PARTICIPANTS

Corporate Participants

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

Other Participants

Steven M. Lichtman – Analyst, Oppenheimer Securities
Matt J. Blackman – Analyst, Stifel, Nicolaus & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Endologix, Inc. Third Quarter 2013 Earnings Conference Call. [Operator Instructions] A brief question-and-answer session will follow the formal presentation. [Operator Instructions]

It is now my pleasure to introduce your host, Zack Kubow of Ruth Group. Thank you, Mr. Kubow, you may now begin.

Zack Kubow, Investor Contact, The Ruth Group, Inc.

Thanks, operator, and thanks, everyone, for participating in today's call. Joining me from the company are John McDermott, President and Chief Executive Officer; and Shelley Thunen, Chief Financial Officer. This call is also being broadcast live over the Internet at www.endologix.com and a replay of the call will be available on the company's website for 30 days.

Before we begin, I would like to caution listeners that comments made by management during this conference call will include forward-looking statements within the meaning of Federal Securities laws. These forward-looking statements involve material risks and uncertainties. For a discussion of risk factors I encourage you to review the Endologix Annual Report on Form 10-K and subsequent reports as filed with the Securities and Exchange Commission. Furthermore, the content of this conference call contains time sensitive information that is accurate only as of the date of the live broadcast, October 30, 2013. Endologix undertakes no obligation to revise or update any statements to reflect events or circumstances after the date of this call.

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

John D. McDermott, Chairman, President & Chief Executive Officer

Thanks, Zack. We reported strong third quarter results driven by continued adoption of the AFX System and the ongoing expansion of our sales force in the U.S. and Europe. We also made progress with our limited market release of Nellix in Europe including the initiation of our Nellix Global Registry earlier this week.

I'll begin the call today with a quick overview of our results for the quarter, followed by a business and pipeline update. Then I'll turn the call over to our CFO, Shelley Thunen, who will provide a

review of our financial results. After that, I'll come back on to review our key goals and then we'll open it up for questions.

Global revenue for the third quarter was $33.3 million, up 25% compared to the prior year. Sales were up 24% in the U.S. and 26% in international markets, primarily due to the ongoing success and adoption of the AFX System.

In the U.S. we received FDA approval in April for a fully Percutaneous Indication for AFX and started physician training courses in May. We have the only EVAR sales force in the world that has been specifically trained and certified on the PEVAR procedure, so we can provide clinical support and certification to physicians. The training courses continue to be well attended, and we expect to train over 200 physicians by the end of this year. Also to provide further support to our PEVAR initiative, in the fourth quarter we expect publication of the PEVAR randomized, multi-center clinical trial results in the Journal of Vascular Surgery.

During the quarter, we also continued to add to our U.S. and European sales teams. In total we ended the quarter with 88 U.S. and 23 European reps and clinical specialists. We expect to add another 4 reps in Europe by the end of this year, bringing our totals up to 88 and 27 respectively, an increase of 15% for the full year. The gradual increase in sales reps and clinical specialists represents an important component of our continued growth and market penetration.

Now, let me turn to an update on our new product pipeline. I'll start with Nellix. We're pleased with the limited market introduction outside the U.S. and remain very bullish on the commercial prospects for Nellix. Our early experience has confirmed our belief that Nellix can provide meaningful ease of use benefits, predictable procedure times and the ability to treat a wide range of aortic anatomies.

During the limited market introduction, we've been able to further refine case planning, device sizing, procedure steps and training requirements. We've also identified continued device enhancements that we plan to introduce in the years ahead. Our physician partners have been instrumental in providing us with valuable feedback, and we're grateful for their continued collaboration in the development and commercialization of this important new technology. To-date, we have completed over 150 procedures and are on track to reach our goal to have Nellix in at least 25 international centers by the end of this year.

Earlier this week, we enrolled the first patient in the EVAS FORWARD – Global Registry. The registry is a prospective study designed to capture real world clinical results with the Nellix device in up to 300 patients in 30 international centers. The study will utilize an independent core lab and include follow up for five years. We believe the registry will provide important clinical evidence to support the use of Nellix in a broad range of abdominal aortic anatomies. We'll provide regular updates on the status and enrollment of the Global Registry and expect it to provide multiple podium and publication opportunities over the next several years.

