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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2012

Commission file number: 1-33818

ENTEROMEDICS INC.

(Exact name of registrant as specified in its charter)

Delaware	**48-1293684**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

2800 Patton Road, St. Paul, Minnesota 55113
(Address of principal executive offices, including zip code)

(651) 634-3003
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated Filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting entity)	Smaller Reporting Company	☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of April 30, 2012, 39,038,786 shares of the registrant's Common Stock were outstanding.

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Registered Trademarks and Trademark Applications: In the United States we have registered trademarks for VBLOC®, ENTEROMEDICS® and MAESTRO®, each registered with the United States Patent and Trademark Office. In addition, some or all of the marks VBLOC, MAESTRO and ENTEROMEDICS are the subject of either a trademark registration or application for registration in Australia, Brazil, China, the European Community, Saudi Arabia and Switzerland. The trademarks VBLOC, ENTEROMEDICS and MAESTRO SYSTEM ORCHESTRATING OBESITY SOLUTIONS are registered in Mexico. The trademarks VBLOC, ENTEROMEDICS and MAESTRO SYSTEM ORCHESTRATING OBESITY SOLUTIONS are the subject of pending trademark applications in the United Arab Emirates. This form 10-Q contains other trade names and trademarks and service marks of EnteroMedics and of other companies.

PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ENTEROMEDICS INC.
(A development stage company)

Condensed Consolidated Balance Sheets
(Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,518,245	$ 28,487,688
Restricted cash	200,000	200,000
Short-term investments available for sale	1,003,204	1,005,411
Accounts receivable	123,093	—
Inventory	1,002,768	1,068,623
Prepaid expenses and other current assets	775,992	804,799
Total current assets	23,623,302	31,566,521
Property and equipment, net	625,164	630,354
Other assets	305,076	288,980
Total assets	$ 24,553,542	$ 32,485,855
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of notes payable	$ 189,295	$ 2,307,162
Accounts payable	262,631	434,436
Accrued expenses	4,031,931	6,373,370
Accrued interest payable	460,253	448,821
Total current liabilities	4,944,110	9,563,789
Notes payable, less current portion (net discounts of $174,105 and $216,711 at March 31, 2012 and December 31, 2011, respectively)	4,478,088	2,881,161
Total liabilities	9,422,198	12,444,950
Commitments and contingencies (note 4)		
Stockholders' equity:		
Common stock, $0.01 par value 85,000,000 shares authorized; 36,758,741 and 36,752,746 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	367,587	367,527
Additional paid-in capital	197,108,547	196,384,995
Accumulated other comprehensive income	520	692
Deficit accumulated during development stage	(182,345,310)	(176,712,309)
Total stockholders' equity	15,131,344	20,040,905
Total liabilities and stockholders' equity	$ 24,553,542	$ 32,485,855

See accompanying notes to condensed consolidated financial statements.

ENTEROMEDICS INC.
(A development stage company)

Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended March 31,		Period from December 19, 2002 (inception) to March 31,
	2012	2011	2012
Sales	$ 123,093	$ —	$ 123,093
Cost of goods sold	85,511	—	85,511
Gross profit	37,582	—	37,582
Operating expenses:			
Research and development	2,710,235	2,788,252	119,491,809
Selling, general and administrative	2,813,827	2,068,554	50,982,797
Total operating expenses	5,524,062	4,856,806	170,474,606
Operating loss	(5,486,480)	(4,856,806)	(170,437,024)
Other income (expense):			
Interest income	1,552	7,234	4,037,815
Interest expense	(143,605)	(231,600)	(11,706,375)
Change in value of warrant liability	—	—	(3,840,622)
Other, net	(4,468)	(4,846)	(268,136)
Net loss	$ (5,633,001)	$ (5,086,018)	$(182,214,342)
Net loss per share – basic and diluted	$ (0.15)	$ (0.18)	
Shares used to compute basic and diluted net loss per share	36,756,637	27,892,388	

See accompanying notes to condensed consolidated financial statements.

ENTEROMEDICS INC.
(A development stage company)

Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)

	Three months ended March 31,		Period from December 19, 2002 (inception) to March 31,
	2012	2011	2012
Net loss	$(5,633,001)	$(5,086,018)	$(182,214,342)
Change in unrealized gain (loss) on available for sale investments	(172)	40	520
Comprehensive loss	$(5,633,173)	$(5,085,978)	$(182,213,822)

See accompanying notes to condensed consolidated financial statements.

ENTEROMEDICS INC.
(A development stage company)

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended March 31,		Period from December 19, 2002 (inception) to March 31,
	2012	2011	2012
Cash flows from operating activities:			
Net loss	$ (5,633,001)	$ (5,086,018)	$(182,214,342)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	68,029	71,338	2,328,067
Loss on sale of equipment	1,095	266	75,222
Stock-based compensation	710,483	660,411	15,173,649
Amortization of commitment fees, debt issuance costs and original issue discount	49,664	70,545	3,936,287
Amortization of short-term investment premium or discount	2,035	—	(302,755)
Change in value of warrant liability	—	—	3,840,622
Change in operating assets and liabilities:			
Accounts receivable	(123,093)	—	(123,093)
Inventory	65,855	—	(1,002,768)
Prepaid expenses and other current assets	28,807	(282,379)	(775,992)
Other assets	(23,154)	—	(260,487)
Accounts payable	(187,637)	387,644	113,503
Accrued expenses	(2,341,439)	(613,049)	4,031,931
Accrued interest payable	11,432	(8,106)	626,075
Net cash used in operating activities	(7,370,924)	(4,799,348)	(154,554,081)
Cash flows from investing activities:			
Decrease (increase) in restricted cash	—	6,327,031	(200,000)
Purchases of short-term investments available for sale	—	(2,000,000)	(19,890,213)
Maturities of short-term investments available for sale	—	—	18,854,414
Purchases of short-term investments held to maturity	—	—	(22,414,130)
Maturities of short-term investments held to maturity	—	—	22,750,000
Purchases of property and equipment	(48,102)	—	(2,879,324)
Net cash (used in) provided by investing activities	(48,102)	4,327,031	(3,779,253)
Cash flows from financing activities:			
Proceeds from stock options exercised	—	—	203,018
Proceeds from warrants exercised	13,129	—	330,470
Proceeds from sale of common stock and warrants for purchase of common stock	—	—	114,354,439
Common stock financing costs	—	(45,745)	(9,478,430)
Payment to shareholders for fractional shares upon reverse stock split	—	—	(355)
Proceeds from sale of Series A, B and C convertible preferred stock	—	—	63,766,564
Series A, B and C convertible preferred stock financing costs	—	—	(1,658,662)
Proceeds from notes payable and convertible notes payable	—	—	42,645,967
Repayments on notes payable	(563,546)	(367,188)	(30,989,633)
Debt issuance costs	—	—	(321,799)
Net cash (used in) provided by financing activities	(550,417)	(412,933)	178,851,579
Net (decrease) increase in cash and cash equivalents	(7,969,443)	(885,250)	20,518,245
Cash and cash equivalents:			
Beginning of period	28,487,688	30,840,560	—
End of period	$20,518,245	$29,955,310	$ 20,518,245
Supplemental disclosure:			
Interest paid	$ 82,509	$ 169,121	$ 7,135,409
Noncash investing and financing activities:			
Cancellation of Alpha Medical, Inc. Series A convertible preferred stock and common stock	$ —	$ —	$ (661,674)
Issuance of Beta Medical, Inc. Series A convertible preferred stock in exchange for Alpha Medical, Inc. Series A convertible preferred stock and common stock	—	—	661,674
Value of warrants issued with debt for debt commitment	—	—	3,833,183
Value of warrants issued with sale of common and preferred stock offerings	—	—	1,684,832
Cashless exercise of warrants	—	—	5,244,778
Conversion of notes and interest payable to Series B and C convertible preferred shares	—	—	6,980,668
Options issued for deferred compensation	—	—	10,898
Common stock issued to Mayo Foundation and for deferred compensation	—	—	1,770,904
Reclassification of warrant liability	—	—	2,932,766
Conversion of convertible preferred stock to common stock	—	—	51,132

See accompanying notes to condensed consolidated financial statements.

EnteroMedics Inc.
(A development stage company)

Notes to Condensed Consolidated Financial Statements
(Unaudited)

(1) Summary of Significant Accounting Policies

Description of Business

EnteroMedics Inc. (formerly Beta Medical, Inc.) (the Company) is developing implantable systems to treat obesity, metabolic diseases and other gastrointestinal disorders. The Company was incorporated in the state of Minnesota on December 19, 2002 and was reincorporated in Delaware on July 22, 2004. The Company is in the development stage and since inception has devoted substantially all of its resources to recruiting personnel, developing its product technology, obtaining patents to protect its intellectual property and raising capital, and only recently has derived revenues from its primary business activity. The Company is headquartered in St. Paul, Minnesota. In January 2006, the Company established EnteroMedics Europe Sárl, a wholly-owned subsidiary located in Switzerland.

Since inception, the Company has incurred losses through March 31, 2012 totaling approximately $182.2 million and has not generated positive cash flows from operations. The Company expects such losses to continue into the foreseeable future as it continues to develop and commercialize its technologies. The Company may need to obtain additional financing and there can be no assurance that the Company will be successful in obtaining additional financing on favorable terms, or at all. If adequate funds are not available, the Company may have to delay development or commercialization of products or license to third parties the rights to commercialize products or technologies that the Company would otherwise seek to commercialize.

Basis of Presentation

The Company has prepared the accompanying condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. The Company’s fiscal year ends on December 31.

The accompanying condensed consolidated financial statements and notes thereto are unaudited. In the opinion of the Company’s management, these statements include all adjustments, which are of a normal recurring nature, necessary to present a fair presentation. Interim results are not necessarily indicative of results for a full year. The condensed consolidated balance sheet as of December 31, 2011 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The information included in this Form 10-Q should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Fair Value of Financial Instruments

Carrying amounts of certain of the Company’s financial instruments, including cash and cash equivalents, restricted cash, prepaid expenses and other current assets, accounts payable and accrued liabilities approximate fair value due to their short maturities. The fair values of investments in debt and equity securities are disclosed in Note 2. The fair value of the Company’s long-term debt is approximately $4.8 million as of March 31, 2012 based on the present value of estimated future cash flows using a discount rate commensurate with borrowing rates available to the Company. If measured at fair value in the condensed consolidated financial statements, long-term debt (including the current portion) would be classified as Level 2 in the fair value hierarchy.

Restricted Cash

The Company had $200,000 in a cash collateral money market account as of March 31, 2012 and December 31, 2011. Pursuant to the Lease Agreement the Company entered into with Roseville Properties Management Company in July 2008, the Company was required to deliver to Roseville Properties an irrevocable, unconditional, standby letter of credit in the amount of $200,000 on the second anniversary of the commencement of lease payments. The standby letter of credit is to be maintained through October 1, 2013. The irrevocable standby letter of credit was issued by Silicon Valley Bank, who required the Company to set up a restricted cash collateral money market account to fully secure the standby letter of credit.

EnteroMedics Inc.
(A development stage company)
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

Inventory

The Company accounts for inventory at the lower of cost or market and records any long-term inventory as other assets in the condensed consolidated balance sheets.

