PARTICIPANTS

Corporate Participants

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John D. McDermott – Chairman & Chief Executive Officer, Endologix, Inc.
Vaseem Mahboob – Chief Financial Officer, Endologix, Inc.

Other Participants

Brooks E. West – Analyst, Piper Jaffray & Co. (Broker)
Mathew Blackman – Analyst, Stifel, Nicolaus & Co., Inc.
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Endologix Incorporated Second Quarter 2016 Earnings Conference Call. At this time, all participants are in listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host Zack Kubow of The Ruth Group. Please go ahead Mr. Kubow.

Zack Kubow, Senior Vice President, 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 Vaseem Mahboob, 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 one year.

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, August 2, 2016. Endologix undertakes no obligation to revise or update any statement 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, Zack, and good afternoon, everyone. Thank you for joining us today for Endologix's second quarter 2016 conference call.

This afternoon, I'll provide a brief overview of our second quarter results and key business updates. Then I'll turn the call over to our Chief Financial Officer, Vaseem Mahboob for a review of our second quarter financial results, 2016 financial guidance and an update on our synergy plan from TriVascular merger. After Vaseem, I will come back on to provide an overview of our top priorities and then we'll open up the call for questions.

Second quarter revenue was $51 million representing the second consecutive quarter, where we delivered results significantly ahead of our original estimates. We attribute these results to the planning and execution of the merger integration, our strong product portfolio and the high-caliber of our combined sales, marketing and medical affairs professionals. The team has really done an outstanding job minimizing merger-related disruption in the first half of the year and getting us in a good position to deliver our guidance of increasing growth in the second half of 2016.

As we look across our geographic markets, each region has made progress in the first half of 2016 and has compelling growth drivers moving forward. In the U.S. our larger consolidated sales organization successfully introduced AFX2 during the second quarter and the physician feedback has been very positive.

For Ovation, just over half the team is now certified and starting to build confidence in selling both products. Our goal for the remainder of 2016 is to get the entire U.S. sales and clinical teams certified and confidently selling both AFX2 and Ovation in advance of the Nellix launch. We plan to see good growth in the U.S. from the combination of AFX2 and Ovation and expect that growth to accelerate dramatically with the introduction of Nellix.

In Europe, we just introduced the new version of Nellix at the Charing Cross meeting in April and the feedback has been very positive. In particular, physicians like the additional sizes and improvements to the delivery system. In the third quarter, our European team will launch AFX2, which we think will be a nice addition to the portfolio and compliment Nellix and Ovation iX.

Moving into 2017, we anticipate the European approvals of Ovation Alto and ChEVAS, for the treatment of complex aneurysms. These new products and indications represent significant growth potential. Moving to Asia and Latin America, we're launching multiple new products over the next several quarters and expect these regions to be our fastest-growing over the next few years.

Switching to our clinical spaces, we announced several new positive data updates for Nellix at the Charing Cross meeting in April and the SVS Meeting in June. This was highlighted by the one year EVAS FORWARD-IDE results presented at the SVS meeting. Both the safety and efficacy endpoints as a clinical study were achieved, demonstrating a 50% reduction in endoleaks and secondary interventions compared to competitive EVAR devices.

This positive data was further reinforced by the presentation of one year results from a large 335-patient multicenter Italian study of Nellix at SVS. This study also showed very low rates of endoleaks in secondary interventions.

Regarding the Nellix PMA submission, in July, we had our 100-day meeting with the FDA. Key takeaways from the meeting are that FDA would like to see some clinical data on the newest version of the Nellix device and they also mentioned, for the first time, the potential of Nellix going to an advisory panel.

Based upon this feedback, we've decided to move forward with the original version of the Nellix system that was used in the IDE, which we refer to as the IDE device and get approval for the newer version of Nellix in the future through a PMA supplement. We believe this approach represents the fastest path to Nellix approval in the U.S.

Regarding the potential of Nellix to go to panel, we don't expect the FDA to make a final decision until early 2017 but we need to start preparing just in case. If we don't have to go to panel, then we believe we still have the potential to get approval of the Nellix IDE device by the end of the first quarter 2017.

If FDA determines that we do have to go to panel, then it pushes back the timeline for potential approval into the third quarter of 2017. Previously, we had time for panel included in our timeline, but the shift back to the IDE device and responding to additional questions from FDA takes that cushion out of the schedule.

Although this updated path to approval is slightly different than our original plan, it doesn't change the excellent clinical results achieved in the clinical studies and the continued global enthusiasm for EVAS. So we remain very positive about the likelihood of approval and the significant growth we expect to drive with Nellix.

In addition to Nellix, we continue to make great progress with our other new products and clinical programs. First is the LIFE Registry. In May, we announced the completion of enrollment in this 250-patient study evaluating Ovation in percutaneous fast-track protocol. The results from this study are expected to be presented at the VIVA Conference in September.

Next is the LUCY study, which has enrolled over 140 patients of the 225 patients with challenging aortic necks and small access vessels. LUCY should complete enrollment in 2017. Next is the LEOPARD study, which is the first ever head-to-head clinical trial in EVAR comparing AFX against Gore, Medtronic and Cook. Today we have over 300 patients enrolled and randomized in this 800-patient study that is currently scheduled to complete enrollment in 2017.

And finally, we have the ASCEND study, which is a physician led trail on the ChEVAS procedure, which uses Nellix devices and branched stent-grafts to treat patients with complex aortic aneurysms. So far, there are 187 patients of the plan 200 patients enrolled in the study, and the results are also expected to be presented this fall.

