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

Rick A. Wise – Analyst, Stifel, Nicolaus & Co., Inc.
Brooks E. West – Analyst, Piper Jaffray & Co (Broker)
Joanne K. Wuensch – Analyst, BMO Capital Markets (United States)
Jeffrey Chu – Analyst, Canaccord Genuity, Inc.
Steven M. Lichtman – Analyst, Oppenheimer & Co., Inc.
Chris Cooley – Analyst, Stephens, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Endologix, Inc. Fourth Quarter 2013 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]

I would now like to hand the conference over to your host, Zack Kubow of The Ruth Group. Thank you. 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, 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, February 27, 2014. 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. 2013 was another record year for Endologix. Our sales grew by 25% over 2012 and we made substantial progress in our new product pipeline. I'll begin the call today with a quick overview of the sales results for last year followed by our top-line guidance for 2014 and then an update on our new products and growth initiatives.

Next, I'll turn the call over to our CFO, Shelley Thunen, who will provide a more detailed review of our 2013 financial performance and 2014 guidance. After that, I'll come back on to review our key goals for 2014 and then we'll open it up for questions.

Global revenue for the fourth quarter was $35.2 million, up 21% compared to the prior year. Sales were up 8% in the U.S. and 69% in our international markets. The U.S. growth was soft compared to historical levels, but still above the U.S. market growth rate, which we estimate to be in the 4% to 5% range. Significant growth outside the U.S. was due to the effectiveness of our direct sales and clinical team in Europe and strong orders from our international distributors.

Importantly, the European launch of Nellix remains on track with our expectations and there continues to be significant interest in this groundbreaking new technology. Although we're pleased with our overall global sales results in the fourth quarter of 2013, the slowdown in the U.S. was disappointing and continued through January.

We attribute the softness to a pullback from some of the centers that didn't get selected for the Nellix IDE trial, the announced delay in the Ventana Program and increased competitive activity. We've seen improvement in our recent sales trends due to the mid-February launch of the VELA Proximal Endograft.

January was so soft that we now expect the first quarter of 2014 to be sequentially down from the fourth quarter of 2013. We expect the second quarter of 2014 to be sequentially up over the first quarter, but as a result of our sluggish start to this year in the U.S., we're forecasting full-year 2014 global sales in the range of $146 million to $152 million or 11% to 15% growth. This represents growth of 6% to 10% in the United States and 26% to 30% in our international markets. While these growth numbers are less than previously expected, they still represent growth considerably above the market and net increase in the overall infrarenal market share.

To achieve these forecasted sales, we'll be focusing on four key initiatives in 2014. First is the launch of VELA, second is the continuation of PEVAR Physician Training Programs in the U.S., third is the continued rollout of the Nellix outside the United States and fourth is the continued expansion of our global sales force. Longer term, we plan to resume revenue growth of 20% or better driven by our innovative new product pipeline and geographic expansion.

Regarding VELA, we announced in the U.S. Commercial introduction at the iCON meeting on February 10. Dr. Julio Rodriguez successfully treated a patient with a ruptured abdominal aortic aneurysm with VELA and also performed a live case demonstration. The U.S. physician feedback on VELA has been very positive so far and we expect to receive our CE Mark and launch in Europe in the third quarter of this year.

Now turning to Nellix. We're very pleased with the limited market introduction outside the U.S. and remain bullish on the commercial prospects for the technology. We continue to believe that a gradual rollout of this new technology is the best approach to provide thorough physician training while we build our clinical support in manufacturing capacity. Our early experiences confirmed our belief that Nellix seals the entire aneurysm sac, provides a very predictable procedure and the ability to treat a wide range of aortic anatomies.

Over the past several months we've been able to further refine case planning, device-sizing procedure steps and training requirements. We have also identified a few major device enhancements that we'll integrate into the product later this year. Our physician partners have been instrumental in providing us with valuable feedback and we are grateful for their continued collaboration in the development and commercialization of this important new technology. To-date we have completed about 450 commercial Nellix procedures and the physician interest remains very high.

In October of last year, we initiated 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. As of today, we have enrolled 50 patients from five centers and expect to get the remaining centers up and running over the next few months. 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 of enrollment of the Global Registry and expect to start having clinical data presented this fall.