Comprehensive Loss

Comprehensive loss is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investment owners and distributions to owners. The difference from reported net loss for the three months ended March 31, 2012 and 2011 related entirely to changes in unrealized gains (losses) on available for sale investments.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, title or risk of loss has passed, the selling price is fixed or determinable and collection is reasonably assured. The Company sells products internationally through distributors and recognizes revenue upon sale to the distributor as these sales are considered to be final and no right of return or price protection exists. Terms of sales to international distributors are generally EXW, reflecting that goods are shipped “ex works,” in which risk of loss is assumed by the distributor at the shipping point. The Company does not provide for rights of return to customers on product sales and therefore does not record a provision for returns.

Research and Development Expenses

Research and development expenses are charged to expense as incurred. Research and development expenses include, but are not limited to, product development, clinical trial expenses, including supplies and devices, regulatory expenses, payroll and other personnel expenses, materials and consulting costs.

Derivative Instruments

The Company accounts for outstanding warrants that are not indexed to the Company’s stock or warrants issued when the Company has insufficient authorized and unissued stock available to share settle the outstanding warrants as derivative instruments, which require that the warrants be classified as a liability and measured at fair value with changes in fair value recognized currently in earnings and recorded separately in the condensed consolidated statements of operations.

Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is based on the weighted-average common shares outstanding during the period plus dilutive potential common shares calculated using the treasury stock method. Such potentially dilutive shares are excluded when the effect would be to reduce a net loss per share. The Company’s potential dilutive shares, which include outstanding common stock options, unvested common shares subject to repurchase, convertible preferred stock and warrants, have not been included in the computation of diluted net loss per share for all periods as the result would be anti-dilutive.

EnteroMedics Inc.
(A development stage company)
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

The following table sets forth the computation of basic and diluted net loss per share for the three months ended March 31, 2012 and 2011:

	Three months ended March 31,	
	2012	2011
Numerator:		
Net loss	$ (5,633,001)	$ (5,086,018)
Denominator for basic and diluted net loss per share:		
Weighted-average common shares outstanding	36,756,637	27,892,388
Weighted-average unvested common shares subject to repurchase	—	—
Denominator for net loss per common share—basic and diluted	36,756,637	27,892,388
Net loss per share—basic and diluted	$ (0.15)	$ (0.18)

The following table sets forth the potential shares of common stock that are not included in the calculation of diluted net loss per share because to do so would be anti-dilutive as of the end of each period presented:

	March 31,	
	2012	2011
Stock options outstanding	3,576,804	1,828,360
Warrants to purchase common stock	23,917,306	22,224,718

Recently Issued Accounting Standards

In June 2011, the Financial Accounting Standards Board issued guidance on the presentation of comprehensive income in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. The Company adopted this standard during the first quarter of 2012 and presents net loss and other comprehensive loss in two separate, but consecutive, statements. The adoption of this standard did not have a material effect on the Company's financial statement disclosures.

There have been no other significant changes in recent accounting pronouncements during the three months ended March 31, 2012 as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

(2) Short-term Investments and Fair Value Measurements

Fair value of financial assets and liabilities is defined as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy has been established that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2—Quoted prices for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active or model-derived valuations for which all significant inputs are observable, either directly or indirectly.
- Level 3—Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

The Company's assets that are measured at fair value on a recurring basis are classified within Level 1 or Level 2 of the fair value hierarchy. The Company does not hold any assets that are measured at fair value using Level 3 inputs. The types of instruments the Company invests in that are valued based on quoted market prices in active markets include U.S. treasury securities. Such instruments are classified by the Company within Level 1 of the fair value hierarchy. U.S. treasuries are valued using unadjusted quoted prices for identical assets in active markets that the Company can access.

EnteroMedics Inc.
(A development stage company)
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

The types of instruments the Company invests in that are valued based on quoted prices in less active markets, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include the Company's U.S. agency securities, commercial paper, U.S. corporate bonds and municipal obligations. Such instruments are classified by the Company within Level 2 of the fair value hierarchy. The Company values these types of assets using consensus pricing or a weighted average price, which is based on multiple pricing sources received from a variety of industry standard data providers (e.g. Bloomberg), security master files from large financial institutions, and other third-party sources. The multiple prices obtained are then used as inputs into a distribution-curve-based algorithm to determine the daily market price.

The following table sets forth by level, within the fair value hierarchy, the Company's financial assets accounted for at fair value as of March 31, 2012. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

All short-term investments at March 31, 2012 are classified as Level 2 and are as follows:

	Significant Other Observable Inputs Level 2
U.S. agency securities	$ 1,003,204
Total	$ 1,003,204

The short-term investments available for sale at March 31, 2012 had effective maturities of less than one year. The amortized cost and fair value of short-term investments available for sale, and the related gross unrealized gains and losses, were as follows at March 31, 2012:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value
U.S. agency securities	$1,002,684	$ 520	$ —	$1,003,204
Total	$1,002,684	$ 520	$ —	$1,003,204

(3) Inventory

Since inception, inventory related purchases have been used for research and development related activities and have accordingly been expensed as incurred. In December 2011, the Company began receiving Australian Register of Therapeutic Goods (ARTG) listings for components of the Maestro Rechargeable System from the Australian Therapeutic Goods Administration (TGA), with the final components being listed on the ARTG in January 2012. As a result, the Company determined certain assets were recoverable as inventory beginning in December 2011. The Company accounts for inventory at the lower of cost or market and records any long-term inventory as other assets in the condensed consolidated balance sheets. There was approximately $251,000 and $228,000 of long-term inventory as of March 31, 2012 and December 31, 2011, respectively.

Current inventory consists of the following as of:

	March 31, 2012	December 31, 2011
Raw materials	$ 294,399	$ 376,580
Work-in-process	708,369	692,043
Finished goods	—	—
Inventory	$1,002,768	$1,068,623

EnteroMedics Inc.
(A development stage company)
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

(4) Commitments and Contingencies

Operating Lease

The Company rents its office, warehouse and laboratory facilities under an operating lease, which expires on September 30, 2015. At March 31, 2012, future minimum payments under the lease are as follows:

Years ending December 31:	
Remaining nine months in 2012	$ 210,389
2013	285,656
2014	291,369
2015	221,789
	$1,009,203

The Company is exposed to product liability claims that are inherent in the testing, production, marketing and sale of medical devices. Management believes any losses that may occur from these matters are adequately covered by insurance, and the ultimate outcome of these matters will not have a material effect on the Company's financial position or results of operations. The Company is not currently a party to any litigation and is not aware of any pending or threatened litigation that could have a material adverse effect on the Company's business, operating results or financial condition.

(5) Notes Payable

On November 18, 2008 the Company entered into a Loan and Security Agreement (the Loan Agreement) with Silicon Valley Bank (SVB), Venture Lending & Leasing V, Inc. (a private equity fund under the management of Western Technology Investment (WTI)) and Compass Horizon Funding Company LLC (Horizon and, collectively with SVB and WTI, the Lenders), in an aggregate principal amount of up to $20.0 million. On November 21, 2008, SVB and WTI each funded a Term Loan in the aggregate principal amount of $10.0 million and $5.0 million, respectively. The additional $5.0 million Term Loan was automatically funded by Horizon on April 28, 2009 when the trading price of the Company's common stock on the NASDAQ Global Market exceeded a target amount specified in the Loan Agreement. On December 1, 2009, the Company repaid the outstanding principal amount due to WTI and Horizon pursuant to the Loan Agreement.

During 2010, the Company and SVB entered into three amendments to the Loan Agreement, which modified the payment terms, annual interest rate and financial covenants. A brief summary of the three amendments is provided below.

On February 8, 2010, the Company and SVB entered into the First Amendment to the Loan Agreement, which reduced the annual interest rate from 11.0% to a fixed annual rate of 10.0%, payable monthly, revised the liquidity financial covenant and added a New Capital Transaction covenant.

On July 8, 2010, the Company and SVB entered into a Second Amendment to the Loan Agreement, which modified the repayment terms of the loan such that interest only payments were required through December 31, 2010 followed by 30 equal payments of principal and interest, increased the annual interest rate from 10.0% to a fixed annual rate of 11.0%, payable monthly, revised the liquidity financial covenant and added additional New Capital Transaction requirements. On July 8, 2010, per the terms of the Second Amendment to the Loan Agreement, SVB was issued a warrant to purchase 150,642 shares of the Company's common stock with an exercise price of $2.10 per share.

On November 4, 2010, the Company and SVB entered into a Third Amendment (the Third Amendment) to the Loan Agreement, which modified the New Capital Transaction covenant, suspended the liquidity financial covenant and required the Company to maintain a blocked cash collateral account with funds equal to the principal balance outstanding.

On March 3, 2011 the Company entered into a Fourth Amendment (the Fourth Amendment) to the Loan Agreement with SVB. The Fourth Amendment modified the repayment terms of the Term Loan such that beginning April 1, 2011 through September 30, 2011, the Company was required to make interest only monthly payments on the Term Loan. Then, beginning on October 1, 2011, the remaining balance due on the Term Loan started to amortize over 30 equal payments of principal and interest, payable monthly. In addition, the Fourth Amendment amended the interest rate due effective March 1, 2011 on the remaining principal amount of the Term Loan from 11.0% to a fixed annual rate of 6.25% if the liquidity ratio is greater than 1.50:1.00 and no Event of Default (as defined in

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Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

the Loan Agreement) has occurred or is continuing or 9.00% if the liquidity ratio is less than 1.50:1.00 or an Event of Default has occurred or is continuing, payable monthly. The Fourth Amendment also reinstated the financial covenant related to the liquidity ratio, which is not permitted to be less than 1.00:1.00, and added an EBITDA test should the liquidity ratio fall below 1.50:1.00. Lastly, the Fourth Amendment eliminated SVB's springing lien on the Company's intellectual property, the New Capital Transactions requirement and the requirement of the Third Amendment to maintain a blocked cash collateral account with funds equal to the principal balance outstanding.

On April 16, 2012, the Company entered into a new loan agreement with SVB pursuant to which a term loan was funded in the aggregate principal amount of $10.0 million on April 23, 2012 (see Note 7). A portion of the aggregate principal amount received was used to repay in full the outstanding debt of approximately $4.7 million. As required by generally accepted accounting principles, the classification of both the condensed consolidated balance sheet as of March 31, 2012 and the debt principal payment table below, have been adjusted to reflect the Company's obligations under the terms of the new loan agreement.

Scheduled debt principal payments, as modified on April 16, 2012 are as follows:

Years Ending December 31:	
Remaining nine months in 2012	$ 189,295
2013	3,000,000
2014	4,000,000
2015	3,000,000
Notes payable	$10,189,295

(6) Stock-based Compensation

The fair value method of accounting for share-based payments is applied to all share-based payment awards issued to employees and where appropriate, nonemployees, unless another source of literature applies. When determining the measurement date of a nonemployee's share-based payment award, the Company measures the stock options at fair value and remeasures such stock options to the current fair value until the performance date has been reached.

