PARTICIPANTS

Corporate Participants

John D. McDermott – President, Chief Executive Officer & Director
Robert John Krist – Chief Financial Officer, Secretary & CAO

Other Participants

Duane Nash – Analyst, Wedbush Securities, Inc.
Steve M. Lichtman – Analyst, Oppenheimer Securities
Chris Cooley – Analyst, Stephens, Inc.
Marie Yoko Thibault – Analyst, Lazard Capital Markets LLC
John M. Putnam – Analyst, Capstone Investments

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Endologix, Incorporated Third Quarter 2011 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, [ph] Zack Kubow (0:24) of The Ruth Group Investor Relations. Thank you, sir. You may begin.

Unverified Participant

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

Before we begin, I would like to caution listeners that comments made by management during this conference call will include forward-looking statements within the meaning of the 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 27, 2011. 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 it over to John McDermott.

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

Thanks [ph] Zack (1:43) and welcome everyone to today's call. We achieved several important milestones during the third quarter as we continued to gain market share. Global revenue was up 25% to a record $22.3 million, led by 33% year-over-year and 22% sequential growth in the U.S. Our strong results were driven by the launch of AFX in the second half of August. Many of our

customers and several new Endologix users were eagerly awaiting the opportunity to try our new AFX Endovascular AAA System and the feedback has been positive.

In particular, physicians like the low profile delivery system and our STRATA graft material. We fully transitioned our U.S. sales customer base to AFX during the quarter and continue to be only company that offers an endovascular graft with the clinical advantages of anatomical fixation. Based upon the strong quarter and year-to-date results, we're increasing our full-year revenue guidance to $82 million to $84 million, which represents 22% to 25% annual growth.

Turning now to our U.S. sales force, we ended the quarter with a total of 71 reps and clinical specialists. This is our first year adding clinical specialists and the early results are very encouraging. So we plan to keep gradually adding more over time. In addition to supporting reps, they get double booked with cases. Several of the clinical specialists will provide support for our upcoming Ventana and Nellix clinical trials. We plan to finish 2011 with at least 72 reps and clinical specialists and we expect to increase that to up around 80 by the end of 2012.

Outside the U.S., we completed the transition of our European distribution agreement with LeMaitre Vascular and began working directly with European customers on September 1. We're actively recruiting, training and building the team to support our current customers and prepare for the European launches of AFX, Nellix and Ventana in 2011.

Turning to our new product pipeline, we continue to make good progress on all programs. First, we're still on track to complete enrolment in the PEVAR clinical trial by the end of this year. Second, we have 20 out of the 30 patients enrolled in the Ventana international clinical trial. Third, we have a conditional IDE approval for Ventana. And last, we're still on track to submit our E.U. regulatory submission for Nellix by the end of this year. Combined with AFX, these new products will give Endologix a line-up of innovative market expanding devices that will enhance our ability to gain market share and be the leader in endovascular aneurysm repair.

In Europe, we expect to launch AFX in the first quarter of 2012, and then pending CE Mark approval, we will start with a very limited market introduction of Nellix in mid 2012. We plan to move very deliberately and limit the number of centers in order to focus on good outcomes and refining all aspects of the procedure. We'll probably stay in a limited market release phase through the balance of 2012 and then look at opening it up in 2013. For Ventana, we hope to gain CE approval in the fall and begin a limited rollout in selected centers, again, focusing on clinical outcomes and building one good customer at a time.

In the U.S., we expect to keep growing with a full-year of AFX sales in 2012 and hope to receive the percutaneous indication by the end of next year, which would position Endologix as the only EVAR company that can promote and train the percutaneous technique. We continue to be very enthusiastic about our product pipeline and are encouraged by the feedback we are receiving from some physicians. Next month, we'll highlight the pipeline at the Annual VEITH Conference in New York, including presentations on AFX, PEVAR, Nellix and Ventana. We also expect to have new articles published over the next year, and just recently had an AFX initial case experience published in Endovascular Today.

Before turning the call over to Bob, I want to provide a brief update on our company's – on the company's patent litigation activities. We recently signed a Cross License Agreement with Bard Peripheral Vascular that ends the patent dispute. Well, we always felt we had a strong case of non-infringement, we view this agreement as a positive and that it will reduce our legal fees and ultimately any uncertainty. The terms of the Cross License with Bard are confidential. Regarding the Cook litigation, in August, the judge issued a Markman Ruling, which we feel provides a favorable claim construction and we are preparing for the trial that will likely take place in the fall of 2012.