For the EVAS FORWARD-IDE, we received FDA approval to begin the pivotal clinical trial at the end of 2013. The study will be a prospective single arm registry and enroll approximately 180 patients in 30 centers. As of today, we have six patients enrolled from 10 centers and expect to add the remaining centers over the next few months.

Based upon our current assumptions and timelines, we expect to achieve PMA approval in the U.S. by the end 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.

Another growth initiative for us in 2014 will be the continuation of our PEVAR Physician Training courses. Last year, we trained over 230 physicians in the United States and we already have a full training schedule planned for 2014. To provide additional support for this program, we're pleased to announce the final publication of the PEVAR randomized multi-center clinical study that was just released in the Journal of Vascular Surgery. Highlights of the results include a 30-minute faster procedure time, less blood loss, fewer complications and a shorter recovery time.

Lastly, to continue our physician outreach in clinical support, during 2014 we're planning to add additional sales representatives and clinical specialists. We currently have a total of 85 reps and clinical specialists in the U.S. and 25 in Europe with plans to increase to 90 in the United States and 32 in Europe by the end of 2014, an increase of 10% for the year. These growth and clinical initiatives are expected to support our near-term performance objectives and position us for longer-term market leadership.

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

Shelley B. Thunen, Chief Financial Officer

Good afternoon and thank you, John. Today we are pleased to report our financial results and key metrics for the fourth quarter and full year 2013 as well as our 2014 guidance. Total revenue for the fourth quarter increased by 21% year-over-year to $35.2 million. For the full year 2013, total revenue increased by 25% year-over-year to $132.3 million. Domestic revenue in the fourth quarter increased by 8% year-over-year to $25.4 million. For the full year 2013 domestic revenue increased by 18% year-over-year to $102.9 million.

International revenue increased by 69% year-over-year in the fourth quarter to $9.8 million. For the full year 2013, international revenue increased by 56% year-over-year to $29.3 million. Sequentially, U.S. revenues of $25.4 million in the fourth quarter of 2013 was down 4% compared to a strong third quarter of $26.5 million. As John mentioned, at the end of December U.S. revenues were impacted by a reduction in procedures from potential Nellix IDE sites not selected for the trial, Ventana sites impacted by our decision to delay clinical work to 2015 in order to make product enhancements and competitive pressure.

In Europe revenues increased sequentially from $3.5 million in the third quarter of 2013 to $5.2 million in the fourth quarter of 2013 due to Nellix adoption in centers opened earlier in the year. To-

date we have performed around 450 Nellix commercial procedures, up approximately 300 procedures from the just over 150 procedures at the end of the third quarter of 2013.

In addition, our Latin America and Japanese distributor sales were sequentially higher by 46%, reflecting customary and varying purchasing and shipping volumes to our Japanese distributor and preparation by our Latin American distributors due to long customs lead times, often up to four months as Latin America prepares for cases that are expected to be accelerated prior to the World Cup.

Gross margin in the fourth quarter of 2013 was 74% compared to 76% in the prior year. The main driver of gross margin relative to the prior year period was the higher mix of international sales which have lower gross margin due to lower average selling prices and Nellix sales which have a higher cost than AFX. For the full year 2013, gross margin was 75% compared to gross margin of 76% in 2012.

Operating expenses for the fourth quarter of 2013 were $27.2 million compared to $27.8 million in the same period last year. For the full year 2013, operating expenses were $109.9 million compared to $102.6 million in the prior year. Total operating expenses for the full year 2013 included research and development costs of $1.9 million related to the company's exclusive license for the Nellix polymer and an exclusive technology patent license.

Total operating expenses for the full year 2012 included a $5 million charge related to the company's previously announced settlement agreement with Cook and $1 million for the Nellix license agreement for polymer. The increase in operating expenses during 2013 as compared to 2012 were primarily for research and development, clinical and regulatory expenses for the Ventana clinical trial, Ventana and Nellix clinical follow-up and for the continued product improvements to Nellix and the AFX VELA Proximal Extension, increased sales and marketing costs, primarily for variable compensation and travel in the U.S. and increased investments in the European sales team and European infrastructure.

Despite increased investments in Europe sales and marketing, for the 2013 year sales and marketing expenses increased 18% on a 25% growth and G&A expenses increased 6% excluding the 2012 Cook settlement cost on 25% growth, demonstrating the leverage in the P&L.