Based on the application of these standards, stock-based compensation expense for stock-based awards under the Company's 2003 Stock Incentive Plan for the three months ended March 31, 2012 and 2011 was allocated to operating expenses and employee and nonemployees as follows:

	Three months ended March 31,	
	2012	2011
Research and development	$146,281	$236,695
Selling, general and administrative	564,202	423,716
Total	$710,483	$660,411

	Three months ended March 31,	
	2012	2011
Employees	$679,445	$660,411
Nonemployees	31,038	—
Total	$710,483	$660,411

As of March 31, 2012 there was approximately $5.5 million of total unrecognized compensation costs, net of estimated forfeitures, related to employee unvested stock option awards granted after January 1, 2006, which are expected to be recognized over a weighted-average period of 2.80 years.

EnteroMedics Inc.
(A development stage company)
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

The estimated grant-date fair values of the stock options were calculated using the Black-Scholes valuation model, based on the following assumptions for the three months ended March 31, 2012 and 2011:

	Employees		Nonemployees
	Three months ended March 31,		Three months ended March 31, 2012
	2012	2011	
Risk-free interest rates	1.09%	2.68%	0.24%-2.05%
Expected life	6.25 years	6.25 years	2.00-9.25 years
Expected dividends	0%	0%	0%
Expected volatility	123.18%	124.40%	83.05%-122.05%

There was no nonemployee stock option expense for the three months ended March 31, 2011.

Option activity under the Company's 2003 Stock Incentive Plan for the three months ended March 31, 2012 was as follows:

		Outstanding Options	
	Shares Available For Grant	Number of Shares	Weighted-Average Exercise Price
Balance, December 31, 2011	763,829	3,470,908	$ 3.17
Shares reserved	—	—	—
Options granted	(111,000)	111,000	2.19
Options exercised	—	—	—
Options cancelled	5,104	(5,104)	3.36
Balance, March 31, 2012	657,933	3,576,804	3.14

(7) Subsequent Events

Securities Purchase Agreement

On April 16, 2012, the Company entered into a securities purchase agreement with a current investor for the sale of 2,271,705 shares of its common stock in a registered direct offering, at a purchase price of $2.223 per share. On April 20, 2012, the offering closed and the Company received gross proceeds of $5.0 million before deducting estimated offering expenses. No warrants were issued with the offering.

Loan and Security Agreement

On April 16, 2012, the Company entered into a new Loan and Security Agreement (the Loan Agreement) with SVB, pursuant to which SVB agreed to make term loans to the Company in an aggregate principal amount of up to $20.0 million, on the terms and conditions set forth in the Loan Agreement. The Loan Agreement amends and restates the Loan and Security Agreement, dated November 18, 2008, between the Company and SVB, Compass Horizon Funding Company LLC, and Venture Lending & Leasing V, Inc., as amended (the Prior Loan Agreement).

Pursuant to the Loan Agreement, a term loan was funded in the aggregate principal amount of $10.0 million on April 23, 2012, a portion of which was used to repay in full the outstanding debt of approximately $4.7 million. The additional $10.0 million available under the Loan Agreement will be funded if the Company meets the primary endpoints of the ReCharge trial as well as certain financial objectives for 2012 prior to February 15, 2013.

The term loans require interest only payments monthly through March 31, 2013 followed by 30 equal payments of principal in the amount of $333,333 plus accrued interest beginning on April 1, 2013 and ending on September 1, 2015, payable monthly. Amounts borrowed under the Loan Agreement bear interest at a fixed annual rate equal to 8.0%. The final payment fee from the Prior Loan Agreement will be due on September 1, 2015. The Company may voluntarily prepay the term loans in full, but not in part, and any voluntary or mandatory prepayment is subject to applicable prepayment premiums and will also include the final payment fee. The Company is required to comply with certain financial covenants that require the Company to generate certain minimum amounts of revenue from the sale of its Maestro System and to implant certain minimum numbers of Maestro Systems during cumulative quarterly measurement periods beginning with the period ended March 31, 2013 and ending with the period ended June 30, 2015.

EnteroMedics Inc.
(A development stage company)

Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

The Company has granted SVB a security interest in all of the Company's assets, excluding intellectual property except with respect to all license, royalty fees and other revenues and income arising out of or relating to any of the intellectual property and all proceeds of the intellectual property. The Company also has entered into a negative pledge arrangement with SVB pursuant to which it has agreed not to encumber any of its intellectual property without SVB's prior written consent. If the Company does not meet the primary endpoints of the ReCharge trial or does not fully disclose the results of the trial to the public prior to February 15, 2013, and/or if the second term loan has been funded and the Company does not raise a minimum amount of new equity by a specified date, the Company will be required to place certain amounts of cash in a restricted account at SVB.

Pursuant to the Loan Agreement, on April 16, 2012 the Company issued SVB a warrant to purchase 106,746 shares of common stock, exercisable for ten years from the date of grant, at an exercise price of $2.34 per share. If the additional term loan is funded, the Company will be required to issue SVB a second warrant to purchase common stock, which will be exercisable for ten years from the date of grant, at an exercise price per share equal to the average closing price of the Company's common stock for the ten days immediately preceding the funding date. The number of shares issuable pursuant to the warrant will be determined by dividing $250,000 by such price per share.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q.

Except for the historical information contained herein, the matters discussed in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," are forward-looking statements that involve risks and uncertainties. In some cases, these statements may be identified by terminology such as "may," "will," "should," "expects," "could," "intends," "might," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue," or the negative of such terms and other comparable terminology. These statements involve known and unknown risks and uncertainties that may cause our results, level of activity, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to such differences include, among others, those discussed in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2011. Except as may be required by law, we undertake no obligation to update any forward-looking statement to reflect events after the date of this report.

Overview

We are a development stage medical device company with approvals to commercially launch our product in Australia, the European Economic Area and other countries that recognize the European CE Mark. We are focused on the design and development of devices that use neuroblocking technology to treat obesity, metabolic diseases and other gastrointestinal disorders. Our proprietary neuroblocking technology, which we refer to as VBLOC therapy, is designed to intermittently block the vagus nerve using high frequency, low energy, electrical impulses. We have a limited operating history and currently, we only have regulatory approval to sell our product in Australia, the European Economic Area and other countries that recognize the European CE Mark and do not have any other source of revenue. Our initial product is the Maestro System, which uses VBLOC therapy to affect metabolic regulatory control, limit the expansion of the stomach, help control hunger sensations between meals, reduce the frequency and intensity of stomach contractions and produce a feeling of early and prolonged fullness. We were formerly known as Beta Medical, Inc. and were incorporated in Minnesota on December 19, 2002. We later reincorporated in Delaware on July 22, 2004. Since inception, we have devoted substantially all of our resources to the development and commercialization of our Maestro System.

Based on our understanding of vagal nerve function and nerve blocking from our preclinical studies and the results of our clinical trials, we believe the Maestro System may offer obese patients a minimally-invasive treatment that has the potential to result in significant and sustained weight loss. We believe that our Maestro System will allow bariatric surgeons to help obese patients who are concerned about the risks and complications associated with currently available restrictive and malabsorptive surgical procedures. In addition, data from our VBLOC-DM2 ENABLE trial outside the United States demonstrate that VBLOC therapy may hold promise in improving obesity-related co-morbidities such as diabetes and hypertension. We are conducting, or plan to conduct, further studies in each of these co-morbidities to assess VBLOC therapy's potential in addressing multiple indications.

We continue to evaluate the Maestro System in human clinical trials in the United States, Australia, Mexico, Norway and Switzerland. To date, we have not observed any mortality related to our device or any unanticipated adverse device effects in these clinical trials. We have also not observed any long-term problematic clinical side effects in any patients, including in those patients who have been using the Maestro System for more than one year.

In October 2010, we received an unconditional Investigational Device Exemption (IDE) Supplement approval from the U.S. Food and Drug Administration (FDA) to conduct a randomized, double-blind, parallel-group, multicenter pivotal clinical trial, called the ReCharge trial, testing the effectiveness and safety of VBLOC therapy utilizing our second generation Maestro Rechargeable (RC) System. Enrollment and implantation in the ReCharge trial was completed in December 2011 in 233 patients at 10 centers. All patients in the study received an implanted device and were randomized in a 2:1 allocation to treatment or control groups. The control group received a non-functional device during the study period. All patients are expected to participate in a weight management counseling program. The primary endpoints of efficacy and safety will be evaluated at 12 months, or around December 2012. Assuming we achieve favorable results, we plan to use data from the trial to support a premarket approval (PMA) application for the Maestro Rechargeable System. If the FDA grants us approval, we anticipate we will be able to commercialize the Maestro Rechargeable System in the United States in 2014.

If we obtain FDA approval of our Maestro Rechargeable System we intend to market our products in the United States through a direct sales force supported by field technical and marketing managers who provide training, technical and other support services to our customers. Outside the United States we intend to use direct, dealer and distributor sales models as the targeted geography best dictates. To date, we have relied on third-party manufacturers and suppliers for the production of our Maestro System. We currently anticipate that we will continue to rely on third-party manufacturers and suppliers for the production of the Maestro System.

We obtained European CE Mark approval for our Maestro Rechargeable System in March 2011. In January 2012, the final Maestro Rechargeable System components were listed on the Australian Register of Therapeutic Goods (ARTG) by the Therapeutic Goods Administration (TGA). We have been working closely with our Australian distributor, Device Technologies Australia Pty Limited, to bring the Maestro Rechargeable System to the Australian market through a controlled commercial launch and made our first commercial shipment of the Maestro ReChargeable System to Device Technologies Australia Pty Limited resulting in $123,000 of revenue for the three months ended March 31, 2012. We also recently entered into an exclusive, multi-year agreement with Bader Sultan & Brothers Co. W.L.L. for commercialization and distribution of the Maestro ReChargeable System in the Gulf Coast Countries, including Saudi Arabia, Kuwait, Bahrain, Qatar and the United Arab Emirates and plan to begin commercial shipments to Bader Sultan & Brothers Co. W.L.L. during 2012. We continue to explore additional select international markets to commercialize the Maestro Rechargeable System, including Europe. The method of assessing conformity with applicable regulatory requirements varies depending on the class of the device, but for our Maestro System (which is considered an Active Implantable Medical Device (AIMD) in Australia and the European Economic Area, and falls into Class III within the United States), the method involves a combination of self-assessment by the manufacturer of the safety and performance of the device, and a third-party assessment by a Notified Body, usually of the design of the device and of the manufacturer's quality system. We use DEKRA Certification B.V. (formerly known as KEMA Quality) in the Netherlands as the Notified Body for our CE marking approval process.

We have only recently begun to generate revenue from the sale of products, and we have incurred net losses in each year since our inception. As of March 31, 2012, we had experienced net losses during the development stage of $182.2 million. Although we recently received ARTG listings to sell our Maestro Rechargeable System in Australia and European CE Mark to sell our Maestro Rechargeable System in the European Economic Area and other countries that recognize the European CE Mark, resulting in our first commercial sale during the three months ended March 31, 2012, we expect to incur significant sales and marketing expenses prior to recording sufficient revenue to offset these expenses. We expect our general and administrative expenses to increase as we continue to add the infrastructure necessary to support our initial commercial sales, operate as a public company and develop our intellectual property portfolio. For these reasons, we expect to continue to incur significant and increasing operating losses for the next several years. We have financed our operations to date principally through the sale of capital stock, debt financing and interest earned on investments.