Now, I'll turn the call over to Bob for his financial review. Bob?

Robert John Krist, Chief Financial Officer, Secretary & CAO

Thank you, John. Good afternoon to all. Today, I will provide a brief overview of our financial results and key metrics for the third quarter 2011.

As John mentioned, total revenue in the third quarter increased by 25% year-over-year to $22.3 million, domestic revenue in the third quarter increased by 33% year-over-year to $20.3 million and was up by 22% sequentially from the second quarter. Domestic growth was driven by the mid-quarter launch of AFX and the addition of five new sales territories on average relative to the prior year.

The international business was down on a year-over-year and sequential basis as a result of the early termination with LeMaitre. We recorded no sales to LeMaitre in July and August, and on September 1, we transitioned to direct sales and began recording initial revenue from our direct European customers.

Gross margin in the quarter was 78.3%, essentially unchanged from the 78.6% in the third quarter of last year. Operating expenses for the quarter were $22.6 million compared to $14.6 million in the same period last year. Of this increase, $3 million is related to the Nellix acquisition, which includes both the ongoing technology development work and the establishment of a direct sales organization in Europe, an additional $1.3 million was for one-time payment for the LeMaitre early termination agreement and litigation expenses in the quarter totaled $1 million. Net of these items, operating expenses increased by less than the 25% rate of increase in sales for the quarter.

Research, development and clinical expenses grew to $4.8 million from $3.3 million in the third quarter 2010. This increase was in line with our expectations and was driven primarily by our pipeline development programs and clinical trials in support of the regulatory pathways for Nellix and Ventana. Marketing and sales expense grew from $8.6 million in the third quarter to $12.3 million in the third quarter 2010 due to growth in the base business, principally the addition of new sales territories and variable commissions on the 33% increase in U.S. revenue, plus expenses related to developing our direct sales organization in Europe.

G&A expense grew from $2.7 million in the third quarter 2010 to $4.2 million in the current quarter. This increase includes the incremental litigation expense and cost to establish our legal entity structures in Europe. So for the third quarter 2011, our GAAP net loss was $6.6 million or $0.12 per share compared to a net loss of $466,000 or $0.01 per share for the third quarter 2010.

On an adjusted non-GAAP basis and excluding the $1.4 million fair value adjustment related to the contingent purchase price liability for the Nellix acquisition, we reported an adjusted net loss in the third quarter 2011 of $5.2 million or $0.09 per share. The contingent payment is non-cash, payable in shares of Endologix common stock when we achieve the specified milestones with the Nellix technology. The $1.4 million increase in the contingent consideration in the third quarter was substantially related to the increase in Endologix stock price from June 30 to September 30.

Days sales outstanding, including both U.S. and international accounts, was just under 60 days at the end of the third quarter 2011 compared to 54 days at the close of 2010 and 59 days at the end of the second quarter 2011. The increase in the second and third quarters compared to year-end 2010 was the result of the strong sequential sales increases achieved in those quarters. Inventory turnover was 1.3 turns at September 30 versus 2 turns at year-end 2010. Again, this was due to the planned inventory build-up for the AFX launch, and with the [ph] AFX (11:23) launch concluded in the U.S., inventory turnover will improve in the fourth quarter.

During the third quarter, we used $7 million in cash, including a $5.5 million increase in working capital, primarily for building inventory in preparation for the launch. We ended the third quarter with $23.9 million in cash and we remain on track with our expectations for cash use in 2011. We have no outstanding bank debt and we have $10 million availability on our line of credit, giving us ample resources to execute on our growth initiatives.

Turning to guidance, as John mentioned, for the full-year 2011, we are increasing guidance for revenue to be in the range of $82 million to $84 million, a 22% to 25% increased over 2010. This compares to the previous guidance range of $78 million to $82 million. On the bottom line, we are reiterating our full-year 2011 guidance of a net loss of between $0.25 and $0.30 per share. This loss per share guidance includes the development of the acquired Nellix technology and the building of a direct sales force in Europe.