Our GAAP net loss was $3.4 million or $0.05 per share in the fourth quarter of 2013 compared to a net loss of $6.5 million or $0.11 per share for the fourth quarter of 2012. In the current quarter, the Nellix contingent consideration liability increased by $3.3 million or $0.05 a share, which was almost entirely related to the increase in Endologix stock price from the previous measurement date of September 30. As the stock price increases and decreases on a quarterly basis, the Nellix contingent consideration will fluctuate. Therefore, we believe it is important to evaluate operating performance on non-GAAP measurements.

On an adjusted EBITDA basis, a 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, interest expense, tax expense and foreign currency re-measurement gains and losses, our income in the fourth quarter of 2013 was $1.3 million or $0.02 per share income compared to a loss of $2.3 million or $0.04 per share in the fourth quarter of 2012. For the full year 2013, adjusted EBITDA was $3.1 million or $0.05 per share income compared to a loss of $6.9 million or $0.11 a share loss in the prior period.

Now turning to the balance sheet, accounts receivable days outstanding was 65 days at the end of the fourth quarter of 2013 compared to 71 days at the close of 2012 and 65 days at September 30. Our DSOs declined through 2013 despite increased international revenues, which typically have longer terms and collection times due to improved European collection as our operational capabilities have matured over the year.

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

We ended the quarter with cash and cash equivalents and investments of $126.5 million as compared to $49.5 million in cash and cash equivalents at the end of the third quarter. This includes net proceeds of $75.2 million from our December convertible debt offering net of expenses. Excluding the net convertible debt rates, cash increased $6.2 million during 2013, reflecting positive EBITDA and the impact of good balance sheet management of accounts receivables and inventory.

Now turning to guidance. For the full year 2014 we expect revenue to be in the range of $146 million to $152 million, an 11% to 15% increase over 2013. We expect U.S. revenues to increase 6% to 10% and international revenues to increase 26% to 30%. As John mentioned, we expect the first quarter to be down sequentially from the fourth quarter of 2013, primarily due to softer U.S. revenues, with sequential growth in the second quarter and year-over-year growth as compared to the second quarter of 2013.

We expect gross margins to be in the range of 73% to 75% as compared to the 75% achieved in 2013 as international revenues will grow at a faster rate than U.S. revenues. As mentioned before, gross margins internationally are lower than in the U.S. as average selling prices are lower and our use of distributors in certain international markets, primarily Japan and Latin America. In addition, the Nellix product is currently more expensive to produce than our AFX product line.

On the bottom line, we project 2014 GAAP loss between $0.31 and $0.44 per share. This net loss takes into account the increasing investments in research and development and clinical studies, including the Nellix IDE clinical trial in the U.S. and the Nellix EVAS FORWARD Registry outside the U.S., as well as continued product enhancements, including Nellix product enhancements that John mentioned in his remarks.

Sales and marketing will increase in absolute dollars about the same as it did in 2013, reflecting leverage but recognizing the resources we will invest in our personnel and physician training as we roll out Nellix to full commercial launch by the end of the year in Europe and limited launch in other international markets. It also takes into account estimated non-cash expenses from stock-based compensation of $8 million to $9 million and $5.7 million or $0.09 a share in convertible debt interest, of which $3.7 million or $0.06 per share is non-cash.

Accounting rules related to the new convertible debt notes require that we record non-cash interest expense over their five-year lives, which will be excluded from our non-GAAP earnings and EBITDA result. The non-cash interest expense along with a coupon interest expense and amortization of issuance fees associated with the new note will be recorded in other income and expense line on the P&L.

On an adjusted EBITDA basis, which excludes the non-cash expenses such as depreciation, amortization, stock-based compensation, interest and tax expense, we expect to have a net loss of $0.04 to $0.17 per share for the year. Not included in this loss per guidance, however, are potential adverse litigation outcomes, fair value adjustments associated with the Nellix contingent consideration and the effects of possible business development transactions. We expect to end 2014 with approximately $101 million to $106 million in cash, using between $20 million to $25 million in 2014.

2014 cash use includes approximately $12 million in capital expenditures, primarily for leasehold improvements and equipment for our new facility in Irvine to support our current and expected

revenues and increase in use of working capital for accounts receivable and inventories consistent with our growth and the net loss for the year. With the remaining cash of over $100 million at year-end, we believe we have sufficient cash resources to continue to fund the business in future years.