Another exciting upcoming milestone for the company is the first patient implants of our new Ovation Alto device. This new system has been designed to treat patients with short aortic necks, while offering all the other existing advantages of the Ovation platform. We expect to make an announcement in the coming weeks about Alto and look forward to making this promising new technology available to physicians and their patients.

So, as you can see, our new product pipeline is full. We've got excellent and growing clinical evidence, the TriVascular merger integration is going extremely well, and all of our geographic regions have promising growth opportunities. So, we feel extremely well positioned for the future.

With that, I'll now turn the call over to Vaseem for his financial review. Vaseem?

Vaseem Mahboob, Chief Financial Officer

Thank you, John, and good afternoon, everyone. As a reminder, unless otherwise indicated, the comparisons made in my financial remarks, results for the second quarter of 2015 will be on a pro forma basis to include the results of both Endologix and TriVascular in the quarterly period.

Starting with revenues, total revenue in the second quarter 2016 was $51 million, a 4% increase compared to a pro forma revenue of $49.2 million in the second quarter 2015. The strong performance versus our expectation of revenue, to be down in the 5% to 8% range, was driven by three main factors. One strong Nellix growth in our international markets, including the launch of our next generation system in Europe. Second, the full market release of AFX2 in the U.S. and, lastly, solid execution on our commercial integration efforts, and our ability to manage to a lower than anticipated disruption from the merger.

As John indicated, we are pleased with the results of our integration efforts so far and believe our investments in integrating TriVascular have positioned us for strong growth in the second half of the year, which is why we are raising our revenue guidance for the year.

U.S. revenue in the quarter was $36.3 million, which represents a 26% growth as reported, and a 1% pro forma increase versus second quarter last year. Better than expected results in the U.S. are driven by the full market release and strong adoption of AFX2, coupled with lower than anticipated merger-related disruptions.

International revenue was $14.7 million, which represents the growth of 37% as reported, and up 10% on a pro forma basis from the same period last year. Our international business greatly benefited from all three product platforms, being on a market and reflects the value to physicians in hospitals and their ability to choose the best device for each individual patient. Nellix continues to perform well with another quarter of strong growth that was supported by the launch of our next-generation system.

Gross margins in the second quarter 2016 was at 58%, compared to pro forma 61% in the second quarter 2015. Gross margins continued to be negatively affected by the purchase price accounting for TriVascular inventory, which we expect to continue to flow through our margins through the rest of 2016, as well as ongoing amortization of intangibles. Adjusting for the effect of purchase price accounting, gross margins for the second quarter would have been 68%. The 7-point improvement versus second quarter 2015 on a pro forma gross margin was driven by improved inventory management practices, better regional mix and pricing.

We continue to drive our focus on cash and expenses as we strive to deliver on our synergy commitments and, at the same time, invest in the critical priorities for the business. We have made very good progress on this goal with our operating expenses for the second quarter 2016 at $52.7 million compared to $55.1 million on a pro forma basis in the second quarter of 2015.

Second quarter 2016 operating expenses included approximately $1.9 million in one-time acquisition-related expenses and, excluding these items, the operating expenses were $50.8 million or 8% lower than the pro forma second quarter last year. The lower cost were driven by head count actions in line with the communicated synergy plans in bringing the two organizations together.

Year-to-date, we have now incurred a total of $21 million and are projecting another $6 million in the second half of this year. This puts out a total $31 million in deal-related expenses since the announcement of the merger in the fourth quarter of last year. On the synergy front, we are on track to deliver the $17 million in merger synergies in 2016. Our second quarter OpEx performance with G&A down 11%, sales and marketing down 4% and R&D down 14% highlights the cost actions and spending controls we have undertaken to achieve our cost goals.

Our GAAP net loss was $66.8 million or a loss of $0.81 per share in the second quarter of 2016, compared to a pro forma net loss of $27.9 million for the second quarter of 2015. The net loss included a $38.7 million mark-to-market adjustment. Let me provide some color on the nature of this non-cash adjustment.

As was the case in our reported Q1 results, due to the common shares used in the TriVascular merger on February 3, 2016, the company determined it no longer had enough authorized and unissued common shares available to cover all contracts settleable in common shares. As a result, all or a portion of these contracts were reclassified from equity to liabilities. These liabilities were marked to market and $38.7 million charge was recorded as a fair value adjustment of derivative liabilities in the second quarter of 2016.

Moving forward, the company will no longer need to mark these contracts to market since shareholders authorized additional common shares to resolve the deficiency at the annual shareholders' meeting in the second quarter. Furthermore, this accounting change has no impact on the outstanding share counts.

Adjusted net loss for the second quarter of 2016 was at $16.7 million or a loss of $0.20 per share compared to an adjusted pro forma net loss for the second quarter of 2015 of $24.9 million. Adjusted EBITDA for the second quarter of 2016 was a loss of $10.4 million or $0.13 per share, compared to an adjusted EBITDA net loss of $19.6 million in the second quarter of 2015.

Moving on to cash, we ended the second quarter 2016 with cash, cash equivalents, and investments of $72.9 million compared to $86.2 million as of March 31, 2016. Earlier this week, we secured a new $50 million four-year revolving credit facility from MidCap Financial at very attractive terms. This new line of credit provides flexibility, as we continue to execute on our growth plans, complete our integration activities, and prepare for the U.S. Nellix launch. The new facility from MidCap replaces our previously unused $20 million Bank of America line of credit. Regarding our 2018 convertible notes, we will continue to evaluate options to refinance those post the Nellix PMA approval.

Now turning to guidance, we're raising the low end of our revenues guidance from $192 million up to $197 million and also raising the high end of our guidance from $202 million to $203 million. This updated revenue number represents a 3% to 7% revenue growth on a pro forma basis for the total year 2016 versus 2015.