The guidance also assumes ongoing base business investments in the U.S. sales force, other research and development and clinical initiatives and litigation expenses. However, not included in our guidance are the potential impacts of adverse litigation outcomes, acquisition-related charges or other business development transactions.

As examples, the one-time expense related to the LeMaitre early termination agreement, which was $1.3 million or about $0.02 per share along with the fair value of the contingent consideration for the Nellix acquisition that was recorded in the second and third quarters, are not included in our loss per share guidance.

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

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

Thanks Bob. Overall, we're pleased with our third quarter results and believe we have positioned the company for sustained near-term and long-term growth. Our product pipeline continues to advance and our sales organization is getting stronger every quarter.

Looking forward to the rest of the year, we're focused on the following key objectives: one, continued penetration with AFX in the U.S.; two, hiring and training a talented team of sales and marketing professionals in Europe; three, complete enrollment in the Ventana international trial and get the final IDE approval; four, completing enrollment in the PEVAR clinical trial; and fifth, submitting our Nellix CE regulatory dossier.

We look forward to keeping you posted on our progress and are planning to present at several investor conferences before our next quarterly call. In November, we are scheduled to present at the Lazard Healthcare Conference, the Stephens Fall Conference and the Piper Jaffray Health Care Conference. In December, we'll be at the Canaccord Genuity Cardiac Conference and the Oppenheimer Healthcare Conference, and we'll kick-off 2012 at the J.P. Morgan Healthcare Conference.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Duane Nash with Wedbush Securities. You may proceed with your question.

<Q – Duane Nash – Wedbush Securities, Inc.>: Good afternoon and thanks for taking the questions. I understand that your Cross License with Bard is confidential, but can you discuss what effect, if any, this might have on future gross margins or EPS or should we assume it's relatively neutral?

<A – Robert Krist – Endologix, Inc.>: Well, as you indicated, Duane, we're limited in terms of what we can specifically say, but there will be no charge associated with any past sales. However, there will be a royalty on our future sales of our legacy products. And by that, I mean all of the Powerlink lines of product prior to AFX. So IntuiTrak for example as long as that line is sold internationally, we'll have a royalty obligation. And I would size that for you at approximately of one point of margin impact at least over the next several quarters.

<Q – Duane Nash – Wedbush Securities, Inc.>: Thanks. And then one last one, your quarterly revenues were significantly higher than Street estimates. How much of the surprising U.S. growth do attribute to market share gain and how much do you think is overall market growth in the U.S.?

<A – John McDermott – Endologix, Inc.>: I don't think the market's growing any faster than we had been talking about in the past. So I think that we had a big Q3 really driven by AFX. There were a lot of physicians that were interested in trying the device, and so I really attribute our growth in the third quarter related to that. Having said that, I do think it will settle back down a bit as we go into Q4. So we did get a bolus of cases, but we're still – we still like our growth prospects moving forward.

<Q – Duane Nash – Wedbush Securities, Inc.>: So one final related question, so it sounds like there may have been some patient warehousing in anticipation?

<A – John McDermott – Endologix, Inc.>: I've never heard of patient warehousing. I would tell you that there were physicians that were looking forward to using the device. So to the extent that they could hold off a week or two to schedule a case with the device being available, they did that. Yeah, we did see some of that.

<Q – Duane Nash – Wedbush Securities, Inc.>: Great. Well, thanks very much and congratulations.

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

Operator: Our next question comes from the line of [ph] Steven (17:43) Lichtman with Oppenheimer. You may proceed with your question.

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

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

<Q – Steve Lichtman – Oppenheimer Securities>: So I guess just a first question. In Europe, I'm not sure if you mentioned how many people you have on the ground now. I know you're still on track for sort of 12 plus by the end of the year.

<A – John McDermott – Endologix, Inc.>: Yeah. So today, we have eight. Another person just accepted this week that will start next month. So that will get us to nine and I think given the

candidates that we have in the pipeline, we think we'll finish around 12 to 13. So pretty close to our plan, maybe slightly light, but we're being selective. For us, it's important to get the right talent.

<Q – Steve Lichtman – Oppenheimer Securities>: Okay, great. And then in the U.S. just again on AFX, in terms of the impact, to what extent is this unit market share versus price premium? It sounds like a little bit of both, but maybe you could scale those two impacts?

