed with the Securities and Exchange Commission.

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

With that said, I'd like to turn the call over to John McDermott.

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

Thanks, Zack. We're pleased with our first quarter results, both in terms of sales growth and progress on our new product initiatives. I'll start today's call with a quick overview of our results followed by an operational and pipeline update. Then I'll turn the call over to Bob for his financial review and after that I'll come back onto discuss our goals for the remainder of the year.

First quarter global sales revenue was up 32% to a record $24.5 million. In the U.S., our sales team continued to leverage the recently launch AFX System and drove 37% year-over-year growth. Outside of the U.S., our European team is off to a good start and our distributors in the other markets are looking forward to AFX approvals later this year. We're pleased with the strong start to 2012 and are reiterating our full-year guidance of 22% to 28% annual revenue growth.

During the quarter, our domestic sales team demonstrated their effectiveness at promoting the clinical advantages of AFX. We continue to receive very good physician feedback on the device and expect to continue adding new customers, as well as achieving deeper penetration in our existing accounts. We currently have 72 reps and clinical specialists in the U.S. and are targeting to finish the year around 77.

In Europe, we are pleased with our initial results and the reception we are receiving from physicians. As of today, we have 16 employees in Europe and expect to finish the year with a total of around 30, with approximately 20 of those should be able to eventually support clinical cases.

In January, we launched the AFX device in Europe at the LINC meeting in Germany and earlier this month had a very strong presence at the Charing Cross Meeting in London. This is one of the most well attended vascular meetings in Europe and there were several presentations on both Nellix and Ventana. We received positive feedback from physicians that attended the meeting and there is a lot of interest in the commercial availability of the devices.

Turning to our pipeline, we expect to receive CE Mark for Nellix sometime this summer and are planning on a limited market introduction over the balance of 2012. Initially, we'll be working with the regional EVAR centers who will also participate in additional clinical trials that we will start later in the year.

We believe Nellix has market-leading potential and our goal is to ensure excellent clinical outcomes in the initial rollout phase, plus gather additional clinical evidence before opening it up for a broader commercial launch in 2013.

For Ventana, during the first quarter, we completed enrollment in our international clinical study and are now in the follow-up phase. Depending upon the clinical results from the study, we have the potential to file our dossier and receive CE Mark for Ventana in the fall of 2012. Similar to Nellix, we will begin with a limited rollout in selected centers and focus on achieving positive clinical outcomes and building training centers.

In the United States, we hit two important clinical milestones for our pipeline during the quarter. First, we completed enrollment in our 150-patient multi-center PEVAR clinical trial. We're now gathering and analyzing the data and expect to submit our PMA supplement in the second quarter. If we get approval as anticipated, we will be in a position to begin promoting and training physicians on percutaneous aortic aneurysm repair by the end of this year.

The second important clinical milestone in the first quarter was initiation of patient enrollment in our U.S. Ventana IDE clinical trial. We have approval for up to 25 sites in the study and plan to enroll about 120 patients. We currently have 11 sites that are approved to enroll patients and are currently working to get the rest of the sites up and running over the next few months.

We are hoping to complete enrollment around the end of this year or the first part of next year and then we'll follow those patients for one year, gathering up the clinical data and submitting a PMA to the FDA. Depending upon the enrollment and clinical results, we could potentially get approval of Ventana in the U.S. by the end of 2014.

For Nellix in the United States, we plan to submit our IDE to the FDA in the middle of this year which, hopefully, will set us up to begin enrollment before the end of 2012. Based upon the

anticipated number of patients and the follow-up period for the trial, this would position us to potentially gain PMA approval for Nellix in 2015. We believe that we have the most innovative new product pipeline in the endovascular aortic repair market and are well positioned for long-term growth.

Growth drivers in 2012 are AFX, both in the United States and Europe, plus potential limited market introductions of Ventana and Nellix in Europe.

In 2013 we expect growth in the U.S. from our PEVAR indication, plus the anticipated full commercial launches of Nellix and Ventana in Europe.

In 2014, we expect continued growth from Nellix and Ventana outside the U.S. plus the potential approval and launch of Ventana in the United States.

And lastly, we expect 2015 to be a very exciting year with potential FDA approval and launch of Nellix in the United States. So we've got a lot of growth potential over the next several years and we're off to a good start in the first quarter of 2012.