I'll now turn the call back to John.

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

Thanks, Shelley. We're pleased with our overall results and remain confident in the long-term potential of our business. Following are our key goals and priorities for 2014. First is to achieve our financial guidance. While we recognize that some of you will be disappointed with our forecast for this year, be assured that we endeavor to get back to 20% top-line growth as soon as practical. Second is to drive adoption of our new VELA Proximal Endograft. Third, continue expanding the PEVAR market through our physician training programs. Fourth, continue the gradual commercial rollout of Nellix. And fifth is to complete the enrollment in the EVAS FORWARD-IDE and EVAS FORWARD – Global Registry. By achieving these goals, we'll continue on our path toward becoming the leading innovator in endovascular aortic aneurysm repair.

We look forward to keeping you posted on our progress and are planning to participate in the ROTH and BTIG Conferences in March. We look forward to seeing many of you at these conferences.

With that, we'll open it 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] Our first question comes from Rick Wise from Stifel.

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: Hi, everybody.

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

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

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: Can you hear me clear? Good. Couple of things. I don't want to get petty about it, but since you were kind enough to comment about January, any sense as to whether February trends were back on plan, John? Are you seeing any recovery or getting back to normal there yet?

<A – John McDermott – Endologix, Inc.>: Yeah, I thought I had made that comment. But...

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: I missed it. Sorry.

<A – John McDermott – Endologix, Inc.>: Yeah, no, that's okay. February much better.

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: Okay.

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

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: And I'll just run a couple of quick questions. The counts that shifted volume away after the clinical trial issues you highlighted, what can you do to turn those around and get those back on track? How quickly can you do that?

<A – John McDermott – Endologix, Inc.>: Yeah, so there's a few things, Rick, as I commented on. And we've broken this down in a good bit of detail, actually down to the procedure and rep level. So if you look at our run rate, we're off about one case per month per rep from where we expected to be at this time. So 12 cases per territory per year. Based on our analysis and the assumptions at a physician and hospital level, this breaks down to about two cases related to the Nellix clinical trial activity, four cases for Ventana and six cases to competitive activity. Included in the six cases to the competitive activity, we have three open territories which effectively lowers the true competitive impact about four cases or one case per quarter per rep.

Your question, what do you do to get those back, in the cases related to Ventana, we think those will come back over time as physicians work off their 15 case minimum with Cook. So some physicians who were waiting for Ventana when we announced the postponement decided they would go ahead and learn the Cook system. To do that, Cook requires them to do 15 infrarenal cases. So some of those doctors will be coming off of those infrarenal case requirements here in the near term.

We also think we'll get some renewed interest and pull through with Ventana when we announce our plans to re-enter clinical trials. For those disappointed customers related to the Nellix IDE, we know they're still very interested in the technology. So we think we'll have an opportunity to get them back as we get, at a minimum, get closer to the commercial phase of that device. And for those cases that we think might have been picked off by the competition, we are actively targeting those accounts for VELA and the PEVAR training.

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: Okay. Two other quick ones. On gross margins, you were highlighting the gross margin outlook for the year, but you did 74% gross margin in the

fourth quarter – I'm sorry, 73%, 75% kind of guidance. It sounds like you're making progress actually on the Nellix COGS. Is that fair? It's like I think it's less impact than I might have thought.

<A – Shelley Thunen – Endologix, Inc.>: We are making progress. As the volume goes up, obviously the costs will go down as well but we're also guiding, cognizant of the fact that the ASPs outside the U.S. are lower than in the U.S., but definitely we're making a little progress in terms of the Nellix COGS.

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: Okay. Last, real quick. My rough math is if you're down $1 million or $2 million in the first quarter, sequentially up a tad in revenues in the second quarter, it sounds like a first half, Shelley, up something like 7% or 8%, this is all back of the envelope. And then the second half you could get back to sort of a mid-teens or better kind of year-over-year growth. Is that the right way to think about it?

<A – Shelley Thunen – Endologix, Inc.>: Certainly we're impacted in the first half much more than we are in the second half. If we look at where we are right now, what we're projecting is the run rate is lower in the U.S. as we work our way back. And so we do believe that the second quarter will be sequentially higher than the first and also higher than the comparable quarter in 2013. But it is true that the growth rates will accelerate in the second half.