In the U.S. we expect to obtain FDA approval for the Nellix IDE study by the end of this year. The study will be a prospective single-arm trial and enroll approximately 180 patients in 30 centers. Based upon our current assumptions and time lines, we expect to achieve PMA approval in the U.S. in the second half of 2016. Overall, we remain very enthusiastic about the long-term potential for Nellix to become the market leading device for the treatment of abdominal aortic aneurysms.

Turning now to Ventana, we continue to make progress in evaluating design enhancements and expect to provide an update on our plans by yearend. We've also received significant interest from physicians to evaluate the Nellix platform for the treatment of short aortic necks and juxtarenal aneurysms. Although this approach looks promising, we have additional bench and development work to do to validate the concept.

We're very fortunate to have multiple technology platforms to treat this underserved market and are busy evaluating these alternatives with a goal to provide the best clinical outcomes and shareholder returns. Once again, our physician partners have been very supportive and collaborative in our efforts to provide the best off-the-shelf system to treat patients with short neck and juxtarenal aneurysms. We look forward to providing a more detailed update by the end of this year.

Lastly, we've made good progress with our AFX2 device and will provide more information about this new product and commercial timing at the VEITH Symposium in November.

One final comment before I hand the call over to Shelley. I'd like to officially welcome Dr. David Deaton to our leadership team as Chief Medical Officer. Dr. Deaton is a thought leading vascular surgeon and pioneer in EVAR. He's been involved in the development and evolution of endovascular aortic therapy for 20 years and his clinical experience and perspective will be instrumental in our new product development programs and clinical studies.

With that, I'd like to hand the call over to Shelley Thunen for her financial review. Shelley?

Shelley B. Thunen, Chief Financial Officer

Thank you, John. Good afternoon. Today we are pleased to report our financial results and key metrics for the third quarter of 2013.

Total revenue for the third quarter increased by 25% year-over-year to $33.3 million. For the nine months ended September 30, total revenue increased by 26% year-over-year to $97 million.

Domestic revenue in the third quarter increased by 24% year-over-year to $26.5 million. For the nine months ended September 30, domestic revenue increased by 22% year-over-year to $77.6 million.

International revenue increased by 26% year-over-year to $6.8 million. For the nine months ended September 30, international revenue increased by 49% year-over-year to $19.4 million. Sequentially, U.S. revenue increased from $26.3 million in the second quarter of 2013 to $26.5 million in the third quarter of 2013, reflecting none of the expected third quarter seasonality. While, we expected seasonality, as John mentioned, the pace of PEVAR training has been robust with both existing and new customers and is generating incremental revenues.

We are also continuing to benefit from improving sales force productivity as our reps continue to gain tenure. However, Europe revenues reflected the expected third quarter seasonality decreasing from $4.1 million in the second quarter of 2013 to $3.5 million in the third quarter of 2013. In addition, our Latin American and Japanese distributor sales were sequentially lower by 6% reflecting normal distributor purchasing patterns.

Gross margin in the third quarter of 2013 was 78% compared to 76% in the prior year. The increase in gross margin in the third quarter was primarily due to favorable product and distribution mix with a greater proportion of international revenues derived from direct sales rather than to distributors. For the nine months ended September 30 in 2012 and 2013, gross margin was stable at 76%.

Operating expenses for the third quarter of 2013 were $28.1 million compared to $27.2 million in the same period last year. For the nine months ended September 30, operating expenses were $82.7 million, compared to $74.8 million in the prior period.

Total operating expenses for the three months ended September 30, 2013, included business development cost of $1.9 million related to the company's exclusive license agreement for the Nellix polymer and a new exclusive technology patent license for expected future use. Total

operating expenses for the three months ended September 30, 2012, included $1 million related to this same exclusive license agreement for the Nellix polymer and a $5 million charge related to the company's one-time settlement agreement with Cook.