As John mentioned, our performance in the first half together with our plan initiatives for the second half gives us confidence to have a strong finish to the year. We are seeing positive momentum with all three product lines performing well. We are revising our 2016 GAAP loss per share guidance of $1.20 to $1.30 per share to $1.80 to $1.85 per share, driven by the mark-to-market non-cash adjustment that I mentioned earlier. We expect 2016 adjusted non-GAAP loss per share of $0.70 per share to $0.75 per share.

This guidance excludes purchase price accounting impact related to the TriVascular merger. Lastly, I also want to take this opportunity to reaffirm our five-year long range forecast that we have shared at our last Investor Day.

With that, I'll hand it back to John. John?

John D. McDermott, Chairman & Chief Executive Officer

Thanks, Vaseem. We delivered another positive quarter that was ahead of expectations, including excellent progress with our top priorities for the year. We're on track with the merger integration, our new product pipeline and commercial execution.

Our top priorities over the next 12 months are: first, collaborate with FDA to get the Nellix PMA approved; two, continue advancing our Ovation Alto and ChEVAS development in clinical programs for the treatment of complex AAAs; three, leverage our post-merger infrastructure and capture

synergies to achieve profitability as soon as possible; and four, to continue building clinical and economic evidence with our LIFE, LUCY, LEOPARD and ASCEND clinical studies.

As we execute on these priorities, we expect to deliver significant value to our customers and shareholders, while providing patients with the best possible device for the individual treatment of their abdominal aortic aneurysms.

We look forward to meeting with many of you at the Canaccord Growth Conference next week and the Morgan Stanley Healthcare and Credit Suisse conferences in September. We're also planning to host our Annual Investor Meeting in New York, in November at the VEITH Symposium, and we'll send out a press release when we get all the details sorted out.

With that, we'll now open the call 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] The first question is from Brooks West, Piper Jaffray. Please go ahead, sir.

<Q – Brooks West – Piper Jaffray & Co. (Broker)>: Hi. Thanks. Can you hear me?

<A – John McDermott – Endologix, Inc.>: Yeah. We can hear you, Brooks.

<A – Vaseem Mahboob – Endologix, Inc.>: Hey, Brooks.

<Q – Brooks West – Piper Jaffray & Co. (Broker)>: Great. Thanks, guys. I guess, John, just to start with the FDA timeline on the Nellix, I guess, given that you're now going to pursue approval of, I guess, the IDE generation device, [indiscernible] (18:54) the first generation device, why are you not expecting an FDA decision until early 2017? I mean, what needs to happen between now and then, before they decide, I guess whether you're going to go to them now.

<A – John McDermott – Endologix, Inc.>: Well, the biggest thing we've got to do for that device is answer questions that we got from the PMA submission. So, as you know, we sent in all of the modules at the end of March and the agency has been going through those documents, about 32,000 pages worth of submission, and came back to us in July with questions and so some of them are relatively straightforward clarification, some additional analysis and some additional testing.

So, since we had been focused on the newer version of the device, we've got to take a step back and do a little bit more work on the IDE device, which we'll do over the next few months and submit all of that by the end of this calendar year and that's what sets us up for first quarter approval.

<Q – Brooks West – Piper Jaffray & Co. (Broker)>: Okay. Okay. And then the same, you've given a number in the past on every quarter of Nellix delay is about, I think it was $10 million to $15 million of revenue. Am I correct in that? Is that still the right way to think about the quarterly impact?

<A – Vaseem Mahboob – Endologix, Inc.>: Yeah. So, it's in the range we feel that a quarter delay would cost us $7 million, Brooks, is the change and that's why we don't feel it's a pretty significant delay beyond Q1.

<Q – Brooks West – Piper Jaffray & Co. (Broker)>: Okay. You said $7 million per quarter.

<A – Vaseem Mahboob – Endologix, Inc.>: $7 million, yes. $7 million is based on our model, right now, because if you remember we had modeled out in our guidance of 20% full year of Nellix starting January 1, so now if it does get pushed out to Q1, that's a $7 million impact on top line.

<Q – Brooks West – Piper Jaffray & Co. (Broker)>: Okay. Perfect. Perfect. And then, I guess last question for me. Can you give us any more detail on Nellix growth in Europe? I mean, where you up sequentially? I mean, are you still seeing 20% plus growth, anything else? I know you don't want to give a finite numbers, but any other detail on Nellix performance in Europe in the quarter would be helpful. Thanks.

<A – Vaseem Mahboob – Endologix, Inc.>: Sure. So, listen, as we have said, Nellix is performing beyond expectation. We had another solid quarter and a lot of the growth for the business and the positive surprise is actually driven by Nellix. So, we feel pretty good about Nellix and as we have said in the past, we are going to stay away from the percentages, but just know that we continue to gain market share and have a product that's winning especially with the launch of the new 3.5 generation in Europe.

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

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

Operator: We have a question from Mr. Rick Wise from Stifel. Please go ahead, sir.

<Q – Matt Blackman – Stifel, Nicolaus & Co., Inc.>: Good afternoon, everyone. It's Matt Blackman in for Rick.

<A – John McDermott – Endologix, Inc.>: Good evening, Matt.

<Q – Matt Blackman – Stifel, Nicolaus & Co., Inc.>: Hey, John. So, maybe to start with this potential for the FDA panel and I actually wanted to take a little bit of a different angle. If there is an FDA panel, you've laid out a – already sort of laid out a plan to train roughly 50 clinicians per month post approval. Assuming that there is a delay into the third quarter, is there any way to sort of accelerate that type of the training trajectory or, no, we should still think about it at this sort of 50 clinician per month type pace?