<Q – Rick Wise – Stifel, Nicolaus & Co., Inc.>: Thank you very much.

Operator: Thank you. Our next question comes from Brooks West from Piper Jaffray.

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

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

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

<Q – Brooks West – Piper Jaffray & Co (Broker)>: Hi, John, Shelley. Shelley, I want to go back to your Nellix procedure comment for Q4. What did you say? How many procedures did you do in Q4 or could you give us the Nellix revenue in Q4?

<A – Shelley Thunen – Endologix, Inc.>: We aren't giving the revenue numbers, but we've been tracking for all of you our Nellix procedures. And we kind of talk to-date when we're talking about the number of procedures, so it's not precisely at the end of the quarter. But on our third quarter call, which was a tiny bit into the fourth quarter, we had done about 150 commercial procedures. And that would be in Europe and New Zealand where the product is approved.

Right now, but not quite this second, end of the fourth quarter and going a little bit into January we had done about 450, meaning we have done about 300 Nellix cases during that fourth quarter period, comparable period. While we don't give revenues, we do kind of guide on the guidance range that in Europe, ASPs range from $10,000 to $11,000 per procedure. We're trying to get a little bit more for Nellix. Still a little early to tell that, but we do think that probably we will get some ASP uplift in Nellix. And we get a little higher pricing in New Zealand, which is comparable to the U.S.

<Q – Brooks West – Piper Jaffray & Co (Broker)>: And you're still, John, you're still progressing to a full launch for Nellix or how do we think about kind of the cadence or the acceleration of that launch?

<A – John McDermott – Endologix, Inc.>: The honest truth is we can't make enough and that's probably a good thing because we're still building our sales team. The demand clearly outstrips our

capacity, we knew that. That's not a surprise. And we are still making minor iterations to the product and we need our new facility to come online in the second half to really get us into what I would say a completely unconstrained commercial launch.

So we're continuing to gradually add centers and be able to really focus on bringing our team and the physicians up to speed. But I wouldn't say we'll be in a completely wide open commercial state until certainly the latter part of this year.

<Q – Brooks West – Piper Jaffray & Co (Broker)>: So, is the 300 procedures per quarter given the manufacturing constraint, I mean, is that a maximum for kind of the first half of this year? Is that the way to think about it?

<A – John McDermott – Endologix, Inc.>: Maximum, you mean in terms of manufacturing capacity?

<Q – Brooks West – Piper Jaffray & Co (Broker)>: Well, I mean, if you're manufacturing constrained at this point and you did 300 roughly over the last three months, is that kind of a max run rate right now until the new production comes online?

<A – John McDermott – Endologix, Inc.>: No, we've got more capacity than that, so we're not fixed at that level. But I just wouldn't want it to be characterized that we're in a completely open launch mode. We're not. There's a ton of opportunity with Nellix.

<Q – Brooks West – Piper Jaffray & Co (Broker)>: Okay. And then let me just ask one more on the U.S. guidance, if I could. And maybe going back to Q4, 8% growth in the U.S. When did you start communicating with people about the IDE studies? Did this start in Q4? I mean, you got the IDE in late January. I'm trying to put my finger on kind of when the downturn happened. And then just a little bit more help kind of thinking about how you get back to be it high teens and this eventual goal of getting back to 20% growth overall?

<A – John McDermott – Endologix, Inc.>: Yeah, so we started actually, Brooks, to see to some softness in the second half of December and thought it was primarily seasonal, but then it continued through January. And as we dug into it more deeply, we identified the topics I just covered. As a reminder, we announced at the VEITH Symposium in November. That's when we had our first Investigator Meeting. So that was the actual point in time where the physicians who were vying for spots in the Nellix trial knew who was in and who was not in. That was also the point in time where we communicated the postponement of Ventana. So, again, we started to see some softness in the second half of December.

Specifically what are the growth drivers? In the near-term, we're going to be very focused on VELA. In the U.S., the feedback has been positive. I highlighted a couple of anecdotes from the iCON meeting, but I can tell you that the field is doing extremely well with the product. PEVAR, we saw 30%, over 30% increase in the accounts that got training with PEVAR last year. So that will be an important continued initiative for us. And we plan to keep adding, although modestly in the U.S., reps and clinicals.