Research, development and clinical expenses in the third quarter were $7.2 million compared to $4.5 million in the third quarter of 2012. For the nine months ended September 30, research development, clinical expenses were $19.1 million compared to $16.6 million in the prior year period. The increase for the three and nine months ended September 30, 2013, was primarily due to increased clinical and regulatory expenses to support the Ventana U.S. IDE study, Nellix and Ventana study follow-up costs and regulatory costs associated with FDA and CE submissions. Excluding the one-time business development expenses, research and development expenses remain flat.

Marketing and sales expenses grew from $12.7 million in the third quarter of 2012 to $15.2 million in the third quarter of 2013, a 20% increase on a revenue increase of 25%, reflecting U.S. operating leverage offset by continued investments building our European direct sales team, variable commission cost associated with our revenue growth and an increase in non-cash stock option expense primarily associated with stock option grants for top sales performers in the U.S. and hires made in Europe. For the nine months ended September 30, marketing and sales expenses grew from $38.9 million to $47.2 million, a 21% increase on a revenue increase of 26%.

G&A expenses grew from $4.9 million in the third quarter of 2012 to $5.8 million in the third quarter of 2013. For the nine months ended September 30, G&A expenses grew from $13.8 million in 2012 to $16.4 million in the first nine months of 2013. The expense growth was driven primarily by investments in the European administrative and operations infrastructure, the federal medical device tax, which took effect January 1 of this year and growth in consulting and outside [ph] servicing (12:49) expenses associated with our general business growth. Leverage in G&A continued with a 19% increase in year-to-date expenses on a revenue increase of 26%.

Our GAAP net loss was $9 million or $0.14 per share in the third quarter of 2013, compared to a net loss of $5.9 million or $0.10 a share for the third quarter of 2012. In the current quarter, the Nellix contingent consideration liability increased by $7.6 million or $0.12 per share, which was almost entirely related to the increase in Endologix's stock price by $2.86 or 22% from the previous measurement date at June 30.

As our stock price increases and decreases on a quarterly basis, the Nellix contingent consideration will fluctuate. Therefore, we believe it is important to evaluate performance of adjusted non-GAAP income or loss, which excludes the Nellix contingent consideration and other one-time expenses, such as the $1.9 million in business development costs incurred this quarter. Therefore, in the third quarter on an adjusted non-GAAP basis, we reported net income in the third quarter of 2013 of $462,000 or $0.01 per share, compared to an adjusted loss of $0.03 per share in the third quarter of 2012. For the nine months ended September 30, GAAP net loss was $12.7 million or $0.20 per share, compared to a loss of $29.3 million or $0.49 per share in the prior period.

Adjusted non-GAAP loss excluding business development cost and Nellix consideration for the nine months ended September 30, 2013 was $5.6 million or $0.09 per share compared to a non-GAAP adjusted loss of $0.17 per share in the prior year period.

On an adjusted EBITDA basis, again, the non-GAAP measure of the adjusted net income or loss adding back non-cash charges including the Nellix contingent consideration, stock-based compensation, depreciation and amortization, business development costs and tax expense, our income in the third quarter of 2013 was $1.9 million, or $0.03 a share, compared to a loss of $322,000 or $0.01 a share in the third quarter of 2012. For the nine months ended September 30,

2013, adjusted EBITDA was $1.8 million or $0.03 per share, compared to a loss of $4.6 million or $0.08 a share lost in the prior year period.

Now, turning to the balance sheet. Accounts receivable days outstanding was 65 days at the end of the third quarter of 2013, compared to 71 days at the close of 2012 and 76 at June 30, 2013. Our DSOs decreased in the third quarter of 2013, as compared to the end of last year due to improved European collections as our operational capabilities matured. However, it is expected the days sales outstanding will continue to increase as our international business grows, as international customers often have longer payment terms and are typically slower to pay than our U.S. customers.

Inventory turnover was 1.7 turns at quarter-end compared to 1.5 turns at the end of last year in line with our expectations. We expect inventory will remain in the range of 1.5 turns despite expansion of our product offerings with continued growth of Nellix sales in Europe and introduction of AFX2 at the end of this year.

We ended the quarter with cash and cash equivalents of $49.5 million, as compared to $45.2 million in cash at the end of the second quarter. We were cash flow positive in the third quarter, primarily due to excellent cash collections and lower operating costs primarily in sales and marketing with a lull in industry shows and events during the summer months.