<A – John McDermott – Endologix, Inc.>: Yeah. I think, we should still think of it that way, Matt, because the most important thing is really doing it right. So, this if we end up going to panel, it doesn't really change the throughput on the training. And another point I would make just for clarification is, because at 50 a month that we would get up to would really be after the startup phase. So, we wouldn't – after PMA approval, if we had to go to panel, our current best estimate is that, that would – we get approval in the Q3 timeframe and we'd be able to start our commercial activities then in Q4. We wouldn't start in, for example, the month of October at 50. So there would be a ramp associated with that training, which really flips to Vaseem's earlier comment about a $7 million impact, that the first quarter of Nellix revenues is anticipated to be around $7 million.

<Q – Matt Blackman – Stifel, Nicolaus & Co., Inc.>: Okay.

<A – John McDermott – Endologix, Inc.>: So, we'd gradually up over a six month period of time get up to about 50 a month, so we wouldn't start at 50.

<Q – Matt Blackman – Stifel, Nicolaus & Co., Inc.>: Yeah. No, I totally understand. Okay. Maybe shifting a little bit to the quarter. And Vaseem, you talked about it briefly in response to Brooks' question just now. But maybe a little bit more color on strength in Europe and in the U.S. Is Nellix's strength more account openings, greater share in existing accounts? And then in the U.S. sort of similar question, with the AFX2 and Ovation iX launched, same question, are you opening new accounts? Is it greater penetration? Are you getting price premiums on these devices? A lot of questions in there, but just give us a sense of where the strength – a little bit more granularity on the strength in both of those geographies.

<A – Vaseem Mahboob – Endologix, Inc.>: Yeah. Sure, Matt. So on the OUS side, we grew 9%, the U.S. was up 1%. The positive surprise, if you will, versus our expectation vis-à-vis disruption came in the U.S. market and that's primarily driven by a better integration effort. It's driven by the success of AFX2 and the market adoption of AFX2. So, it's just been fantastic and we're actually getting a lot more price and I actually mentioned that in my commentary as well.

In the OUS segment, listen, Nellix continues to do really well and as we have said in the past, it's doing well in the backdrop where we're trying to control the growth of Nellix vis-à-vis keep the 30% price premium, keep it on IFU and continuing to grow into new accounts. So, all of that KPIs that we track internally on the adoption of Nellix they all are on track.

<Q – Matt Blackman – Stifel, Nicolaus & Co., Inc.>: Okay. That's very helpful. And I'm going to slip in one last question back on the panel. I'm sure you're eager to provide the intimate details of

your FDA discussions, but you did mention, and I just want to reinforce this, that the rationale from FDA for panel it was the – is the novelty of Nellix, which I think we all agree is a novel device relative to rest of EVAR. But could you maybe give us a little bit more color, more sense of comfort that there is not something else going on, there is no sort of red flag raised in some of the data that they saw? Anything that you could give us that gives us any comfort there would be helpful. Thank you.

<A – John McDermott – Endologix, Inc.>: Sure. So, the three reasons that the agency will typically consider sending the device to panel is, one, if there is any new clinical issues of safety or efficacy, and obviously, everyone has seen the data, so we know, there aren't any issues there. The second reason is if they feel, the FDA feels they don't have the clinical or technical expertise to complete the review of a PMA, that's not the case. And the third is, if it's novel technology. And so that's – if there is a question about whether or not Nellix goes to panel, it's all around that.

Now that said, we still believe that we have and will continue to make a compelling argument that Nellix is very similar to other endovascular technologies to treat aneurysms. It's the same patient, it's the same doctor, done in the same facility, it's the same follow-up imaging, a lot of the same procedural techniques. If there is re-interventions, they're very similar. So, we still think we've got a good argument, but it really will come down to novelty. And of course, it's not a decision that we can control, but we'll try to influence as best we can.

<Q – Matt Blackman – Stifel, Nicolaus & Co., Inc.>: Okay. Thanks so much. Appreciated guys.

<A – Vaseem Mahboob – Endologix, Inc.>: Thanks, Matt.

Operator: The next question is from Mike Weinstein, JPMorgan. Please go ahead, sir.

<Q – Mike Weinstein – JPMorgan Securities LLC>: Thank you. So, I just want to go back to the kind of initial issue with Nellix with the FDA. So what do you think happened here, John, with the agency saying that they're only comfortable or there is only enough data maybe to consider the approval of the initial device, the IDE study device?

<A – John McDermott – Endologix, Inc.>: Well, we've put a lot of time and effort into this obviously, when we were developing our original strategy and felt that the changes that were being made from the original IDE device to the newer version were minor in nature. But didn't just rely upon our own evaluation of that. We actually took that strategy outside and reviewed that strategy with some external experts, to challenge our thinking. And we got independent confirmation that that made sense and was appropriate.

So, our assumption that the new device wouldn't have to go to clinicals was based upon internal and external evaluation. And after reviewing the complete submission, the agency just took what we think is a slightly more conservative view. That said, I think the collaboration with them has been very good and we want to maintain that, so we'll quickly put together the information as rapidly as we can and proceed with the IDE device. And then, we'll follow on, hopefully be able to get the newer version device into the cap and get patients enrolling by the end of this year, and accumulate data to follow the PMA approval of the IDE device with a PMA supplement for the newer one.

<Q – Mike Weinstein – JPMorgan Securities LLC>: Let me ask, if I can, just about the guidance for the second half now. So, in the second quarter, if I'm right, you did 4% pro forma growth for the combined entity. The guidance for the second half implies 7% to 13% pro forma growth. Just talk about your confidence in that range and what needs to happen for you to get there.