Our U.S. sales force is demonstrating their ability to continue capturing market share with AFX and we're very pleased with the clinical results of the device.

In Europe, we're building a strong team of experienced professionals who are looking forward to the anticipated limited market introductions of Nellix and Ventana later this year. Our entire organization is committed to making these new product introductions a success and we believe they will position us as a leading innovator in the treatment of aortic disorders.

Now, I'll turn the call 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 first quarter of 2012. Total revenue increased by 32% year-over-year to $24.5 million in the first quarter of 2012 and by 5% sequentially from the fourth quarter of 2011. Growth was driven by increased direct sales force productivity and the launch of the AFX system last August in the U.S. and this past January in Europe.

Domestic sales increased by 37% versus the first quarter of 2011. The number of U.S. sales territories was approximately the same in 2012 as in 2011. So the 37% increase directly reflects increased sales force productivity in the form of revenue per territory.
International revenue increased by 9% year-over-year to $3.5 million and the key growth driver there was the initial productivity from our sales team in Europe, which generated just under $1 million in Q1 direct sales revenue. Gross margin in the quarter was 78.6%, compared to 76.4% in the first quarter of last year.

The gross margin benefited from a higher proportion of direct sales to total sales, partially offset by royalty expense payable to Bard for the IntuiTrak System, which is still sold in some international markets. The favorable margin comparison to the first quarter of 2011, also reflects what were then temporarily high production costs, resulting from the startup of a second production shift.

Looking forward to our expected customer mix and product mix for the balance of 2012, we anticipate that our gross margin for the full-year will range between 77% and 78% as in 2011. Operating expenses for the first quarter were $22.5 million, compared to $19 million in the same period last year or an increase of 18%.

Marketing and sales expenses grew from $10.1 million in the first quarter of 2011 to $13.5 million in the first quarter of 2012, due primarily to costs associated with expanding our direct sales organization in Europe.

Of note, the significant productivity gain in the U.S. sales force in the quarter, resulted in just a 13% increase in U.S. sales and marketing expense, which generated very positive leverage, in contrast to the 37% growth in domestic sales. The remainder of the overall increase, about $2 million of the $3.4 million total, as I said, is attributable to the investment to build the direct team in Europe.

During the first quarter of 2012, we maintained our high level of investment in research and development and clinical expenses at $4.9 million for the quarter, equal to the amount in the first quarter of 2011. The composition of the overall new product development expense, however, has shifted downstream somewhat toward regulatory and clinical expense, from engineering, design and development expense.

Regulatory clinical was 29% of the total investment in 2012 versus 19% in the prior year. This was in line with our expectations and was driven primarily by clinical trial activities in support of the ultimate commercialization goals for PEVAR, Nellix and Ventana.

G&A expenses increased from $3.6 million in the first quarter of 2011 to $4 million in the current quarter. The increase is related to establishing legal entities and support infrastructure in Europe. Of note, U.S. G&A expense declined from the first quarter of 2011, largely due to lower legal fees, following resolution of the Bard patent matter in late 2011.

The 2010 acquisition of Nellix requires that we adjust the estimated fair value of the contingent merger consideration to be paid in Endologix stock upon certain future milestone achievements, primarily due to the increase in the Endologix share price from $11.48 at December 31 to $14.65 at March 31, the non-cash expense reported in the first quarter was $12.5 million.

Based on our Q1 results and our projected results for the full-year, we expect taxable income on a U.S. basis for 2012. As such, GAAP requires that we book a tax provision each quarter based on our estimated effective rate for the full-year. This resulted in a $574,000, largely non-cash, tax expense being reported in the first quarter.

Consequently, the overall first quarter 2012 net loss was $16.3 million or $0.28 per share, compared to a loss of $4.8 million or $0.9 per share for the first quarter 2011. Again, the first quarter 2012 includes that $12.5 million non-cash fair value adjustment, which is equal to $0.22 per share. There was no comparable charge in the 2011 quarter. So on an adjusted or a non-GAAP basis, we reported adjusted net loss in the first quarter of 2012, up $3.8 million or $0.7 per share, compared to $4.8 million or $0.9 per share in the first quarter 2011.
Turning to the balance sheet, accounts receivable, days outstanding, including both U.S. and international accounts was 59 days at the end of the first quarter 2012, unchanged from 59 days at the close of 2011. Inventory turnover was 1.1 turns at March 31 versus 1.2 turns at year end 2011. Inventory levels increased during the quarter for two primary reasons: first to launch AFX in Europe and, secondly, to purchase significant quantities of raw materials to be used in the future production of Nellix finished goods.