Now, turning to guidance, for the full year 2013, we are refining our financial guidance. Revenues are expected to be in the range of $131 million to $133 million, representing a growth of 24% to 25% from 2012. We anticipate a 2013 adjusted net loss per share, which excludes the fair value adjustment to the Nellix contingent consideration and business development expenses of $0.14 to $0.18 a share. Our expectation is that the 2013 GAAP loss per share will be $0.25 to $0.29 per share, which includes $0.11 per share of expenses related to the fair value adjustment of the Nellix contingent consideration and business development expenses we incurred in the first nine months of 2013.

We expect 2013 adjusted EBITDA, which excludes all non-cash expenses such as stock-based compensation, to be between a loss of $0.02 per share and a profit of $0.02 per share. With cash generation of $4.3 million in the third quarter, due in part to timing of collections, we are in a position to use some cash in the first quarter, but be cash flow positive for the year.

Not included in this loss per share guidance, however, are potential adverse litigation outcomes, additional fair value adjustments associated with the Nellix contingent consideration and any other possible business development transactions.

I will now turn the call back to John.

John D. McDermott, Chairman, President & Chief Executive Officer

Thanks, Shelley. We're pleased with our results for the first nine months of the year and remain confident in the long-term potential of the business. Following are our key goals for the remainder of 2013. First is to achieve our updated global revenue guidance; second, finalize and communicate our plans for Ventana; and third, obtain FDA approval for the Nellix IDE clinical study. By achieving these goals, we will continue on our path towards becoming the leading innovator in the endovascular aortic aneurysm repair.

We look forward to keeping you posted on our progress and are planning to participate in the Stephens Fall Conference in November and the Piper Healthcare and Oppenheimer Healthcare Conferences in December. In addition, we will host an Investor Meeting on November 20 in New York in conjunction with the VEITH Symposium. The Investor Meeting will include presentations

from thought-leading physicians. We look forward to seeing many of you at these conferences and our Investor Meeting.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Brooks West with Piper Jaffray.

<Q>: Hi, John. This is actually [ph] Mischa Dinerman (20:23) for Brooks. I was just wondering if you could provide any additional color or metrics around the PEVAR launch. I think last quarter you said, you had trained 80 physicians. Is there any update? And are you seeing any increased utilization as a result of the trainings yet? Thank you.

<A – John McDermott – Endologix, Inc.>: Yeah. [ph] Mischa (20:45), as I mentioned on my earlier remarks, we expect to finish the year at over 200. So, I don't know the exact number today, but I know we've got near that number scheduled between what's been done year-to-date and what's scheduled for the rest of the year. What I can tell you in terms of the productivity generally speaking when we look at the physicians who have attended the courses, our business growth in those centers is up above our global sales growth. So it continues to look like a very productive initiative for us.

<Q>: Okay. Great. Thank you.

Operator: Thank you. Our next question comes from Steve Lichtman from Oppenheimer & Company.

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

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

<Q – Steve Lichtman – Oppenheimer Securities>: John, I guess, first, if you could just talk a little bit more about what you see is the benefits of EVAS FORWARD and what we could be seeing from a data perspective over the next several years?

<A – John McDermott – Endologix, Inc.>: Yeah. So, in addition to the U.S. IDE, we've needed to gather in a controlled fashion a larger pool of data and that data will give us visibility to a wider range of anatomies, give us access to all that data and long-term follow-up, Steve. And so, we've been working now for a little while on establishing the registry and actually just did the first couple of patients this week. It will also be useful in establishing reimbursement in a couple of the European markets, namely France and Belgium, but it's primarily designed to just give us more real world experience. In terms of when you could start to see data, since we're just now starting now, you'll start to see some procedural and acute data in the second half of 2014, but of course, wouldn't expect to start seeing any one year follow-up until 2015.

<Q – Steve Lichtman – Oppenheimer Securities>: Okay. In terms of what you're seeing so far in the first 150 or so, are they being used in more sort of traditional AAAs? Or are the docs pushing it more into tougher anatomies at this point? Or what can you talk about so far in terms of the experience?