Financial Overview

Revenue

We have received the European CE Mark for our Maestro Rechargeable System, which enables the eventual commercialization in the European Economic Area and other countries that recognize the European CE Mark. In January 2012, the final Maestro Rechargeable System components were listed on the ARTG by the Australian TGA and we have been working closely with Device Technologies Australia Pty Limited to bring the Maestro Rechargeable System to the Australian market through a controlled commercial launch and made our first commercial shipment of the Maestro ReChargeable System to Device Technologies Australia Pty Limited resulting in $123,000 of revenue for the three months ended March 31, 2012. We also recently entered into an exclusive, multi-year agreement with Bader Sultan & Brothers Co. W.L.L. for commercialization and distribution of the Maestro ReChargeable System in the Gulf Coast Countries, including Saudi Arabia, Kuwait, Bahrain, Qatar and the United Arab Emirates and plan to begin commercial shipments to Bader Sultan & Brothers Co. W.L.L. during 2012.

In the United States, we completed enrollment and device implantation in our ReCharge pivotal trial for obesity in December 2011. The primary endpoints of efficacy and safety will be evaluated at 12 months, or around December 2012. Assuming we achieve favorable results, we plan to use data from that trial to pursue a PMA from the FDA to allow us to commence sales in the United States. If the FDA grants us approval, we anticipate we will be able to commercialize the Maestro Rechargeable System in the United States in 2014. Any revenue from initial sales of a new product in the United States or internationally is difficult to predict and in any event will only modestly reduce our continued losses resulting from our research and development and other activities.

Research and Development Expenses

Our research and development expenses primarily consist of engineering, product development and clinical and regulatory expenses, incurred in the development of our Maestro System. Research and development expenses also include employee compensation, including stock-based compensation, consulting services, outside services, materials, supplies, including those related to our various clinical trials, depreciation and travel. We expense research and development costs as they are incurred. From inception through March 31, 2012, we have incurred a total of $119.5 million in research and development expenses. With the completion of enrollment and device implantation in our ReCharge pivotal trial for obesity in late 2011, we expect research and development expenditures to decrease in 2012 as we turn our primary focus to supporting this new clinical trial in addition to the continued follow-up on existing trials, such as VBLOC-DM2 ENABLE and EMPOWER.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses consist primarily of compensation for executive, finance, market development and administrative personnel, including stock-based compensation. Other significant expenses include costs associated with attending medical conferences, professional fees for legal, including legal services associated with our efforts to obtain and maintain broad

protection for the intellectual property related to our products, and accounting services, cash management fees, consulting fees and travel expenses. From inception through March 31, 2012, we have incurred $51.0 million in selling, general and administrative expenses. We expect selling, general and administrative expenses to increase modestly in 2012 as we continue a controlled commercial launch in Australia, the Gulf Coast Countries of the Middle East and possibly other select international markets.

Results of Operations

Comparison of the Three Months Ended March 31, 2012 and 2011

Sales. Sales were $123,000 for the three months ended March 31, 2012, compared to no sales for the three months ended March 31, 2011. The $123,000 of sales for the three months ended March 31, 2012 is the result of our first commercial shipment of the Maestro ReChargeable System.

Cost of Goods Sold. Cost of goods sold were $86,000 for the three months ended March 31, 2012, compared to no cost of goods sold for the three months ended March 31, 2011. Gross margin was 30.5% for the three months ended March 31, 2012.

Research and Development Expenses. Research and development expenses were $2.7 million for the three months ended March 31, 2012, compared to $2.8 million for the three months ended March 31, 2011. The decrease of $78,000, or 2.8%, is primarily due to a decrease of $365,000 in device related costs offset by an increase in professional services of $270,000. The decrease in device related costs are the result of the completion of enrollment and device implantation in our ReCharge pivotal trial for obesity in late 2011. The increase in professional service costs is primarily related to the ongoing costs associated with the ReCharge trial.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $2.8 million for the three months ended March 31, 2012, compared to $2.1 million for the three months ended March 31, 2011. The increase of $745,000, or 36.0%, is primarily due to increases of $369,000 and $348,000 in payroll related costs and professional services expense, including stock based compensation, respectively, which are both a direct result of international commercialization efforts.

Interest Expense. Interest expense was $144,000 for the three months ended March 31, 2012, compared to $232,000 for the three months ended March 31, 2011. The decrease of $88,000, or 38.0%, is the result of a decrease in the gross principal balance outstanding from approximately $5.9 million on March 31, 2011 to approximately $4.8 million on March 31, 2012 and a modification to the loan agreement that reduced our annual interest rate from 11.0% to 6.25% effective March 1, 2011.

Liquidity and Capital Resources

We have incurred losses since our inception in December 2002 and, as of March 31, 2012 we had experienced net losses during the development stage of $182.2 million. We have financed our operations to date principally through the sale of capital stock, debt financing and interest earned on investments. Through December 31, 2011, we had received net proceeds of $173.8 million from the sale of common stock and preferred stock, including $39.1 million from our initial public offering in November 2007 and $71.5 million from public, private placement and registered direct offerings from 2009 through 2011. In addition, through December 31, 2011 we had received $35.8 million in debt financing, $746,000 to finance equipment purchases and $35.0 million to finance working capital. On April 20, 2012, we completed the sale of 2,271,705 shares of common stock in a registered direct offering at a purchase price of $2.223 per share. We received gross proceeds of $5.0 million before deducting estimated offering expenses.

As of March 31, 2012, we had $21.7 million in cash, cash equivalents, restricted cash and short-term investments. Of this amount $19.5 million was invested in short-term money market funds that are not considered to be bank deposits and are not insured or guaranteed by the federal deposit insurance company or other government agency. These money market funds seek to preserve the value of the investment at $1.00 per share; however, it is possible to lose money investing in these funds. Cash in excess of immediate requirements is invested in accordance with our investment policy, primarily with a view to liquidity and capital preservation. At times, such deposits may be in excess of insured limits. We have not experienced any losses on our deposits of cash and cash equivalents. We believe that our cash, cash equivalents, restricted cash and short-term investments balance of $21.7 million as of March 31, 2012, and any interest income we earn on these balances together with the initial net proceeds from the $20.0 million growth capital loan of approximately $5.3 million, before expenses, and $5.0 million of gross proceeds from a registered direct offering, both completed in April 2012, will be sufficient to meet our anticipated cash requirements well into 2013, assuming our planned commercialization and we do not receive any other additional funds.

On April 16, 2012 we entered into a new loan agreement with SVB pursuant to which SVB agreed to make term loans to us in an aggregate principal amount of up to $20.0 million. Pursuant to the loan agreement, a term loan was funded in the aggregate principal amount of $10.0 million on April 23, 2012, a portion of which was used to repay in full the outstanding debt of approximately $4.7 million. The new term loan requires interest only payments monthly through March 31, 2013 followed by 30 equal payments of principal in the amount of $333,333 plus accrued interest beginning on April 1, 2013 and ending on September 1, 2015, payable monthly. Amounts borrowed under the new loan agreement bear interest at a fixed annual rate equal to 8.0%. The additional $10.0 million term loan available under the loan agreement will be funded if we meet the primary endpoints of the ReCharge trial as well as certain financial objectives for 2012 prior to February 15, 2013. See Note 7 to our condensed consolidated financial statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q for a more detailed description of the new loan agreement.

Net Cash Used in Operating Activities

Net cash used in operating activities was $7.4 million and $4.8 million for the three months ended March 31, 2012 and 2011, respectively. Net cash used in operating activities primarily reflects the net loss for those periods, which was partially offset by depreciation and amortization, stock-based compensation and changes in operating assets and liabilities. The increase of $2.6 million is primarily due to a decrease in accrued expenses as payments related to 2011 ReCharge trial activity began to be paid during the three months ended March 31, 2012.

Net Cash (Used in) Provided by Investing Activities

Net cash used in investing activities was $48,000 for the three months ended March 31, 2012 compared to net cash provided by investing activities of $4.3 million for the three months ended March 31, 2011. Net cash used in investing activities for the three months ended March 31, 2012 is primarily attributable to the purchase of property and equipment. Net cash provided by investing activities for the three months ended March 31, 2011 is primarily attributable to a $6.3 million decrease in the restricted cash balance as a result of the Fourth Amendment to the SVB loan agreement offset by purchases of $2.0 million in short-term investments available for sale.

Net Cash Used in Financing Activities

Net cash used in financing activities was $550,000 for the three months ended March 31, 2012 compared to $413,000 for the three months ended March 31, 2011. Net cash used in financing activities for the three months ended March 31, 2012 and 2011 was primarily due to principal repayments on our long-term debt of $564,000 and $367,000, respectively.

Operating Capital and Capital Expenditure Requirements

We have only recently begun to generate revenue from the sale of products. We obtained European CE Mark approval for our Maestro Rechargeable System in March 2011. In January 2012, the final Maestro Rechargeable System components were listed on the ARTG by the TGA. We have been working closely with our Australian distributor, Device Technologies Australia Pty Limited, to bring the Maestro Rechargeable System to the Australian market through a controlled commercial launch and made our first commercial shipment of the Maestro ReChargeable System to Device Technologies Australia Pty Limited resulting in $123,000 of revenue for the three months ended March 31, 2012. We also recently entered into an exclusive, multi-year agreement with Bader Sultan & Brothers Co. W.L.L. for commercialization and distribution of the Maestro ReChargeable System in the Gulf Coast Countries, including Saudi Arabia, Kuwait, Bahrain, Qatar and the United Arab Emirates and plan to begin commercial shipments to Bader Sultan & Brothers Co. W.L.L. during 2012. We continue to explore additional select international markets to commercialize the Maestro Rechargeable System, including Europe. In the United States, we completed enrollment and device implantation in our ReCharge pivotal trial for obesity in December 2011. The primary endpoints of efficacy and safety will be evaluated at 12 months, or around December 2012. Assuming we achieve favorable results, we plan to use data from that trial to pursue a PMA from the FDA to allow us to commence sales in the United States. If the FDA grants us approval, we anticipate we will be able to commercialize the Maestro Rechargeable System in the United States in 2014. We anticipate that we will continue to incur substantial net losses for the next several years as we develop our products, prepare for the potential commercial launch of our Maestro Rechargeable System, develop the corporate infrastructure required to sell our products, operate as a publicly-traded company and pursue additional applications for our technology platform.

We believe that our cash, cash equivalents, restricted cash and short-term investments balance of $21.7 million as of March 31, 2012, and any interest income we earn on these balances together with the initial net proceeds from the $20.0 million growth capital loan of approximately $5.3 million, before expenses, and $5.0 million of gross proceeds from a registered direct offering, both completed in April 2012, will be sufficient to meet our anticipated cash requirements well into 2013, assuming our planned commercialization and we do not receive any other additional funds. If our available cash, cash equivalents, restricted cash and investment balances are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities or enter into a credit facility. The sale of additional equity and debt securities may result in dilution to our stockholders. If we raise additional funds through the issuance of debt securities, these securities could have rights senior to those of our common stock and could contain covenants that would restrict our operations. We may require additional capital beyond our currently forecasted amounts. Any such required additional capital may not be available on reasonable terms, if at all. If we are unable to obtain additional financing, we may be required to reduce the scope of, delay, or eliminate some or all of, our planned research, development and commercialization activities, which could materially harm our business.