In 2015, in the United States we expect to introduce another version of our AFX device for what we'll call right now AFX3; that's a new bifurcated system. And then by the end of 2016 we hope to introduce Nellix in the United States. So that gives you a roadmap to growth in the United States.

Outside the U.S. we'll continue to rollout Nellix. And as I pointed out, we probably won't get into a real open launch phase until near the end of this year, as we build our team and our manufacturing capacity, plus we've got significant growth opportunities in South America and Asia. So we still see a very clear path at 20%. I can't give you a specific timeframe, but we'll get more transparent about that as we get deeper into the year.

<Q – Brooks West – Piper Jaffray & Co (Broker)>: Great. I'll let others jump in. Thank you.

Operator: Thank you. Our next question comes from Joanne Wuensch from BMO Capital Markets.

<Q – Joanne Wuensch – BMO Capital Markets (United States)>: Thank you very much for taking the questions. Can you please talk about your sales force and the stability there? Are you losing any sales reps at this stage?

<A – John McDermott – Endologix, Inc.>: No, Joanne. We haven't had much turnover. As in the past, the turnover has been relatively limited. I think for full year 2013, our full year turnover remained at less than 10%. So there's always some level of turn, but I don't think there's any concern relative to that. We've got a good team, they're stable and they see the growth opportunity.

<Q – Joanne Wuensch – BMO Capital Markets (United States)>: And one of the things that's going back and forth amongst all the emails, phone calls in my office has to do with the commentary regarding the competitive landscape. Can you talk a little bit about that and what you're seeing out there? Thank you.

<A – John McDermott – Endologix, Inc.>: Sure. Well, I think one thing that's obvious is we're now on the radar screen. We've enjoyed the last few years being able to capture market share without anybody really standing in our way. And clearly we've got the attention now. People see what's happening and the share we're capturing in Europe with thought leaders and I think they can translate that to what that could represent for share capture in the United States as well. So we're on the radar screen.

If you look at just the number of reps in the United States between the folks that Lombard are hiring and the folks that TriVascular are hiring, you've probably got 70, 75 new EVAR reps in the marketplace that weren't there a year ago. I wouldn't say they're doing anything really unique competitively but there is just more competitive activity and more people vying for procedures. That being said, we still feel like we've got a very unique product portfolio and certainly the deepest portfolio given the AFX platform together with Nellix and so we see the growth prospects to be very strong.

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

Operator: Thank you. [Operator Instructions] Our next question comes from Jason Mills from Canaccord Genuity.

<Q – Jeff Chu – Canaccord Genuity, Inc.>: Hi, guys. This is actually Jeff Chu filling in for Jason. Thanks for taking the questions. I was wondering if you could talk about the operating profile of your business. I know you've talked a lot about focusing on the top-line growth for 2014. But your margins, while they've come down a bit during the quarter, are still quite good, at least your gross margins are quite good. Can you maybe talk about how you're thinking about the P&L leverage as you try to reaccelerate growth on the top line?

<A – Shelley Thunen – Endologix, Inc.>: I'd love John to talk because I'd like him to walk back a little bit in terms of kind of the market opportunity that we have with our products and the investments we're making in R&D and clinical which will put our thought process about spending and operating expense and a little bit of that, and then I'll come back on the line and talk a little bit more about numbers or range of numbers.

<A – John McDermott – Endologix, Inc.>: Yeah, so, Jeff, as we talked about at the Investor Meeting in November at VEITH, we have as a strategy adopted a two platform approach to the marketplace with both EVAR and the EVAS solution. And so we're resourcing that accordingly. And

as we talked about, we've got the IDE clinical trial running with Nellix as well as the 300 patient Global Registry.

We probably won't start additional Nellix studies by the end of this year, but we certainly will next year as it relates to broadening indications. So we've got an active level of investments on the Nellix side. Plus, not only is there the generation of Nellix today, we're already actively working on the Nellix generation for tomorrow. Plus we just launched VELA and are busy working on a new version of what we call AFX3. So that combined with additions to the sales forces and opportunities to expand geographically, we remain confident in the growth profile and so are investing accordingly and that's what you see in the OpEx.