We expect that the absolute dollar amount of inventory will decline over the remainder of 2012 and improve on a turnover basis relative to sales in future quarters. This increase in inventory, together with the payment of employee bonuses which were earned in 2011, accounted for the majority of the net cash used in the first quarter and neither of these factors will impact in the remaining quarters of 2012.

So overall, as of March 31, we had $14.6 million in cash and no outstanding bank debt. In addition, we have an unused $20 million line of credit and we are on-track with our expectation to become

cash flow positive from operations in the second half of 2012. Accordingly, we believe we have adequate cash resources to fund our operations.

Finally, turning to guidance, as John mentioned for the full year 2012, we are reiterating our financial guidance. We expect revenue to be in the range of $102 million to $107 million, a 22% to 28% increase over 2011.

On the bottom line, we expect an adjusted net loss between $0.12 and $0.18 per share, with sequential quarterly improvement toward profitability over the course of the year. This net loss guidance takes into account the planned growth of the direct sales force in Europe and research, development and clinical regulatory initiatives, particularly for the Nellix and Ventana devices.

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

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

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

Thanks, Bob. During the quarter, the company performed very well in all key areas of the business and posted good financial results. As Bob pointed out, we're on track to achieve our guidance for sales growth and progress toward profitability.

Following are our key goals for the rest of 2012. One, continue to grow and increase market share with AFX. Two, build our team in Europe with talented and experienced professionals. Three, get CE Mark for both Nellix and Ventana. Four, launch IntuiTrak in Japan and AFX in other international markets. Five, drive enrollment in the U.S. Ventana IDE clinical trial. Six, obtain IDE approval in the U.S. to begin our Nellix clinical study. And lastly, gain FDA approval for our percutaneous EVAR indication.

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

And with that, we'll open the call up for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Brooks West from Piper Jaffray. Please proceed with your question.

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

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

<Q – Brooks West – Piper Jaffray, Inc.>: Hey. John, thanks you for taking the questions and I apologize I missed just the first couple of minutes of your comments so if you addressed this already. Just wanted to test on the geographic split, U.S. was obviously very strong, compared to our expectations. Can you get into that little bit more? Is there a bolus in there from the trial? Is this better account penetration? Is it successful pull-through in the new accounts from the Ventana study? Some more detail there and then kind of same question on the European weakness? Thanks.

<A – John McDermott – Endologix, Inc.>: Yeah, I think if you recall under Q4 call, we had some seasonality in our Q4 numbers that we talked about last time and so I think some of the elective cases may have drifted into Q1. And also keep mind that we had AFX this year in the first quarter and we didn't have it in Q1 of last year. So I think those variables, together with the fact that it takes a little bit of time for the sales team or any sales team for that matter to get familiar with a new device. So I think what you're seeing here is a growing level of clinical confidence in AFX on the part of the sales team. So that's how I would attribute the nice growth in Q1.

As for Europe, it was actually in line with our expectations. So we didn't see anything there that we didn't anticipate.

<A – Robert Krist – Endologix, Inc.>: Yeah, Brooks, this is Bob. If you think of Europe now in transition from a market in 2011 Q1 that was all distribution based to now a partial distribution, partial direct sales, our overall top line from both sources is up something like 18% in 2012 versus prior year. So we're progressing according to our expectations there.

<Q – Brooks West – Piper Jaffray, Inc.>: And then, I guess as a follow-up there on that last comment, should we continue to see Europe then ramp throughout the year? Or how should we think about the cadence in Europe?

<A – John McDermott – Endologix, Inc.>: Yeah, I think we expect to see good continued growth from Europe over the course of the year and then certainly with the limited introductions that are anticipated in the latter part of the year that'll provide a little bit of an incremental growth over the core business growth we expect from AFX.