Our forecast of the period of time through which our financial resources will be adequate to support our operations, the costs to complete development of products and the cost to commercialize our products are forward-looking statements and involve risks and uncertainties, and actual results could vary materially and negatively as a result of a number of factors, including the factors discussed in Part I, Item 1A, *Risk Factors*, of our Annual Report on Form 10-K for the year ended December 31, 2011. We have based these estimates on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect.

Because of the numerous risks and uncertainties associated with the development of medical devices, such as our Maestro System, we are unable to estimate the exact amounts of capital outlays and operating expenditures necessary to complete the development of the products and successfully deliver a commercial product to the market. Our future capital requirements will depend on many factors, including but not limited to the following:

- the scope, rate of progress, results and cost of our clinical trials and other research and development activities;
- the cost and timing of regulatory approvals;
- the cost and timing of establishing sales, marketing and distribution capabilities;
- the cost of any recalls or other field actions required either by us or by regulatory bodies in those countries in which we market our products;
- the cost of establishing clinical and commercial supplies of our Maestro System and any products that we may develop;
- the rate of market acceptance of our Maestro System and VBLOC therapy and any other product candidates;
- the cost of filing and prosecuting patent applications and defending and enforcing our patent and other intellectual property rights;
- the cost of defending, in litigation or otherwise, any claims that we infringe third-party patent or other intellectual property rights;
- the effect of competing products and market developments;
- the cost of explanting clinical devices;
- the terms and timing of any collaborative, licensing or other arrangements that we may establish;
- any revenue generated by sales of our Maestro System or our future products; and
- the extent to which we invest in products and technologies, although we currently have no commitments or agreements relating to any of these types of transactions.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States. In doing so, we have to make estimates and assumptions that affect our reported amounts of assets, liabilities and expenses, as well as related disclosure of contingent assets and liabilities. In many cases, we could reasonably have used different accounting policies and estimates. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ materially from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected. We base our estimates on past experiences and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis.

Our significant accounting policies are fully described in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the U.S. Securities and Exchange Commission (SEC).

Contractual Obligations

During the three months ended March 31, 2012, there were no material changes to our contractual obligation disclosures as set forth under the caption, “Contractual Obligations” in Part II, Item 7, *Management’s Discussion and Analysis of Financial Condition and Results of Operations*, of our Annual Report on Form 10-K for the year ended December 31, 2011.

The following table summarizes our contractual obligations as of March 31, 2012, as modified on April 16, 2012, and the effect those obligations are expected to have on our financial condition and liquidity position in future periods:

	Payments Due By Period				
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease	$ 1,009,203	$ 281,448	$ 727,755	$ —	$ —
Long-term debt, including interest	12,476,306	926,454	9,002,222	2,547,630	—
Total contractual cash obligations	$13,485,509	$1,207,902	$9,729,977	$2,547,630	$ —

The table above reflects only payment obligations that are fixed and determinable. Our operating lease commitments relate to our corporate headquarters in St. Paul, Minnesota.

On April 16, 2012 we entered into a new loan agreement with SVB pursuant to which SVB agreed to make term loans to us in an aggregate principal amount of up to $20.0 million. Pursuant to the loan agreement, a term loan was funded in the aggregate principal amount of $10.0 million on April 23, 2012, a portion of which was used to repay in full the outstanding debt of approximately $4.7 million. The new term loan requires interest only payments monthly through March 31, 2013 followed by 30 equal payments of principal in the amount of $333,333 plus accrued interest beginning on April 1, 2013 and ending on September 1, 2015, payable monthly. Amounts borrowed under the new loan agreement bear interest at a fixed annual rate equal to 8.0%. The additional $10.0 million term loan available under the loan agreement will be funded if we meet the primary endpoints of the ReCharge trial as well as certain financial objectives for 2012 prior to February 15, 2013. The table above reflects this new loan agreement. See Note 7 to our condensed consolidated financial statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q for a more detailed description of the new loan agreement.

Off-Balance Sheet Arrangements

As of March 31, 2012, we did not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board issued guidance on the presentation of comprehensive income in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. We adopted this standard during the first quarter of 2012 and present net loss and other comprehensive loss in two separate, but consecutive, statements. The adoption of this standard did not have a material effect on our financial statement disclosures.

There were no other significant changes in recent accounting pronouncements during the three months ended March 31, 2012 as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk is confined to our cash, cash equivalents, restricted cash and short-term investments. As of March 31, 2012, we had $21.7 million in cash, cash equivalents, restricted cash and short-term investments. The goals of our investment policy are preservation of capital, fulfillment of liquidity needs and fiduciary control of cash and investments. We also seek to maximize income from our investments without assuming significant risk. To achieve our goals, we may maintain a portfolio of cash equivalents and investments in a variety of securities of high credit quality. The securities in our investment portfolio, if any, are not leveraged, are classified as either available for sale or held-to-maturity and are, due to their very short-term nature, subject to minimal interest rate risk. We currently do not hedge interest rate exposure. Because of the short-term maturities of our cash equivalents and investments, we do not believe that an increase in market rates would have any material negative impact on the value of our investment portfolio. We have no investments denominated in foreign currencies and therefore our investments are not subject to foreign currency exchange risk.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), defines the term “disclosure controls and procedures” as those controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation as of March 31, 2012, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not currently a party to any litigation and we are not aware of any pending or threatened litigation against us that could have a material adverse effect on our business, operating results or financial condition. The medical device industry in which we operate is characterized by frequent claims and litigation, including claims regarding patent and other intellectual property rights as well as improper hiring practices. As a result, we may be involved in various legal proceedings from time to time.

ITEM 1A. RISK FACTORS

There have been no material changes during the three months ended March 31, 2012 to the risk factors set forth in Part I, Item 1A, *Risk Factors*, of our Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

As previously described in our Current Report on Form 8-K filed April 17, 2012, on April 16, 2012 we entered into a new Loan and Security Agreement with Silicon Valley Bank. As required by the new agreement, on April 16, 2012 we issued a warrant to Silicon Valley Bank to purchase 106,746 shares of our common stock with an exercise price of $2.34 per share and a ten year life. See Note 7 to our condensed consolidated financial statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q for more detail about the loan agreement. The sale and issuance of this warrant was deemed to be exempt from registration under the Securities Act of 1933 (the Securities Act) by virtue of Section 4(2) of the Securities Act, as a transaction by an issuer not involving any public offering.

Uses of Proceeds from Sale of Registered Securities

None.

Purchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The list of exhibits on the accompanying Exhibit Index are filed or incorporated by reference (as stated therein) as part of this Quarterly Report on Form 10-Q.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENTEROMEDICS INC.

BY: /S/ MARK B. KNUDSON, PH.D.
Mark B. Knudson, Ph.D.
President and Chief Executive Officer
(Principal Executive Officer)

BY: /S/ GREG S. LEA
Greg S. Lea
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: May 10, 2012

EXHIBIT INDEX

Exhibit Number	Description of Document
3.1	Fifth Amended and Restated Certificate of Incorporation of the Company. (Incorporated herein by reference to Exhibit 3.2 to Amendment No. 6 to the Company's Registration Statement on Form S-1 filed on November 9, 2007 (File No. 333-143265)).
3.2	Certificate of Amendment to the Fifth Amended and Restated Certificate of Incorporation of the Company. (Incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2009 (File No. 1-33818)).
3.3	Certificate of Amendment to the Fifth Amended and Restated Certificate of Incorporation of the Company. (Incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 13, 2010 (File No. 1-33818)).
3.4	Amended and Restated Bylaws of the Company, as currently in effect. (Incorporated herein by reference to Exhibit 3.4 to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed on July 6, 2007 (File No. 333-143265)).
4.1	Amended and Restated Investors' Rights Agreement, dated as of July 6, 2006, by and between the Company and the parties named therein. (Incorporated herein by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-1 filed on May 25, 2007 (File No. 333-143265)).
10.1*#	Distribution Agreement, dated as of February 21, 2012, by and between Bader Sultan & Brothers Co. W.L.L. and the Company.
10.2	Securities Purchase Agreement, dated as of April 16, 2012, between the Company and the purchasers identified on Schedule A thereto. (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 17, 2012 (File No. 1-33818)).
10.3*#	Loan and Security Agreement, dated April 16, 2012, between the Company and Silicon Valley Bank.
10.4*	Form of Warrant to purchase stock under Loan and Security Agreement, dated April 16, 2012, between the Company and Silicon Valley Bank.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2012, formatted in Extensible Business Reporting Language: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Loss, (iv) the Condensed Consolidated Statements of Cash flows and (v) the Notes to Condensed Consolidated Financial Statements.

* Filed herewith.

\# Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

Exhibit 10.1

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

February 18, 2012

DISTRIBUTION AGREEMENT

This DISTRIBUTION AGREEMENT is hereby made and entered into as of February 21, 2012 (the "Effective Date") by and between EnteroMedics, Inc., a company incorporated under the laws of Delaware, USA with an office at 2800 Patton Road, Saint Paul, MN 55113 USA ("EnteroMedics"), and Bader Sultan & Brothers Co. W.L.L., a company incorporated under the laws of Kuwait with an office located at Shuwaikh Industrial Area, Future Zone, Plot E-67, Kuwait ("Distributor").

WHEREAS, EnteroMedics has developed and manufactures, markets and sells implantable products for the treatment of obesity.

WHEREAS, Distributor is experienced in the importation, distribution, marketing, sale and support of such products and desires to promote and distribute such products in the Territory, as defined below.

NOW, THEREFORE, in consideration of the mutual covenants and conditions herein contained, and intending to be legally bound by this Agreement, the parties agree as follows:

1. SCOPE OF THE AGREEMENT

(a) Appointment. Subject to the terms and conditions of this Agreement, including the requirements set forth in Section 2 below, EnteroMedics hereby appoints Distributor as the exclusive authorized distributor of the EnteroMedics products listed in attached Exhibit A, Section 3 ("Products") in the territory set forth on attached Exhibit A, Section 1 ("Territory") and in the sales channel set forth on attached Exhibit A, Section 2 ("Sales Channel"), and Distributor accepts such appointment. The term "exclusive" as used herein means that as long as Distributor is in compliance with the terms and conditions of this Agreement, including not having had its exclusive rights terminated under Section 6(f) below, EnteroMedics shall not appoint another third party distributor to sell Products in the Territory.

(b) Sole Supplier. Distributor shall not obtain the Products for resale from any person or entity other than EnteroMedics. Distributor may not sell or distribute the Products to any person outside the Territory or outside the Sales Channel, or to any person who Distributor knows or could reasonably be expected to know intends to distribute or resell or otherwise supply Products to any person outside the Territory or outside the Sales Channel. Distributor shall not directly or indirectly (including through its affiliates), actively solicit or fill orders for any of the Products outside the Territory; *provided*, *however*, that Distributor may accept and fill unsolicited orders for the Products from a Customer located outside the Territory with prior written authorization from EnteroMedics.

(c) Authorized Supplies. Distributor shall sell, offer for sale and promote only the Products. Distributor shall not sell, offer for sale or promote the use of expired or reprocessed Products.