<A – John McDermott – Endologix, Inc.>: Yeah, I'm trying to think of the best way to carve that up for you. We did get a little bit of price, but not – I would say that that increase is significantly volume as opposed to price.

<Q – Steve Lichtman – Oppenheimer Securities>: Okay. And are you starting to get any of the pull-through from those centers that are in the Ventana that you previously didn't call on significantly [inaudible] (19:01)?

<A – John McDermott – Endologix, Inc.>: Yeah, I would say – I would say we've seen some of that. We started to see some of that as early as Q2, some more in Q3. The good news is I don't think that stops, because we still have other sites that are kind of getting up to speed and they have minimum AFX case requirements to get trained on the infrarenal device to get into the trial. So we'll continue to see some benefit of that moving forward.

<Q – Steve Lichtman – Oppenheimer Securities>: Okay, great. And then just lastly, [ph] I think in the few weeks (19:29), maybe you can highlight for us a couple three things that we should be seeing more specifically data wise?

<A – John McDermott – Endologix, Inc.>: Yeah, there won't be any meaningful new data presentations. It'll be more along the lines of updates. So there will be a PEVAR talk, but that – we can't actually report yet on the pivotal data. So that will be a refresh of the roll-in patients. For Ventana, we'll provide an update on the international trial and the patients have been enrolled there. Nellix, we'll also provide an update. We may have available the two-year follow-up on a certain subset of patients there. So that would be interesting, but those are the primary data highlights.

<Q – Steve Lichtman – Oppenheimer Securities>: Okay. Great. Thank you, John.

Operator: Our next question comes from the line of Chris Cooley with Stephens, Incorporated. You may proceed with your question.

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

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

<Q – Chris Cooley – Stephens, Inc.>: Just to clarify, when I think about the third quarter, great growth there in the U.S. When you think about normal sequential trends there, was there anything in the 3Q maybe like a couple extra in-service days with [ph] DI (20:42) effects in accounts that you normally haven't serviced in the past? It might make that 3Q to 4Q growth rate look a little different this year or should we just think that it's steady state going forward? And I have one quick follow-up after that. Thank you.

<A – John McDermott – Endologix, Inc.>: Well, as I said earlier, we did get a bolus of cases in Q3. So we started doing cases in the middle of August and August is historically a – more of a summer kind of month and we had a very high volume, because there was the sales force. They've been well trained and it created a lot of interest in that device. So, I would say we got a nice shot in the arm in Q3 and I would expect that to settle a bit as we go into Q4 but then continue growing.

<Q – Chris Cooley – Stephens, Inc.>: Okay. I understood. And then I apologize. I was switching a couple of calls for this afternoon. You may have already touched on this. But just in terms of when we should expect to see [ph] – I'm asking (21:41) being ready here for the United States in terms of trials in terms of the IDE on Ventana and also for Nellix. When should we expect to see those filings respectively, the actual IDE and then the Nellix as well? Thanks.

<A – John McDermott – Endologix, Inc.>: Yeah. So with Ventana, we have a conditional IDE approval. We are still working with the Agency on some additional testing and data that they would like before we get a final approval and that process is ongoing. So I can't tell you exactly when we'll be done with that, but that's the status. Our hope is to get that approved obviously as soon as we can, but we still have a little work to do. As it relates to Nellix and the IDE for Nellix, our plan is to get that submitted sometime in the first quarter. I can't be more precise than that. We still have some more testing and work to do but that's our target.

<Q – Chris Cooley – Stephens, Inc.>: Superb. Congratulations on a great job and the third quarter.

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

Operator: [Operator Instructions] Our next question comes from the line of Sean Lavin with Lazard Capital Markets. You may proceed with your question.

<Q – Marie Thibault – Lazard Capital Markets LLC>: Hi, this is Marie Thibault for Sean. How are you?

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

<Q – Marie Thibault – Lazard Capital Markets LLC>: Hi. Congrats on the [ph] strong (22:54) launch of AFX. I'm wondering if you can break down for us what portion of the U.S. sales were from Powerlink and what portion was from AFX, if you have that?