<Q – Brooks West – Piper Jaffray, Inc.>: Okay. And then, I'm sorry, one more if could, just what was the gross margin guidance again for the year of last month? Thank you.

<A – Robert Krist – Endologix, Inc.>: For the year, we see it coming in between 77% and 78%. As we look at the balance of the year, we do see little faster growth outside the U.S., as well as after introducing Nellix, based on very limited production quantities and OUS pricing, we'll probably over the course of the year chip away a few basis points at what we achieved in Q1, but should still be in that zone of 77% to 78%.

<Q – Brooks West – Piper Jaffray, Inc.>: Great. Thank you much.

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

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

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

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

<A – Robert Krist – Endologix, Inc.>: Hey, Steve

<Q – Steve Lichtman – Oppenheimer Securities>: John, as you think about your build-out in the U.S., at last we spoke on the last quarter, you guys talked about being in now in about a third of potential accounts. What is preventing you guys from continuing to march that forward? Is that just putting more feet on the street? I mean, is it your anticipation that over the next several years you'll at least knock on the doors of every account out there in the U.S.? And is there any geography where you guys are a little less penetrated than others?

<A – John McDermott – Endologix, Inc.>: Well, yes, the short answer to the question is yes. We expect to continue to have a growing presence in a higher percentage of the total number of hospitals. I think some gradual incremental adds to the sales force is appropriate over time, but I don't see that solely being the key to a broader penetration. Keep in mind that in terms of case productivity, we're still around seven cases a month per rep; so there's still capacity. And that's not just geographic limitations; we're still building the business. We still have a relatively young overall sales force. So I see a lot of new customer growth in addition to deeper penetration.

As far as any geographic weaknesses, there isn't any particular area. You know not all of our territories are full, so wherever you have a vacancy, it is a bit of a soft spot, but I wouldn't say there's any particular part of the United States that stands out as a glaring weakness for us.

<Q – Steve Lichtman – Oppenheimer Securities>: Okay, got it. As you launch IntuiTrak in Japan later this year, can you talk to us a little bit about the significance of that? And how big of an opportunity incrementally you think this could be over the next couple of years?

<A – John McDermott – Endologix, Inc.>: Yeah, well, the Japanese market is estimated around between 5,000 and 6,000 EVAR procedures, with ASPs that are comparable, if not maybe a little better than the U.S. market. So, on balance, it's a pretty good-sized opportunity, especially relative to our current line item there for that market. So we are looking forward to that and they've done – our distributor there has done actually very well, given the fact they're still selling our first generation device.

So today they're selling our first generation device against Endurant, to kind of put it in perspective. So, as you can imagine, they are anxious to get their hands on IntuiTrak and we're working with the regulatory authorities there and hopeful to get an approval in the probably in the fall and get that product launched as soon as we can. So we see it as a good opportunity, I wish we could expedite the approval process. It's a slow one as you know.

<Q – Steve Lichtman – Oppenheimer Securities>: Yeah. Last question, just in terms of the sale force build in Europe, what are the types of people that you're bringing over? Are these senior people that have done EVAR before? I'm just trying to a sense of how quickly they can kind get ramped up and start being pretty productive for you guys?

<A – John McDermott – Endologix, Inc.>: Yeah. So it's a similar profile that we have in the United States in terms of we like our new folks to have vascular experience. Of the people that we've hired so far, I would say there are more with EVAR experience than we're able to get in the U.S. The non-competes aren't as enforceable in Europe. But the problem – the offsetting problem to that is people don't move as readily in Europe as they do in the United States. So the availability

of talent is less. We're able to get more EVAR experienced people, but there just aren't as many of them, nor are they as willing to move. But I am very pleased with the folks that we have recruited so far and especially after the Charing Cross Meeting that we just had a few weeks ago. I've been talking to our guys in Europe and they're extremely encouraged by the quality of enquiries we're getting for the open positions.

<Q – Steve Lichtman – Oppenheimer Securities>: That's great. Thanks, John.

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

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

<Q – Chris Cooley – Stephens, Inc.>: Hey, good afternoon, guys, and congratulations on a wonderful quarter.

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

<Q – Chris Cooley – Stephens, Inc.>: I wanted to – I guess two questions: one, housekeeping and then one just thinking about the growth. On the housekeeping side, Bob, could you maybe just remind us how much was in the quarter when you think about the G&A number attributed to kind of these – the building of these legal entities? I am assuming that's one time in nature, so kind of trying to think about what's the appropriate go-forward rate from a G&A perspective?