<A – Vaseem Mahboob – Endologix, Inc.>: Sure. Mike, I can take that. So, the fundamentals in place are what we said in the commentary. Nellix, Ovation and AFX2, all of the three product lines have very positive momentum, doing very well. We see a lot of strength in the U.S. market and the

adoption of AFX2. So, we feel pretty good about that. We feel bullish about that. We already had a pretty good initial read on the third quarter, so we feel comfortable on the range that we've put out, and I think is one.

Second, the whole disruption story in Europe, which was driven by the indirect channel. We have closed the chapter on that, we have settled with our distributors, so we now have quite a – not only the direct but also the indirect channel now up and functioning, so that's actually contributing to some of the positives.

And then the last one here is the capital markets continued to be very strong and they're growing north of 20%, 25%, so we feel pretty good about the OUS number as well. So, looking at the momentum, looking at what we have in the bag today and our ability to sell the three products, I think we're very comfortable with the second half guidance that we have now given out.

<A – John McDermott – Endologix, Inc.>: Yeah. Hi, Mike. I can add one comment to that, too. As I mentioned earlier, we just got – just over 50% of the U.S. team is certified on Ovation. So, we expect to continue to build momentum and complete those certifications over the balance of the year and more people certified are more confident selling and supporting clinically Ovation, plus we've got the launch of AFX2 in Europe in the second half. So, that's a nice combination and should give us some tailwind to support our already building momentum for the second half.

<Q – Mike Weinstein – JPMorgan Securities LLC>: Got you. That's helpful. Thank you guys for taking the questions.

<A – Vaseem Mahboob – Endologix, Inc.>: Yeah. Thank you.

Operator: We have a question from Chris Pasquale of Guggenheim. Please go ahead, sir.

<Q – Chris Pasquale – Guggenheim Securities LLC>: Thanks. John, can you talk a little bit about the impact the Nellix data has had on your U.S. business since SVS? Do you think you're seeing a halo effect with maybe interest in Nellix opening some doors for you with customers who may not have done many AFX or Ovation cases previously?

<A – John McDermott – Endologix, Inc.>: Yeah. I think it has had a positive impact, Chris, but it's been difficult for us to quantify. The guys have been out, we can't obviously promote the products since it's unapproved. But to the extent people have heard about it and we're channeling those inquiries and interest into your medical affairs team, I know there has been some interest. That said, I wouldn't say that's had a material impact on our U.S. performance. I think most of what's been working in the first half is just the team's done a great job, managing the integration and the training and minimizing disruption, as well as Vaseem pointed out, AFX2 has done really well so.

<Q – Chris Pasquale – Guggenheim Securities LLC>: Okay. That's helpful. And then you talked about the strong pricing, you're realizing with some of these new product launches. How do you balance the desire to price, which you believed to be obviously differentiated products at a premium, with the opportunity to improve your market share? Would there be more of an opportunity to take share if you were pricing in line with the competition? How do you think about that?

<A – John McDermott – Endologix, Inc.>: Well, so far, pricing hasn't been the driver to share capture. And we're uniquely positioned as you know that if we do need to have a value product in the mix, we can do that. But thus far, that hasn't been necessary for us to keep growing. So, we will see how that evolves over the quarters ahead but, right now, we've got some premium products and we're getting good pricing on those.

<A – Vaseem Mahboob – Endologix, Inc.>: I think the only thing I'd add to that, Chris, is in the US market, when I talk about the pricing, it was our ability with the opportunity to launch AFX2 to go back into those accounts and get the value for that and that's where we've seen some decent bit of success. So, that's what's been helping the top line growth as well as the margin performance in the U.S.

<Q – Chris Pasquale – Guggenheim Securities LLC>: Okay. Thanks.

Operator: We have a question from Joanne Wuensch, BMO Capital Markets. Please go ahead ma'am.

<Q – Joanne Wuensch – BMO Capital Markets (United States)>: Good afternoon, everybody. Can we...

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

<A – Vaseem Mahboob – Endologix, Inc.>: Hi, Joanne.

<Q – Joanne Wuensch – BMO Capital Markets (United States)>: Hi. Can we talk a little bit about what type of additional data or questions that you're receiving? I mean, is there any way to give us some information regarding that?

<A – John McDermott – Endologix, Inc.>: Yeah. I don't want to get too detailed with that, Joanne. What I can tell you is that none of the questions we got asked are what I would characterize as big surprises. There's clarification on some things, some requests for additional analysis, some additional testing, nothing that would suggest in our view, any question or risk of approvability just some more blocking and tackling and clarification of the data we've submitted. So we don't see anything in there that's given us heartburn. It will just take a little time to pull it all together and we'd also like to take another run at this novelty question and see if we can provide the agency with enough evidence that the device isn't novel so that we don't have to go to panel. So, that will be the focus of the work we do over the next few months.

<Q – Joanne Wuensch – BMO Capital Markets (United States)>: Just to address that second piece of it, why would you not want it to be novel? Wouldn't that then encourage a different reimbursement code and possibly more benefits or hurdles versus others?

<A – John McDermott – Endologix, Inc.>: Possibly. Yeah. So, it is a bit of a balancing act for sure. The downside is the time. The upside is possibly some additional codes and the benefit. We're not afraid to panel. In fact, we're – as you point out, there are some positive that come along with it. We're just – it's just a timeline impact. But either way, Nellix is going to wildly successful. So, we're preparing for panel, but still hope we don't have to go there because we prefer the timeline associated with the no panel program.

<Q – Joanne Wuensch – BMO Capital Markets (United States)>: All right. I'm going to squeeze one more, and do you have an idea since the next generation Nellix is now going to be a PMA supplement, when that might hit the market, or when you may think about approval for that?