<A – Shelley Thunen – Endologix, Inc.>: And then coming back just a little bit more to guidance as we talked about it in terms of our bottom line. In terms of sales and marketing, what I did say is that we had about an 18% increase in 2013 on a 25% increase in revenue and that our 2014 sales and marketing expenses would increase about at the same absolute value as they did between 2012 and 2013, which means as a percent of the total, though, it will go down a bit.

But we're still very cognizant of the effect Nellix is having in Europe, the demand. And so we are continuing to invest in our European infrastructure, both for training for own personnel, adding clinical and sales reps and training physicians. And that will be a big initiative in 2012 that we will need to do in order to get to full commercial launch toward the end of the year.

In terms of R&D and clinical, I think John talked about the initiatives in there. Definitely spending will be up in R&D and clinical with two, with the U.S. IDE trial, a Registry of 300 patients outside the U.S., continued development in our product lines, Nellix and AFX. We remain very committed to the continuous improvements that we've demonstrated with the AFX product line. And then as we think about sales and marketing, it was virtually flat from 2012 to 2013. So we'll resume some of our infrastructure commitment in 2014 in order to leverage our growth, both in Europe as well as in the U.S. So those are kind of the three big factors driving OpEx and the investments that we have decided to make in 2014.

<Q – Jeff Chu – Canaccord Genuity, Inc.>: Great. Thanks for taking the question. I'll get back in queue.

<A – Shelley Thunen – Endologix, Inc.>: Thank you.

Operator: Thank you. Our next question comes from Steven Lichtman from Oppenheimer.

<Q – Steve Lichtman – Oppenheimer & Co., Inc.>: Thanks. Hi, guys. John, just a little bit more color on what you're referring to in terms of improvements in February. You laid out several different factors that impacted you in December and January. You said some of those things will alleviate during the year, but you also talked about February being much better. So what is different about February than January in your view?

<A – John McDermott – Endologix, Inc.>: Yeah, one of the things that we didn't spend a lot of time talking about here but is worth mentioning is we're queued up in the very early part of the year to launch VELA. And in fact, we had started to preview VELA at the VEITH meeting and trained our team very early in January for the launch of VELA. And unfortunately, ended up with a delay from the Agency and didn't get approval till mid-February. So we found ourselves in a little bit of an air pocket. Everybody was excited about VELA, wanting to do VELA procedures, sales force trained on VELA, docs wanting to do it and we didn't have it.

When we go back and dissect the impact on that, Steve, that was about 100 case impact. So that was a major contributor to the January phenomenon. That's why when we talk about a higher level of confidence into February, that certainly contributes to that.

<Q – Steve Lichtman – Oppenheimer & Co., Inc.>: So when you look at first quarter overall, you're talking about it being down from fourth. Can you give us some sort of sense of magnitude? I mean, are you anticipating growth year-over-year in the first quarter or is that going to be relatively flat in the first quarter?

<A – Shelley Thunen – Endologix, Inc.>: So this is Shelley. Without getting too specific, it will be down from the fourth quarter of 2013, but we expect it to be slightly up from Q1 of 2013.

<Q – Steve Lichtman – Oppenheimer & Co., Inc.>: Okay. And then internationally in the fourth quarter, how much was distributor based that I guess seemingly is lumpy and maybe not – we should not be building that in as a trend into the first quarter?

<A – Shelley Thunen – Endologix, Inc.>: Yeah, what we saw in 2012 is it typically is a little higher in the fourth quarter overall. And obviously we break those numbers out. But Japan tends to be a little higher in the fourth quarter. And so what you see is rest of world, which is primarily Latin America and Japan, and that was as a percent of the total in the fourth quarter about 13%. And that's a little higher than it was in the previous quarters, because both Latin America as well as Japan turned out to be higher. That's a little unusual to see both of them go up in a quarter.

<Q – Steve Lichtman – Oppenheimer & Co., Inc.>: Okay. And then lastly, Shelley, just to make sure apples-to-apples on the guidance on the bottom line, when you guys talk about the GAAP loss of negative $0.31 to $0.44, is that sort of apples-to-apples with the zero from this quarter? In other words, you're backing out the contingent for Nellix? Is that sort of an apples-to-apples metric?

<A – Shelley Thunen – Endologix, Inc.>: Yeah, that always kind of is confusing. If you look at, kind of, the numbers and you think about this, in the fourth quarter we had about zero in the GAAP, right, because you have to take out the contingent liability. We don't put contingent liability in our guidance at all. We assume that the stock price remains flat.