(d) Products. EnteroMedics reserves the right to discontinue or modify the Products, modify the Product specifications, or replace the Products with other EnteroMedics or third party products in its sole discretion, provided that, except as required by law, any such discontinuations, modifications, or replacements will not apply to Products that are subject to an outstanding purchase order accepted by EnteroMedics pursuant to Section 4.

(e) Competitive Products. During the Term the Distributor shall not, directly or indirectly, manufacture, sell, market, promote, distribute or purchase from third parties for resale or act as an agent for third parties with respect to, or own an interest in any entity which manufacturers, sells or distributes any product or treatment that competes with the Products (each, a "Competing Product"). Distributor warrants that, with the exception of the Covidien laparoscopic sleeve gastrectomy products, it does not engage in any such activities with any Competing Products as of the Effective Date. Distributor shall not negotiate or discuss entering into any agreement during the term of this Agreement that would, if consummated, permit or require Distributor to sell any Competing Product. For this purpose, "Competing Product" means any surgical product approved by US FDA, CE Mark authorities or regulatory authorities in the Territory which has a clinical indication for use in patients with obesity who have a body mass index (BMI) between 25 and 55. During the Term (as defined below), Distributor shall disclose to EnteroMedics any new products in the field of obesity treatment that Distributor wishes to promote or sell, as well as the manufacturer of such products or treatments, prior to promoting or selling such products or treatments, and EnteroMedics shall determine in its sole discretion whether such products or treatments are Competing Products.

(f) Certain Entities. EnteroMedics may prohibit Distributor from providing Products to any entity or person that it reasonably believes is using the Products in violation of: (i) the terms of this Agreement, or (ii) any law, regulation, policy, guideline, order, or similar authority issued by a federal, state or local government or any agency, board or commission thereof.

(g) Independent Contractors. The relationship of EnteroMedics and Distributor established by this Agreement is that of independent contractors and nothing contained herein shall be construed to: (i) give either party the power to direct and control the day-to-day activities of the other, (ii) constitute the parties as partners, joint ventures, co-owners or otherwise as participants in a joint or common undertaking, or (iii) allow Distributor to create or assume any obligation on behalf of EnteroMedics. All financial obligations associated with Distributor's business and its performance under this Agreement are the sole responsibility of Distributor. All sales and other agreements between Distributor and its Customers are Distributor's exclusive responsibility and shall have no effect on Distributor's or EnteroMedics' obligations under this Agreement. As used in this Agreement, "Customer" means a medical professional or health care delivery organization or agency to whom Distributor supplies goods or services.

(h) Subdistributors.

(1) Distributor may appoint subdistributors of the Products in the Territory, provided that (a) Distributor has reasonably determined that the subdistributor has a good reputation and has adequate skills, experience and committed resources to sell and support the Products; (b) Distributor has provided written notice to EnteroMedics requesting approval for such appointment identifying each subdistributor, including the name, address, phone number, legal relationship to Distributor, and authorized

representative(s) of such subdistributor and defined territory; and (c) Distributor has received prior written approval from EnteroMedics, such approval not to be unreasonably withheld.

(2) Upon approval from EnteroMedics, Distributor shall enter into a binding written agreement with each such subdistributor containing provisions reasonably calculated to ensure compliance with Distributor's obligations hereunder, including without limitation the provisions of Section 1(e) (Competitive Products), Section 2 (Responsibilities of Distributor), Section 6 (Term and Termination), Section 8 (Proprietary Rights and Confidentiality) and Section 9 (Trademarks and Trade Names) hereof, and expressly prohibiting the appointment by the subdistributor of any subdistributor or subagents. Any such appointment shall not relieve Distributor of its obligations hereunder, and Distributor shall be responsible to EnteroMedics for, and shall indemnify and hold EnteroMedics harmless for, any act or omission of a subdistributor that would, if committed by Distributor, constitute a breach of this Agreement.

2. RESPONSIBILITIES OF DISTRIBUTOR

(a) Marketing, Promotion, Clinician Training and Clinical Field Support Generally. Distributor acknowledges that it is in the interest of both Distributor and EnteroMedics to ensure that the Products are introduced to the Territory and the Sales Channel in a manner which, in EnteroMedics' sole discretion taking into account information and advice provided by Distributor, best serves the business objectives of EnteroMedics both in the Territory and in countries outside the Territory. Distributor acknowledges that the Products are new products and that, as of the Effective Date, EnteroMedics is in the early stages of market research and market development activities for the Products in the Territory and elsewhere. As a result the parties intend to engage in an initial period of market research and market development prior to beginning full commercial activities. Distributor agrees to cooperate with and follow EnteroMedics' directions during that initial period and thereafter during the Term in the development and execution of regulatory plans; marketing plans; reimbursement approval plans; the identification and accreditation of surgeons, physicians and clinics with appropriate standing to use the Products; surgeon and clinician training protocols; clinical field support; and the like. In order to achieve these objectives, Distributor shall use its best efforts to vigorously promote, sell and support the Products throughout the Territory and the Sales Channel in accordance with such plans, and shall at its cost and expense: (i) employ on its own behalf a sufficient number of specialized, trained, and qualified personnel to promote, sell and support the Products in the Territory and the Sales Channel; (ii) maintain a professional sales and service organization as necessary to provide training and customer service for the Products in the Territory and the Sales Channel; and (iii) otherwise operate its business in a professional and ethical manner, in each case in accordance with this Agreement.

(b) Development and Execution of Plans. Within sixty (60) days of the Effective Date of this Agreement, Distributor shall provide for EnteroMedics' review and approval, the following (each a "Plan" and collectively the "Plans"):

(1) a twelve (12) month sales and marketing plan ("Annual Marketing Plan") which shall, by individual month, (i) list sales goals for the following twelve (12) month period for each Product in the Territory, such goals to include unit volume goals and average selling price per unit goals; (ii) specify number of specialized, trained and qualified personnel promoting and selling each Product in the Territory; (iii) specify Distributor's planned professional promotion activities in support of each Product in the Territory, to include (a) sales calls on surgeons, (b) sales calls on clinical directors, (c) representation at trade shows and medical conferences, and (d) hosting of workshops to showcase Product to surgeons and other sales targets; (iv) specify Distributor's planned media activities in support of each Product and country in the Territory; (v) identify key opinion leaders in each country in the Territory on which sales, marketing and training efforts will be focused; (vi) specify Distributor's planned surgeon and clinician training activities in support of each Product in the Territory; and (vii) establish an audit plan for Customer accounts to assess Customer satisfaction, patient selection and Product usage;

(2) a twelve (12) month plan to address strategies to achieve regulatory approvals and reimbursement approvals with regard to the Products in the Territory;

(3) a twelve (12) month plan for the management of and objectives applicable to all subdistributors of the Products; and

(4) such other Plans as EnteroMedics and Distributor deem useful and appropriate.

(c) Plan Updates. Distributor shall update the Plans and provide such updated Plans to EnteroMedics at least sixty (60) days prior to each anniversary of the date the first Annual Marketing Plan was approved by EnteroMedics. Upon EnteroMedics' approval, Distributor shall implement the Plans in accordance with EnteroMedics' ongoing approval and direction.

(d) Minimum Marketing, Promotion and Regulatory Targets. Distributor agrees to meet the Minimum Marketing, Promotion and Regulatory Targets set forth in attached Exhibit H during each year during the term of this Agreement (the "Minimum Marketing, Promotion and Regulatory Targets").

(e) Monthly Forecasts; Reports. During the first week of each calendar month, Distributor will provide to EnteroMedics an annual rolling Product purchase forecast and a report in the form and format set forth on attached Exhibit G to report on the execution of the Plans ("Monthly Forecast and Report"). Each Monthly Forecast and Report shall contain a forecast that specifies the number of Products Distributor intends to purchase during the ninety (90) day period beginning on the date of the report ("Forecast") which shall constitute a binding purchase commitment (the "Distributor Minimum Order") by Distributor. This order may not exceed the previous rolling forecast order by more than 15% without the prior written agreement of EnteroMedics, in which case this new amount shall become the Distributor Minimum Order for that quarter.

(f) Minimum Purchase Requirements.

(1) Distributor agrees to purchase and take delivery of the minimum amount of Products during each year during the term of this Agreement as established pursuant to this Section 2(f)(1) (the "Minimum Purchase Requirements"). The initial Minimum Purchase Requirements are set forth on attached Exhibit C. Distributor acknowledges that, for the reasons stated in Section 2(a) above relating to the Products being new products in the early stages of introduction to the Territory and elsewhere, EnteroMedics has limited information as of the Effective Date about market demand, pricing, the desired speed of introduction, and other factors relating to the Products and the Territory on which to base the Minimum Purchase Requirements. Accordingly, Distributor agrees that (i) the Minimum Purchase Requirements set forth on Exhibit C state the minimum amounts for the Minimum Purchase Requirements and (ii) the Minimum Purchase Requirements for 2013 and thereafter may be increased by EnteroMedics consistent with the strategy that EnteroMedics adopts for development of the market in the Territory and based on information that EnteroMedics obtains through its market research and market development activities, taking into account information and advice provided by Distributor. If the parties are unable to agree on the Minimum Purchase Requirements for 2013 or any calendar year thereafter (and for any periods within any such calendar year), EnteroMedics may exercise its remedies as provided in the last sentence of Section 6(b) and Section 6(f). Distributor further agrees that the Minimum Purchase Requirements are not intended to state, and shall not be interpreted to state, a commitment by EnteroMedics to sell to Distributor any particular quantities of the Products in any time period.

(2) Distributor's failure to achieve the Minimum Purchase Requirements for any time period shall entitle EnteroMedics to exercise its remedies as provided in the last sentence of Section 6(b) and Section 6(f). Distributor acknowledges and agrees that (i) it has assisted EnteroMedics to fix the minimum purchase quantities stated on Exhibit C, (ii) the minimum purchase quantities are reasonable in view of Distributor's capabilities and market conditions in the Territory, and (iii)the provisions of this

Section 2(f) are essential to this Agreement as stating the minimum amount of Product sales which justify EnteroMedics' grant to Distributor of distribution rights for the Products.

(g) General Performance Standards. Distributor agrees that the continued maintenance of an image of excellence and ethical marketing of the Products is essential to the continued success of both parties. Accordingly, Distributor:

(1) shall respond within 24 hours from receipt to requests for service and technical information so as to develop, maintain, and enhance the goodwill of Customers and prospective Customers throughout the entire Territory and their acceptance of the Products, to provide a high level of assistance and service to Customers, and to provide analysis of any questions arising regarding the Products throughout the entire Territory;

(2) shall conduct its business with regard to the Products and its other business activities in a reputable and businesslike manner within the precepts of accepted medical and business ethics;

(3) shall not engage in deceptive, misleading, or unethical practices that are or might be detrimental to EnteroMedics, the Products, or the public, including any such practices directed at Competing Products;

(4) shall make no false, misleading or deceptive statements or representations, either orally or in any written materials, with regard to EnteroMedics, Distributor or the Products;

(5) shall make no representations, warranties, or guarantees to Customers or to the trade with respect to the specifications, indications, capabilities, or features of the Product that are inconsistent with the literature provided to Distributor by EnteroMedics for marketing purposes; and

(6) shall promote and sell the Products only for use and applications approved by EnteroMedics in accordance with their labeled indications and with applicable regulatory approvals and requirements.