<A – John McDermott – Endologix, Inc.>: Yeah. Good question. Not yet is the honest answer. So, we want to get – we're actively interacting with the agency right now, clarifying some of the additional information that they've asked for to make sure we give them 100% of what they need, between now and the end of the year. And over the next month, we will also reach an agreement on what amount of clinical data they need on the newer version.

So, they said, they'd like clinical data, but they weren't very explicit about, what that looks like. So, there seems to be an openness to allow us to put the newer version in the cap, which is great,

because that's an accelerated timeline. Now, we just to have to agree on the number of patients and the amount of follow-up, and as we don't have an answer to that yet, but hope to get that in the next couple of months. Once we have that, Joanne, we'll be able to provide better timing on the PMA supplement timing for the newer version.

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

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

<A – Vaseem Mahboob – Endologix, Inc.>: Thank you.

Operator: We have a question from Jason Mills, Canaccord Genuity. Please go ahead, sir.

<Q – Jason Mills – Canaccord Genuity, Inc.>: Thanks, John. Can you hear me okay?

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

<Q – Jason Mills – Canaccord Genuity, Inc.>: Great. I'd like to pick up Joanne's conversation and just continue a little bit. Is it possible the FDA is interested enough in the next-generation Nellix that they'll call a panel and push you towards an FDA submission for or a timeline for that, as the initial approval, does that make sense? Is it possible that were moving down the tracks towards the panel and that, ultimately the first product approved would be the next-generation device?

<A – John McDermott – Endologix, Inc.>: Yeah. I think, we didn't get that impression from the meeting. So, they basically said, listen, we understand why you made the enhancements and it looks like they're all good enhancements. We just would like to see some clinical data for that device. And we've since gone back to say, well, that timeline is not interesting to us. You've got the clinical data you need on the IDE device, we'll pursue approval for that and follow with the supplement. So, we certainly haven't gotten any indication at this point that there's going to be a push for the new device that goes into panel. That has not come up in the discussion so far.

<Q – Jason Mills – Canaccord Genuity, Inc.>: Okay. Well, then alternatively, based on what you just said it, is it possible that you'll be able to supply to them what they need to give them comfort with the difference between the IDE device and the next-generation device in terms of the enhancements, and that a submission on the new device can occur and an approval without a panel can occur within that Q1, maybe early Q2 timeframe? If they maybe won't need a panel, they just would prefer at the end the day, they'll approve the next-generation device, first.

<A – John McDermott – Endologix, Inc.>: Yeah. Well, that was basically what we submitted. That was effectively our PMA submission was the rationale on the clinical evidence with the IDE device and all of the comparability testing in the rationale for the newer delivery system and the enhancements to the next-gen system. And that's where they pushed back and said, we understand all these things individually, but collectively we'd like to see some clinical data.

I don't think their clinical data requirements are going to be excessive, but based upon the conversations we've had so far, it does not seem to us that getting approval by the first quarter for the next-gen device is realistic. I think if we're going to get approval in the first quarter, it's going to be with the IDE version of the device.

<Q – Jason Mills – Canaccord Genuity, Inc.>: Okay. Said plainly, it just seems like the FDA's not giving you a break on anything. And I don't know that you would say that, but the reason I think you're getting questions about can you give us details about what the FDA is requesting is because we all saw with our own eyes the clinical data, we're hearing from physicians in Europe and the United States who have had chance to use it, their experiences, and it jives with a situation of get this on the market as soon as possible by everyone on the planet seemingly except for the FDA.

So, maybe I am the bad guy on this call if the FDA is listening. But that's how it seems and that's why you're getting the questions. So, I don't know if there's a question in there, but it's a comment, there you go. One for the same, with the $7 million that you mentioned earlier, with respect to the impact from the delay, does that assume that, yes, you don't have Nellix on the market, but given the strength of AFX2 and Ovation and folks maybe getting in line, they could be trained on Nellix that you can drive a little bit more revenue in AFX2 and Ovation in lieu of having Nellix on the market? Does that assume some sort of shift back in revenue to those products you think?

<A – Vaseem Mahboob – Endologix, Inc.>: Well, the $7 million quite frankly yes. So, we would have said, if we didn't have Nellix that was kind of in the range of the $10 million to $12 million that Brooks talked about is what we have initially talk about. Now, knowing the strength of AFX2, knowing the strength of Ovation and fact that we're going to be launching also in Europe next year and we have the 3.5 device already launched in Europe and looking at the results in Q2, Jason, we feel strongly that having three products in the bag really helps our financial aspirations for next year.

So, we can still tend to have a good year or next year, even though it's delayed by a quarter or two quarters. So, we don't think it's a big financial drive for the business next year. It's all manageable and that's why we did not change our long range forecast that we put out [indiscernible] (42:30)

<Q – Jason Mills – Canaccord Genuity, Inc.>: Okay. Thanks for the time.

<A – Vaseem Mahboob – Endologix, Inc.>: Yeah. Thanks.

Operator: The next question is from Matt Keeler, Credit Suisse. Please go ahead, sir.

<Q – Matt Keeler – Credit Suisse Securities (USA) LLC (Broker)>: Hey, guys. Thanks for taking the questions. I guess, this is first on the new Nellix device there and the path forward with the FDA, had they previously given you any feedback on whether the changes in that device, how it might impact the path forward and is anything changed with this round there that you can tell us about?

<A – John McDermott – Endologix, Inc.>: Matt, I'm sorry. It's John. I didn't hear you very well. Could you just repeat that last part of the question? I know it was about the new Nellix device, can you just repeat it?