<A – Robert Krist – Endologix, Inc.>: Well, Marie, I'd say I actually don't have the precisely figure in front of me, but we commenced the launch in the middle of August. It was fully launched towards the end of August, the beginning of September, and we had – we certainly had higher rate of sales activity in the post-launch period than the month and a half the quarter prior. So my guess is that something order of magnitude 60%, 65% of the revenue in Q3 would have been related to AFX.

<Q – Marie Thibault – Lazard Capital Markets LLC>: Okay, that's very helpful. And have you been receiving premium pricing on AFX?

<A – Robert Krist – Endologix, Inc.>: Well, as John mentioned, with each iteration of the technology, we do get us a modest pricing impact. But by far, the relative growth was driven by unit volume.

<Q – Marie Thibault – Lazard Capital Markets LLC>: Okay, understood. And then just finally, when could we see the early results from the fully enrolled Ventana trial, international trial?

<A – John McDermott – Endologix, Inc.>: Well, we may provide an update – there could be some of an update at the VEITH meeting, Marie.

<Q – Marie Thibault – Lazard Capital Markets LLC>: Yeah, okay.

<A – John McDermott – Endologix, Inc.>: We're still pulling together. It's a function of how much follow-up data that we have available from the various sites.

<Q – Marie Thibault – Lazard Capital Markets LLC>: Okay. All right. And on the 30 patients, it still – it just remains to be seen when you have the 30 patients enrolled and when we could see the results from that?

<A – John McDermott – Endologix, Inc.>: Yeah, so the plan is to complete the 30 patients by the end of this [inaudible] (24:47) number of patients that we'll have out to the various follow-up points. But we are planning to provide a data update at VEITH.

<Q – Marie Thibault – Lazard Capital Markets LLC>: Okay. All right, understood. Congrats again. Thanks a lot.

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

Operator: Our next question comes from the line of John Putnam with Capstone Investments. You may proceed with your question.

<Q – John Putnam – Capstone Investments>: Yeah, thanks very much. John, I was wondering, you must be taking share here in the United States. Do you have any idea what your current market share is and from whom you're taking share?

<A – John McDermott – Endologix, Inc.>: Yeah, I don't know our precise number. I'm a little reluctant to just annualize Q3, given the impact of AFX. But clearly, we're trending now, we start to annualize some of our current run rate. We're starting to get into the 12% to 13% range. I don't have that sourced independently. That's just based upon our estimate of the size of the market and our run rates – our case run rates.

In terms of where we're getting it, it – again, there isn't a one company that's a primary share donor. We continue to sell against all three of the traditional devices with pretty good success. And as we've talked about before, there is a growing interest in the pipeline. So in addition to the product standing nicely on its own, we're getting some more receptivity with people wanting to get to know the company better and getting acquainted with our new product pipeline. So it's a combination of variables that's driving the growth.

<Q – John Putnam – Capstone Investments>: Okay. And do you think AFX will have much of an impact in converting overseas markets I guess, particularly Europe from open procedure to EVAR procedure?

<A – John McDermott – Endologix, Inc.>: I don't expect AFX to expand the market in Europe. The indications for the device are consistent with the other devices. So I don't see a market expansion. And honestly, one of the challenges we have with three launches next year in Europe is just to make sure that we balance everything amongst the sales force and the customer. So when you think about AFX in Europe next year, think of it more as a transition of our current IntuiTrak based business as opposed to a big, big launch.

There – the benefit obviously is that it is the platform for Ventana. So people are interested in using Ventana. They will also need to be trained on AFX. And for some people, they may not be ready to switch to Nellix. I don't see that happening very often, but AFX will represent a very nice baseline product as well. So AFX, we target in the first part of the year; Nellix, start a limited launch mid-year; and then, everything goes well, Ventana, near the end of the year.

<Q – John Putnam – Capstone Investments>: Okay. And where do you think the conversion in Europe is right now?

<A – John McDermott – Endologix, Inc.>: You mean the mix between open repair and EVAR?

<Q – John Putnam – Capstone Investments>: Yes.

<A – John McDermott – Endologix, Inc.>: Yeah. I think it's about 50-50.

<Q – John Putnam – Capstone Investments>: Okay. Great. Thanks very much and congratulations on a great quarter.

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

Operator: It appears there are no more questions at this time. I would like to turn the floor back over to management for closing comments.

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

Okay. Well, I just 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 keeping you updated on our progress.

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

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