(h) Legal Compliance. Distributor shall comply at its expense with all laws governing the distribution, promotion, marketing, training and sale of the Products in the Territory. Without limiting the foregoing, Distributor:

(1) shall, except for EnteroMedics' obligation with respect to maintenance of quality systems in accordance with Section 3(c), in consultation with EnteroMedics consistent with the Plans provided for in Section 2(b) and Section 2(c), obtain all governmental authorizations, licenses, filings, approvals and similar requirements, such as medical device approvals, export/import licenses and foreign exchange permits, necessary or advisable to import, distribute and sell the Products in the Territory (collectively, "Approvals"). To the fullest extent allowed under applicable

law, all Approvals shall be obtained in the name of EnteroMedics alone. Distributor shall provide to EnteroMedics copies of all applications for Approvals prior to their submission and copies of all Approvals promptly after they are obtained. Distributor represents and warrants that all Approvals Distributor has not obtained prior to the Effective Date shall be obtained by Distributor in a timely manner and at Distributor expense prior to Distributor's importation, distribution or sale of Products in the Territory. Nothing in this Agreement shall limit EnteroMedics' right in its sole discretion to obtain for itself any Approval. EnteroMedics shall have the option to acquire any Approval obtained by Distributor, or any application for such an Approval, including all related documentation and any documents required to facilitate and execute the transfer of such Approval or application to EnteroMedics or its nominee, by (i) providing thirty (30) days prior written notice at any time during the Term or within thirty (30) days after termination of this Agreement, and (ii) paying Distributor an amount for such Approval equal to the reasonable, documented third-party out-of-pocket expenses incurred by Distributor in obtaining such Approval, not to exceed US$100 for each Approval.

(2) shall keep EnteroMedics informed in writing of regulatory requirements, and any changes thereto, imposed by the laws of the Territory applicable to the Products and on any and all efforts made by Distributor to comply therewith;

(3) shall comply promptly with any recalls of the Product issued by EnteroMedics or by any applicable regulatory authorities;

(4) shall comply with the quality and regulatory roles and responsibilities specified in attached Exhibit B and shall otherwise accept notifications from Customers or any physician or user of the Product in the Territory regarding complaints and adverse events with respect to the Products, including: alleged or actual Product malfunctions; alleged or actual injury to patients or operators (even if caused by use error); alleged or actual counterfeiting or non-routine servicing, e.g., repairs of an unexpected nature, replacement of parts earlier than their normal life expectancy, or identical repairs or replacements of multiple units of a device are not routine servicing (collectively "Complaints"). Distributor shall notify EnteroMedics of any Complaints within twenty-four (24) hours of the Distributor becoming aware of the complaint, meaning that an employee or contractor of the Distributor has acquired information that suggests a Complaint may have occurred;

(5) shall maintain a detailed tracking system that enables Distributor to maintain complete and accurate information to track Products by Customer, physician or recipient name and address, part number(s) shipped, serial number(s) or lot number(s) shipped, quantity shipped and dates of shipment, and shall provide such information in complete and accurate form within twenty-four (24) hours upon request by EnteroMedics;

(6) at the request of EnteroMedics, shall forward to physicians and any other recipients of the Product in the Territory communications or notifications originated by EnteroMedics and shall provide written confirmation of having delivered such requested communications or notifications to such recipients within five (5) days after delivery to Distributor, or any shorter time period necessitated by any urgent circumstances, provided that EnteroMedics will be responsible for any additional costs incurred to meet this obligation above and beyond normal post or next-day document delivery charges;

(7) shall designate an employee of Distributor as regulatory liaison to EnteroMedics and shall notify EnteroMedics of the identity and contact details of such employee;

(8) shall promptly advise EnteroMedics of any laws, rules or regulations in the Territory that may require EnteroMedics to take any action in connection with the Products or this Agreement;

(9) shall maintain records as necessary to comply with, and to demonstrate its compliance with, all applicable laws, rules and regulations with respect to the sale of the Products in the Territory;

(10) shall (i) comply with the laws of the Territory, the United States and any other applicable jurisdiction (including the U.S. Foreign Corrupt Practices Act and US export control and embargo laws) that address payments to governments or related persons for the purpose of obtaining or retaining business for or with, or directing business to, any person, or otherwise affecting the actions of any government personnel, or that impose restrictions on the exportation of the Products; and (ii) take all steps necessary to ensure that any agents, consultants, subdistributors and other third parties retained, or otherwise used by Distributor in accordance with the terms of this Agreement, do not take any action which would cause EnteroMedics to be in violation of any such laws;

(11) shall comply with any code of business conduct that is reasonably adopted by EnteroMedics during the Term of this Agreement and provided to Distributor;

(12) shall comply with the terms of any export license issued to EnteroMedics by any department or agency of the United States government, including but not limited to end-user authorizations and quantity and value limits; provided, that EnteroMedics promptly provides copies of such export licenses to Distributor; and

(13) shall comply with EnteroMedics' reasonable requests for all information and documentation necessary to verify Distributor's compliance with this Section 2(h) and provide reasonable cooperation with EnteroMedics in any investigation by EnteroMedics or any governmental entity regarding compliance with this Section 2(h).

(i) Translation of Product Materials. Unless otherwise directed by EnteroMedics in its sole discretion, Distributor:

(1) shall, at its expense using language experts reasonably familiar with medical device products and terminology in the Territory ("Translators"), timely review all technical, labeling, advertising, marketing and training materials and all notices or other materials supplied by or on behalf of EnteroMedics (collectively, "Product Materials") as previously translated into one or more languages appropriate for the Territory. Distributor shall provide written feedback ("Translation Feedback") regarding its review of the translated Product Materials to EnteroMedics and/or its designee within forty-five (45) days of its receipt of translated Product Materials. Translation Feedback shall contain, at a minimum: (A) suggestions for corrections to the translated Product Materials consistent with the original English versions so as to maintain their accuracy and so as not to alter their content or meaning, consistent with the idioms and customs of the Territory (collectively or individually, a "Conforming Translation"), (B) copies of translated Product Materials as so corrected, (C) explanation of suggested corrections, or, in the case no corrections are suggested, (D) confirmation that the translated Product Materials suffice as Conforming Translations.

(2) As may be directed by EnteroMedics in its sole discretion, Distributor shall translate, at its expense using Translators, all English versions of Product Materials into one or more languages appropriate for the Territory to produce Conforming Translations. At least forty-five (45) days prior to distributing Products or using such translations in commerce, Distributor shall provide EnteroMedics and/or its designee with copies of all translations for review and approval. Distributor shall make any changes to the translated Product Materials requested by EnteroMedics and/or its designee in connection with a review of such materials. Distributor shall not distribute any translated Product Materials until EnteroMedics has finally approved such materials in writing.

(3) Distributor hereby assigns all its rights in the draft and final translated Product Materials to EnteroMedics, and EnteroMedics hereby grants Distributor a nonexclusive, non-transferable license during the Term to reproduce and distribute the final versions of translated Product Materials solely in connection with the distribution of the Products and performance of Distributor's obligations under this Agreement.

(j) Customer Support, Training, Certification and Product Service.

(1) Distributor shall have the sole responsibility for (A) obtaining orders for Products from Customers, (B) providing First-Level Support to Customers, (C) training Customers with respect to the Products sold by Distributor, and (D) handling all other interactions with Customers in the Territory with respect to the Products. Without limiting Distributor's other obligations in this Section 2(j), Distributor shall at all times maintain a sufficient level of understanding of the Products to enable Distributor to provide technical information to Customers regarding the Products, to effectively sell and service the Products, and to obtain Customer orders and provide assistance to Customers in determining and fulfilling their requirements with respect to the Products. For clarity, EnteroMedics shall have no obligation hereunder to respond to or otherwise interact with any Customers in the Territory, although Distributor shall cooperate with EnteroMedics to enable EnteroMedics to have such contacts with Customers in the Territory as EnteroMedics determines is appropriate consistent with the objectives stated in Section 2(a) above. The term "First-Level Support" means a level of support at least at the level designated as required for personnel who are trained and certified in accordance with the EnteroMedics Training Program described in Section 2(j)(2).

(2) Distributor personnel shall participate in EnteroMedics' standard training program applicable to the Products ("EnteroMedics Training Program") before selling any Products. The training will be provided at a mutually agreed upon location. Distributor shall be responsible for the travel-related costs and expenses of EnteroMedics personnel that attend the EnteroMedics Training Program. EnteroMedics and Distributor shall mutually agree to the number of Distributor personnel who must attend the EnteroMedics Training Program.

(3) Distributor shall train all Customers with respect to the use of the Products in accordance with the then-current requirements of the EnteroMedics Training Program. Distributor shall only use training documentation provided by EnteroMedics in performing Customer training. Distributor shall create and maintain a record of training for each Customer trained by Distributor with respect to the Products in accordance with a training and accreditation program to be developed and certified by EnteroMedics, and shall provide EnteroMedics with information about such training activities in accordance with report formats to be developed by EnteroMedics and attached to this Agreement as Exhibit D ("Training Record"). Distributor shall supply Products only to Customers who have satisfactorily completed such EnteroMedics-certified training and accreditation.

(4) Distributor shall perform all Product service in accordance with the requirements set forth in the EnteroMedics Training Program and

otherwise provided by EnteroMedics to Distributor in writing from time to time during the Term, including requirements regarding Customer service response times, and similar matters. Distributor shall document and maintain records of all Product service ("Service Records") in accordance with requirements to be developed by EnteroMedics and attached to this Agreement as Exhibit E. Distributor shall offer and provide Product service (for Products in and out of warranty) to all Customers in the Territory. With respect to out-of-warranty service, Distributor shall warrant its workmanship with respect to Product service for at least ninety (90) days after completion thereof. Distributor shall, within five (5) days after EnteroMedics' request, provide EnteroMedics with any or all Service Records.

(k) Inventory. Distributor shall, during the course of the Term, maintain a minimum inventory of EnteroMedics products to be able to fulfill orders of a certain minimum size and maintain market momentum throughout the Territory. This inventory shall take into account quantities necessary to meet Distributor's Minimum Purchase Requirements. Distributor may use this inventory as product sales, demonstrations or product replacement on a local basis. Distributor shall report in writing the status of this inventory on each Monthly Forecast and Report.

3. RESPONSIBILITIES OF ENTEROMEDICS

(a) Fulfillment of Product Orders; Warranty. EnteroMedics shall fulfill orders for Products in accordance with Section 4 and shall replace or repair defective Products that are under warranty in accordance with Section 5.

(b) Product Materials. EnteroMedics shall provide Distributor the Product Materials provided for in Section 2(i) that EnteroMedics generally provides to other distributors of the Products. All such materials shall be provided in the English language. Upon reasonable request by Distributor, EnteroMedics agrees to supply all necessary documentation to enable Distributor to comply with government regulations in the Territory, including but not limited to safety testing documentation, clinical trial results, hazard and risk analysis documents and copies of EnteroMedics' technical file with respect to the Products.

(c) Quality Systems. EnteroMedics shall establish and maintain an ISO 13485 compliant quality system for the design and manufacture of the Products and shall comply with the obligations listed in attached Exhibit B.