<Q – Matt Keeler – Credit Suisse Securities (USA) LLC (Broker)>: Yeah. Sure. I was just wondering, has the FDA given you any previous feedback? You talked about the color that you've received from your outside consultants. But has the FDA given any feedback on the device and whether the change is there? What it might take to get that approved and did anything change in this most recent round of conversations with them?

<A – John McDermott – Endologix, Inc.>: No. Obviously, it wasn't a surprise. What we've submitted to the FDA, they never signaled that seeking approval for the newer generation device was going to be a problem. But in fairness to them, they always said, until we see all of those aspects of the submission, we can't give you a definitive response. And so, ultimately they got everything and they decided that, in their mind, it was too much of a change. Now, we view that perspective as conservative and we want to continue to respectfully pushback, but that was their determination after seeing all the information.

Like I said, between our internal efforts and our external consultants, we feel – we continue to feel that the changes are reasonable. But at the end of the day, we got to get the device approved. So, we're going to answer the questions and move forward as quickly as we can.

<Q – Matt Keeler – Credit Suisse Securities (USA) LLC (Broker)>: Okay. Thanks. And then, does not having this newer device, say in the first 12 months post launch, does that impact your assumption on market share at all in the U.S. launch?

<A – John McDermott – Endologix, Inc.>: No, we don't think so. We don't think so. I mean, we just now introduced the newer version into Europe and you've seen our ability to capture market share with what we call the IDE version. So, we do like the new version better, that's why we developed it, but we think we can be very successful with the original to get started.

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

Operator: We have a question from Chris Cooley, Stephens. Please go ahead, sir.

<Q – Chris Cooley – Stephens, Inc.>: Thank you and good evening. I appreciate you squeezing me in here at the end. Just two quick ones from me. Maybe first, Vaseem, you had indicated, I believe, on the prior call that we seen a slowdown internationally in the indirect channel for Nellix as a result of destocking. Just curious if you could characterize, how much maybe restocking of the next-gen version Nellix may have contributed to the 2Q if at all, or do you still expect to see that growth rate uptick in the 3Q and 4Q kind of in line what you had previously assumed? Just trying to triangulate that with the revision to the guidance for the year. And then I have just one quick follow-up.

<A – Vaseem Mahboob – Endologix, Inc.>: Sure. So, we did see some of the destocking, if you will, ahead of the 3.5, and quite frankly, there's not a significant unusual on the indirect channel here in Q2 for Nellix to say that we plan to restock back to the level. I think there is still some opportunity for us to continue to push Nellix into the direct and indirect businesses in Europe.

Just to give you some context, in our disruption framework, in the OUS market in total, we were forecasting about $4 million of disruption. We actually saw $4 million or $4.3 million of disruption in the second quarter, so we were not dramatically off versus our expectation. The real strength that we saw in Q2 that led to the beat, if you will, was primarily the U.S. business, better integration management and also better adoption of AFX2.

But going back to your point is, on Nellix, I think it's doing what we wanted it to do. And as we have said in the past that, that we have controlled the growth of Nellix in Europe, we're holding onto the 30% price premium. We're asking people to be on IFU, because we know the results in IFU are better than when you're off IFU as you saw in the data in Charing Cross. But it is a challenge, when you go and ask those physicians to do cases on IFU and tend to be vanilla cases and there's pushback particularly in some of the direct market. But it's something that we're going to continue to do and continue do as long as we get the PMA approved, and so far we've been successful, and we'll continue to do that.

<Q – Chris Cooley – Stephens, Inc.>: Then maybe just as a quick follow-on, as you think about productivity of the sales force, a little over half now having been trained on both respective portfolios, how should we think about the sequential improvement in rep productivity, not only given the new product cadence, but now the potential pause in domestic commercialization of Nellix, if in fact you do have to do go to panel with the device? How should we think about that, so that we can again think about both growth and the margin expansion opportunity. Thank you so much.

<A – Vaseem Mahboob – Endologix, Inc.>: Sure. Listen, I think on the productivity, as we have said consistently in the past that the genesis of the deal with TriVascular was to build a commercial footprint ahead of the Nellix launch in the U.S. So, having about 125 to 130 people in the U.S., there's plenty of capacity for us and we're not going to have to have to add to that capacity for a while. Now, if we do have a pause on Nellix, listen, we have that capacity. We're ready. The people are getting certified. To John's point, we had already had about 50% certification.

The rest of the crew is going to get certified here before the end of the year, and that gives us the ability in the U.S. market to de-risk away from Nellix even if we have a gap and continue to sell two great products in the bag, AFX2, which you're already seeing a lot of strength on. And then, I know you guys have heard from us in the past that iX continues to exceed our expectation in the U.S., vis-à-vis growth versus last year.

So, even though we are slightly behind plan on the Ovation product here in the first half of the year, but having those people certified, having that capacity that we now built gives us greater confidence to know that, financially speaking, we can continue to drive growth in this business, even though, we don't have Nellix in the U.S.

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

Operator: We've a question from Steven Lichtman with Oppenheimer. Please go ahead, sir.

<Q – Steve Lichtman – Oppenheimer & Co., Inc. (Broker)>: Thank you. Hi, guys.

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

<Q – Steve Lichtman – Oppenheimer & Co., Inc. (Broker)>: It certainly sounds like AFX2 was obviously a key driver of the outperformance in the U.S. How much of a contribution are you seeing yet on salespeople that have been registered on Ovation? Are you starting to see a noticeable impact from those salespeople yet or is it still too early and that's to come?