And then, when we think about growth and looking at the United States growing almost 4X in market, could you maybe help us think a little bit about just – when you think about the case volume or case productivity per rep and the aging of your reps, what can they do going forward? And I think about your more seasoned guys in the double digits, the younger guys, fewer cases, just kind of help us think what the existing number of feet on the street can probably on a best-case scenario over time, if they were being of maximum productivity there? Thank you so much.

<A – Robert Krist – Endologix, Inc.>: Chris, I'll handle the first question first. In the G&A number, there is roughly $400,000, maybe a little bit more than that in the quarter, that's involved with working with various professional service providers to put in place an efficient tax-planning structure, legal entity structure and get all of the infrastructure established for that taxation and reporting and so on, and so forth. While that is one time, I'm not sure that it is fully behind us at this stage, but it certainly will be diminishing in Q2, and very much so in the second half of this year. So the way you should think about G&A is that Q1 is probably the high point for the year and we'll be flat to down on an absolute basis in the upcoming quarters.

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

<A – John McDermott – Endologix, Inc.>: And, Chris, in terms of rep productivity just to kind of give you the range. In the first quarter, our rookie reps did just over three cases per month per guy. And our most seasoned guys, on average, did a little better than 12 a month. So if you want to crystal ball a little bit in terms of what could you expect over time, you'd like to take the average of 6.8, which is what it was for the quarter, per month, per guy and take it to 7 to 8 to 9 to 10 and by keeping your turnover low and continuing to introduce new products into that channel, that's very achievable. So I think there's a good bit of productivity. Again, it's affected – in this case, you can get there without actually adding more guys, just by continuing to get new indications, add new products, and the benefit we get of tenure.

<Q – Chris Cooley – Stephens, Inc.>: Understood. And if I may just squeeze one other quick one in here, just when we think about Nellix, your intention is to submit the ID by midyear this year. Will that be using the new 17 French delivery system that you showed us at Charing Cross?

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

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

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, John and Bob.

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

<Q – John Putnam – Capstone Investments>: A couple of questions. I wondered if you could quantify what kind of share gains you might be achieving here domestically? And what you're seeing as a response from the competition, if any?

<A – John McDermott – Endologix, Inc.>: Yeah, John, I think just kind of a back of the envelope, if we're – if the case volumes for the year are about 47,000, it still's got us in around a 11% range on a per procedure basis.

In terms of competitive response, no, I can't pinpoint one particular thing. I mean, all of the companies are busy trying to keep their pipeline fresh. As you know, Medtronic's working on a slightly improved version of Endurant. Gore has introduced some new limb sizes and I would say that's the primary activity. I don't see anything else that I would consider remarkable in terms of other sales and marketing tactics. So we benefit, as you know, by having such a unique platform. We're a little difficult to compete with from the perspective that we're the only device that sits on the bifurcation and preserves the bifurcation, and so once we get a guy started on the device they tend to stick with it.

<Q – John Putnam – Capstone Investments>: Okay. It makes sense. On another topic and I know you're a ways away from launching Ventana and Nellix, but what kind of price premium do you think you can achieve with those products, John?

<A – John McDermott – Endologix, Inc.>: Yeah, that's a good question. We're doing a lot of market evaluation of pricing right now. Since those devices will come to market in Europe first, that's where our primary effort has been and that market is more price sensitive, Europe that is than the United States.
So it's a bit of a balancing act. We believe we have an opportunity for premium, but we don't want to take it at the expense of limiting our share capture. So I can't give you an exact number right now, but I can tell you that our desire is to get a slight premium above the market. And as we get closer to being able to introduce those products, we can provide a little more clarity on that.

<Q – John Putnam – Capstone Investments>: That's great. Thanks a lot. And a great quarter.

<A – John McDermott – Endologix, Inc.>: Thank you.

<A – Robert Krist – Endologix, Inc.>: Thank you.

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. Well, thanks, operator. I'd like to thank everyone for joining us on the call today and your interest in Endologix. We look forward to seeing you at the upcoming conferences and keeping you posted on our progress. Have a good evening.

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

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