<Q – Steve Lichtman – Oppenheimer & Co., Inc.>: Right. So those are equivalent.

<A – Shelley Thunen – Endologix, Inc.>: Yes, they are equivalent.

<Q – Steve Lichtman – Oppenheimer & Co., Inc.>: And what do you anticipate in terms of R&D? I mean, you were very specific on SG&A for this year, but what about R&D increase?

<A – Shelley Thunen – Endologix, Inc.>: That will definitely increase. Both R&D and clinical definitely increase from 2013 to 2014.

<Q – Steve Lichtman – Oppenheimer & Co., Inc.>: Okay.

<A – Shelley Thunen – Endologix, Inc.>: And that's where a good piece of the increased investments will be between the two years.

<Q – Steve Lichtman – Oppenheimer & Co., Inc.>: Okay. All right. Thanks, guys.

Operator: Thank you. Our next question comes from [ph] Karosh Sada (44:00) from Stephens, Inc.

<Q – Chris Cooley – Stephens, Inc.>: Good afternoon, John and Shelley. It's actually Chris. Can you hear me okay?

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

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

<Q – Chris Cooley – Stephens, Inc.>: Hey, thanks. I apologize, I'm hopping between a couple calls here this evening. I just want to see if you can maybe give us a little bit more clarity. I think you mentioned a number of these centers that you saw volume decline here quarter to-date that didn't get pick, obviously, to be a trial site. Could you maybe characterize how you're seeing that mix a little bit better now? I mean, are these centers that have gone to zero? Are these facilities that are now lower volume than they were? I'm just trying to get a better understanding kind of about that dynamic. And I just have one follow-up. Thank you.

<A – John McDermott – Endologix, Inc.>: Yeah, Chris. There's a little bit of everything. But there are certainly several accounts that we're working hard to earn a spot that have just stopped using, at least temporarily. We have every intention of getting them back. They're now – they've got some familiarity with the system so we think we can earn that business back. But I would say there are situations where physicians were using us, are not entirely. And a mix of others who are just down and everything in between. There isn't just one variety of that impact. The good news, again, as I pointed out, is in both of those cases, the Nellix – we know those guys are still very interested in Nellix and people certainly want to be positioned with Endologix to be in the queue when that device becomes available commercially. So although they might be a little upset right now, we think they'll join the family again.

For those Ventana accounts, the message is consistent from all those accounts. We'd rather use Ventana and we can't wait for it to come back. In the meantime, we're going to use Cook. But as soon as we can get aligned back with a company on Ventana, we're anxious to pick that volume up. But they had to do 15 infrarenal cases just to get into the training program. So I see that more as a transitional issue than a long-term account loss.

<Q – Chris Cooley – Stephens, Inc.>: Understood. I appreciate the color. And then just from a competitive dynamic, I know you made a comment here about competitive rep hiring to the process. Just a little bit curious what you're seeing in the end markets as one of those competitors has been available here in the U.S. for a while now under an HDE and then the other, obviously a little bit newer but for a more specific indication. Has that competitive dynamic heightened you would say quarter-to-date or do you think it's just a function now of better coverage by the competition? I'm just trying to get an understanding if there's a physician sentiment shift here or if it's sales activity?

<A – John McDermott – Endologix, Inc.>: It may be a little bit of both, Chris. Hard to be really precise with the response. They have more people now. So there is just in terms of feet on the street, and we're talking about TriVascular and Lombard.

From what we see, first of all, we don't see a lot of cases being done by Lombard at this point in time. And it seems that their sales team is still more in a bit of a training phase. TriVascular is much more in a commercial phase. For the most part, the feedback we're getting in those accounts where we have had physicians trialing the device, we're not getting a lot of feedback that we've lost accounts. There are a handful of accounts that we share now because they're using some of our doctors to do some training, so that has an impact.

But, again, on a macro level, those impacts have been relatively modest so far. I would say most of the impact is still what I would characterize as trialing, at least for us. And that's why we remain, again, bullish there with our prospects with VELA.

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

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

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

Okay. Well, thank you. I'd like to just thank everyone for joining the call this afternoon and for your interest in Endologix. We look forward to seeing you at the upcoming conferences and providing you with further updates. 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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