<A – John McDermott – Endologix, Inc.>: No. They're contributing. There's a marked difference between those who are certified and those are not. I don't have those numbers at my fingertips, Steve. But I can – knowing about some of the reps that have already been certified and seeing they're building momentum with Ovation, we know that it matters. So, that's one of the reasons we've got some confidence stepping into the second half, as we can see the results from those folks who have been through the process.

<Q – Steve Lichtman – Oppenheimer & Co., Inc. (Broker)>: Got it. And how far along is the AFX2 launch in the U.S.? Is it sort of fully rolled out at this point or is that still ongoing?

<A – John McDermott – Endologix, Inc.>: No, it's fully rolled out at this point. We've transitioned.

<Q – Steve Lichtman – Oppenheimer & Co., Inc. (Broker)>: Okay. Great. And then, lastly, just on ChEVAS, so when will we see more ASCEND data? And can you remind us sort of what we should be thinking about in terms of ChEVAS getting that sort of approved or on label in Europe and in the U.S. over time?

<A – John McDermott – Endologix, Inc.>: Right. So, the next data update for ChEVAS will be at the VEITH Symposium in November and the plan is to submit for CE Mark by the end of this calendar year. And we've anticipated approval sometime in the middle of 2017 for CE Mark. So that we would get a second half benefit in Europe. We also expect in addition to ChEVAS, we also think we can get approval for Alto, in Europe next year. So we've got a very – in addition to a full-year benefit of the newest version of Nellix, we think we've got a second half benefit of Alto and ChEVAS. So, we're excited about the growth prospects OUS next year in the complex segment.

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

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

Operator: We have a question from Glenn Novarro, RBC Capital Markets. Please go ahead, sir.

<Q – Glenn Novarro – RBC Capital Markets LLC>: Hi, can you hear me okay, because I'm on my headset.

<A – John McDermott – Endologix, Inc.>: Yeah. We got you, Glenn.

<Q – Glenn Novarro – RBC Capital Markets LLC>: Okay. Great. So, I jumped on the call a little bit late, but if I get this right, the FDA is having issues because – and there may be penalties, your U.S. trial with Nellix was first generation and you're trying to get the ultimate approval for a next generation device. So, my question is this, is there any way to get approval first generation by the end of this year and then 12 months later, look to get approval of the next generation or is that not possible?

<A – John McDermott – Endologix, Inc.>: Yeah. So, you probably did miss that in the first part of the call, Glenn. That's the strategy that we outlined. So, given the agency's desire for some clinical data on the newer version, we have proposed to go back and get approval for what we call the IDE device, and we will – and because that's the fastest path to market. We think that we can achieve that, if we don't have to go to panel within the first quarter of 2017.

They do have questions and they've asked for some additional information. So, we'll be supplying that information over the next few months, but seeking approval for the IDE version. And then, we'll do exactly what you just suggested as we'll get the new version going in the cap and roll up some clinical data and supply that later in the form of a PMA supplement, to get that device approved in the future.

<Q – Glenn Novarro – RBC Capital Markets LLC>: Okay. And then do you think you'll be able to tell us on the 3Q call whether or not you'll need to go to panel with the first generation device?

<A – John McDermott – Endologix, Inc.>: I don't think we'll know by then, Glenn. Right now, it looks to us as we've gone through the work and the response that we need to provide the agency that that'll take the next few months. So, if we get all that done by the end of this calendar year, the agency is going to need a little time to review that information and they'll use that information to determine panel, no panel. So, right now, our best estimate is that, they would make a panel decision in the kind of the February timeframe. So, we probably won't know until February, if we're going to get approval in the first quarter or we're going to have to go to panel. That's our best estimate of the timeline based on how things lay out right now.

<Q – Glenn Novarro – RBC Capital Markets LLC>: Okay. All right. And do you have the sense, and maybe this is more for Vaseem, do you have a sense of what the Street has in their models for a U.S. Nellix sales in 2017? And if so, what do you think's a more reasonable number to assume for 2017? Thank you.

<A – Vaseem Mahboob – Endologix, Inc.>: So, Glenn, in the conversations that I've had with some of your peers and going through the models, we think the Nellix number that's an expectation out there, is anywhere from $30 million to $40 million. We had in our model that we have put out a consensus growth of 20% for next year would kind of get us to $238 million to $240 million depending on where we end this year. So, again, as I said earlier, maybe before you joined, the impact of a one quarter delay, but not having Nellix in our bag is about $7 million for 2017. So, that's assuming just Q1.

But again depending on what happens from now until the end of the year, that would change, and we'll obviously model that out. But for now, we're saying one quarter delay is the $7 million impact, and by the way, as I said earlier, with AFX2, Ovation and now Nellix 3.5 into bag, we can still drive some significant growth next year.

<Q – Glenn Novarro – RBC Capital Markets LLC>: Okay. So, there is an offset but you're not sure that the base business could completely offset the $7 million a quarter.

<A – Vaseem Mahboob – Endologix, Inc.>: Not the whole thing, yes.

<A – John McDermott – Endologix, Inc.>: No, I don't think so.

<Q – Glenn Novarro – RBC Capital Markets LLC>: Okay. All right, great. Thank you.

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

<A – Vaseem Mahboob – Endologix, Inc.>: Thanks, Glenn.

Operator: Mr. McDermott, there are no further questions at this time. Would you like to make any closing remarks?

John D. McDermott, Chairman & Chief Executive Officer

Yes. So I'd just like to thank everyone for joining us on the call this afternoon and your interest in Endologix. We look forward to seeing you at the upcoming conferences, and we'll provide regular updates on our progress. Have a great evening.

Operator: This concludes today's conference. Thank you for your participation. You may disconnect your telephones at this time. Good night.

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