<A – John McDermott – Endologix, Inc.>: Yes. It's honestly a mix. So there are some physicians who want to just get familiar with the technology in what I would characterize as very straightforward anatomies, and there's other physicians who quickly see the utility in its ability to treat some patients that they wouldn't otherwise be able to treat. So, it's not a simple answer. I've seen a mix of complex anatomies as well as straightforward anatomies, and again, this is where the registry will be very helpful because we'll have a wide range of anatomies and we can study and evaluate the results across all those different anatomies.

<Q – Steve Lichtman – Oppenheimer Securities>: And then what about procedure time? Any sense of how long procedures are taking for Nellix?

<A – John McDermott – Endologix, Inc.>: No, we haven't really tracked it as a part of this limited market introduction. I would say generally speaking in the cases that I've been in, I would say they tend to be a little faster than a traditional EVAR, but more notably than speed I would say, they're more predictable. Because unlike most of the other EVAR devices that require kind of in vivo putting together of components and different pieces, Nellix is very straightforward. And the endobag surrounding the covered stents really deal with all the anatomical variations. So what that means is that once they size the devices, the procedure steps are relatively straightforward, and there isn't a lot of variability in the times. So, we do see physicians stacking cases and being able to treat more cases in a single day just because the procedure times are pretty predictable.

<Q – Steve Lichtman – Oppenheimer Securities>: Okay. And then just lastly, I know you mentioned you'll talk more about AFX2 next month, but just any sense of what types of things are you trying to accomplish with the next gen system in terms of ease of use or what have you? Anything generally you could provide would be helpful.

<A – John McDermott – Endologix, Inc.>: Sure. Yeah. The device is an improved version of our current aortic extension and that's the top piece of the device. So, not the piece that sits on the bifurcation, but the top piece that bridges between the bifurcated piece and just below the renal arteries. And the design has been put together based upon physician feedback to further simplify the procedure as well as provide very precise delivery accuracy. So limited number of cases so far, but the feedback's been encouraging and we'll provide greater visibility to that and timing at the VEITH Symposium.

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

Operator: Thank you. [Operator Instructions] Our next question comes from Rick Wise from Stifel, Nicolaus.

<Q – Matt Blackman – Stifel, Nicolaus & Co., Inc.>: Hi, guys. It's actually Matt Blackman here for Rick.

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

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

<Q – Matt Blackman – Stifel, Nicolaus & Co., Inc.>: Hi. So just couple of questions. Just curious on the Nellix sites, John. Maybe some qualitative comments about whether those sites were previous AFX users and more important, are you seeing any pull through of the AFX in those sites that are now doing Nellix?

<A – John McDermott – Endologix, Inc.>: Yeah, most of them were not previous AFX centers and I don't have the data right in front of me. But I know of several reports where we have started to do AFX cases in those centers where we didn't have before, specific to tight distal aortas, which is one of those anatomies that's always been a strength for AFX and once these physicians become familiar with our whole portfolio, then they'll start to pick up AFX for very specific anatomies. So, we have seen some of that.

<Q – Matt Blackman – Stifel, Nicolaus & Co., Inc.>: Yeah. Okay, great. That's helpful. And then I just want to make sure I understand the guidance, I think the midpoint of your new guidance would imply slightly less than 20% growth in the fourth quarter. Is there anything we should be sensitive to in terms of headwinds in the fourth quarter?

<A – Shelley Thunen – Endologix, Inc.>: I don't think so necessarily, but the fourth quarter, typically you lose about two to two-and-a-half weeks of the quarter due to the Christmas holidays and the Thanksgiving holidays. While there are emergency cases in AAA, most cases are scheduled somewhere around two weeks out. And so, we are expecting some of that kind of normal activity in the fourth quarter.

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

<A – John McDermott – Endologix, Inc.>: It's also – the other thing that happens in the fourth quarter is it's a reasonably busy conference quarter. So, the VEITH Meeting, which doesn't go quite a full week, is one of the most well-attended vascular meetings in the world, and so we do lose a good number of guys during most of that week.

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

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

Operator: Thank you. At this time we have no further questions. I would like to turn the call back over to John McDermott for closing comments.

John D. McDermott, Chairman, President & Chief Executive Officer

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

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

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