(d) Product Field Actions. From time to time EnteroMedics may be required to effect a Product correction (*e.g.*, a field safety corrective action) that requires removal of the Product from Customer premises or the provision of an advisory notice to Customers, which correction is intended to reduce a risk of death or deterioration in the state of health associated with the use of a Product (each, a "Product Field Action"). If EnteroMedics determines in its sole discretion that an investigation by a government office or agency, regulatory authority or any other third party requires a Product Field Action, EnteroMedics shall notify Distributor of such Product Field Action and EnteroMedics shall perform such Product Field Action. Distributor shall cooperate

with, and provide assistance to, EnteroMedics in connection with such Product Field Action, including locating and retrieving the Products, if necessary, and complying with the reasonable instructions of EnteroMedics. EnteroMedics shall reimburse Distributor for all reasonable, documented third-party out-of-pocket expenses incurred by Distributor in performing cooperation and assistance requested by EnteroMedics in connection with Product Field Actions.

4. TERMS OF PURCHASE OF PRODUCTS BY DISTRIBUTOR

(a) Terms of Purchase of Products. All purchases of Products by Distributor from EnteroMedics will be governed exclusively by EnteroMedics' Standard Terms and Conditions in force from time to time during the Term, except where they conflict with the terms and conditions set forth in this Agreement and further defined in this Section 4.

(b) Order, Acceptance and Cancellation. Distributor shall order Products by providing written documentation ("Purchase Orders") for the Products to EnteroMedics in writing, by e-mail or fax, at EnteroMedics' principal offices in St. Paul, Minnesota, which shall at minimum set forth (i) identification of the Products ordered, (ii) quantities, (iii) requested delivery dates, and (iv) shipping instructions and shipping address in the Territory, and (v) reference to the then-current Purchase Price (as defined below). All Purchase Orders from Distributor are subject to acceptance and confirmation in writing by EnteroMedics, which acceptance shall be delivered by e-mail or fax, creating a binding contract under the terms of this Agreement. Distributor may cancel a Purchase Order in excess of the Distributor Minimum Order by providing written notice prior to EnteroMedics within ten (10) business days of acceptance of Purchase Order but no later than ninety (90) days prior to EnteroMedics' scheduled shipment of the Product(s).

(c) Prices. The prices payable by Distributor for the Products shall be those set forth in EnteroMedics' price list in force at the time the Purchase Order is received by EnteroMedics (the "Purchase Prices"). The initial Purchase Prices are set forth in attached Exhibit A, Section 3. Distributor acknowledges that, for the reasons stated in Section 2(a) above relating to the Products being new products in the early stages of introduction to the Territory and elsewhere, EnteroMedics has limited information as of the Effective Date on which to base the pricing for the Products in a manner that is consistent with EnteroMedics' business strategies. Accordingly, it is expressly agreed that EnteroMedics shall have the right to modify the Purchase Prices at its sole discretion upon forty-five (45) days written notice to Distributor. EnteroMedics reserves the sole right to set prices and terms of availability for any Products which may be added to the Products listed in Exhibit A by mutual written agreement of EnteroMedics and Distributor.

(d) Resale Prices. Distributor is solely responsible for setting the resale prices charged by Distributor within the Territory, which shall at all times be set forth in a current price list for the Products maintained by Distributor. Such current price list and all changes thereto shall be promptly communicated to EnteroMedics upon the reasonable request of EnteroMedics.

(e) Payment. All orders will be paid for by wire transfer in US Dollars to a bank account specified by EnteroMedics within thirty (30) days of the date of EnteroMedics' invoice for the relevant Products. As security for such payments, Distributor will provide EnteroMedics

with a confirmed irrevocable stand-by letter of credit issued by a commercial bank acceptable to EnteroMedics in the amount of US$ 250,000 and at all times during the Term of this Agreement shall maintain the letter of credit in at least that minimum amount.

(f) Shipping. Terms of transportation and delivery of product is Ex Works (INCOTERMS 2010) at EnteroMedics' facility. The Purchase Price includes the cost of packaging; however, Distributor is responsible for satisfying all import/export clearance requirements and paying for all costs related to insurance, freight and import/export charges. EnteroMedics shall select a freight forwarder or carrier ("Carrier") unless Distributor designates the Carrier in the Purchase Order. Upon delivery of each Product to the Carrier, title to the Product will transfer to Distributor and be deemed accepted by the Distributor without right of return. EnteroMedics will have no further obligation or liability with respect to the delivery of such Product.

(g) Taxes. Distributor shall be responsible for and shall pay, or reimburse EnteroMedics for, all taxes, duties, import deposits, assessments and other governmental charges (except EnteroMedics' net income taxes) related to the import, sale or use of the Products, which are imposed by any governmental authority or agency in or for the Territory. For the avoidance of doubt, the obligation to pay, and payment of, taxes imposed by governmental or other authorities in the Territory, relating to income, turnover, sales, value added, and consumption taxes and their local equivalent in the Territory shall be that of the Distributor. Each payment to be made under this Agreement or any other agreements will be made free and clear of and without deduction for any such taxes. Distributor agrees to indemnify and hold EnteroMedics harmless from any and all claims made by the taxing authorities in the Territory.

(h) No Other Remuneration. Distributor shall not be entitled to any remuneration of any nature whatsoever other than the profit it makes on the sale of the Products to its Customers in the Territory. Distributor expressly acknowledges that its profits (if any) on Products resold pursuant to this Agreement constitute full and fair compensation for Distributor's services and for any investments made by Distributor in connection with its performance hereunder.

5. PRODUCT WARRANTY

(a) Product Warranty. EnteroMedics warrants to Distributor that the Products sold by EnteroMedics to Distributor shall conform to the product warranty provided in the written materials provided with the Products (the "Product Warranty") according to the terms and conditions stated therein. In the event of a conflict between the Product Warranty and the provisions of this Section 5, the Product Warranty shall govern.

(b) RMA Procedure. In the event of a breach of the Product Warranty, EnteroMedics shall, at its option and expense, either: (i) accept return of the defective Product and repair or have repaired the defective Product, or (ii) accept return of the defective Product and provide a replacement Product to Distributor. Distributor must obtain a Return Material Authorization ("RMA") number from EnteroMedics prior to returning any Product to EnteroMedics and must otherwise follow EnteroMedics' then-current RMA procedure in connection with any such return. If EnteroMedics determines in its reasonable discretion that any Product returned by Distributor conforms to the applicable warranty ("Non-Defective Products"), EnteroMedics will

notify the Distributor of such and will return the applicable Product to Distributor at Distributor's expense. In addition, EnteroMedics may assess Distributor a charge for testing and examination of Non-Defective Products. The repair or replacement of Products in accordance with this Section 5(b) shall be EnteroMedics' entire liability and Distributor's sole and exclusive remedy.

(c) Labor and Shipping Costs. Distributor shall be responsible for and shall perform all labor required in connection with the warranty services described in this Section 5 (excluding labor associated with the repair or replacement of Products at EnteroMedics' facilities), including labor required to inspect Products on Customers' premises and to ship Products to EnteroMedics. Distributor shall be responsible for and pay all freight, insurance, import/export and other shipping-related charges to EnteroMedics for all warranty repairs. Products returned to EnteroMedics by Distributor must be shipped DDP (INCOTERMS 2010) EnteroMedics' facility or such other location as EnteroMedics may designate. EnteroMedics shall be responsible for and pay all freight, insurance, import/export and other shipping-related charges to return repaired Products to Distributor, provided that if EnteroMedics determines that any Product returned for warranty repair is not defective, Distributor shall pay such charges.

(d) No Contact with Customers. The Product Warranty is solely for the benefit of Distributor. Nothing in this Section 5 or elsewhere in this Agreement obligates EnteroMedics to accept Product returns directly from Customers or otherwise provide warranty or other services to any Customers. Unless otherwise directed by EnteroMedics, Distributor shall handle all interactions with Customers regarding warranty services and Products in connection with this Agreement. Distributor shall make no warranties, representations, guarantees or statements to Customer or other third parties that suggest that EnteroMedics has any warranty or service obligation to, or any contractual privity with, any recipient of a Product.

(e) Limitations. The Product Warranty is the only warranty made by EnteroMedics with respect to the Products. Distributor shall not make any warranties, representations, guarantees or statements regarding the Products that exceed the scope of the Product Warranty, and Distributor shall be exclusively responsible for any obligations or other liability arising from any such warranties, representations, guarantees or statements made by Distributor or its agents. The Product Warranty is not transferable to any third party except for Customers. The Product Warranty does not apply and will be void if the conditions set forth in this Section 5 are not met, or if the Product has been subjected to improper operation, has been subject to unauthorized repairs or modifications, or has been subjected to neglect or abuse (including mechanical or electrical shocks, improper transport, exposure to improper temperatures, operation outside of its environmental specifications and otherwise), willful damage, negligence, abnormal working conditions, failure to follow EnteroMedics' instructions (whether oral or in writing), misuse, or alteration or repair of the Products without EnteroMedics' written approval. EnteroMedics shall not be obligated under the Product Warranty with respect to Products located outside the Territory or for any claims made after the expiration of the applicable warranty period.

(f) Disclaimer. EXCEPT FOR THE PRODUCT WARRANTY STATED IN SECTION 5(a), ENTEROMEDICS MAKES NO WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE PRODUCTS, ANY TRAINING, AND ANY SERVICES PROVIDED UNDER THIS AGREEMENT, AND ENTEROMEDICS HEREBY DISCLAIMS ALL OTHER WARRANTIES AND REPRESENTATIONS OF ANY NATURE, EXPRESS OR

IMPLIED, INCLUDING ANY WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, AND NON-INFRINGEMENT. THE WARRANTIES ARE EXCLUSIVE AND IN LIEU OF ALL OTHER WARRANTIES, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE.

6. TERM AND TERMINATION

(a) Term. The Term shall commence on the Effective Date and shall continue for five (5) years thereafter, unless terminated earlier under the provisions of this Section 6 (the "Initial Term"). This Agreement may be extended for renewal terms by a written agreement executed by both parties (each, a "Renewal Term"). The Initial Term together with any Renewal Terms agreed by the parties constitute the "Term." The effective date of any expiration or termination of this Agreement under this Section 6 is referred to as the "Termination Date."

(b) Termination for Cause. If either party materially defaults in the performance of any provision of this Agreement including, but not limited to Section 1(b), Section 1(e), Section 2 in its entirety and Section 8 in its entirety, the non-defaulting party may give written notice to the defaulting party that if the default is not cured within thirty (30) days of such notice, the non-defaulting party may terminate the Agreement. If the non-defaulting party gives such notice and the default is not cured during the thirty (30) day period, this Agreement shall automatically terminate at the end of such period without further action by the non-defaulting party, unless, in the case of a default by Distributor, EnteroMedics notifies Distributor of a specific effective date for termination in which case such date shall be the Termination Date. EnteroMedics may terminate this Agreement by giving Distributor notice in writing within sixty (60) days after the end of any year during the Term of this Agreement if Distributor shall have failed to meet the Minimum Purchase Requirement for the prior year or if the parties are unable to agree in good faith upon a commercially reasonable Minimum Purchase Requirement for the subsequent year within sixty (60) days of the end of any prior year.

(c) Termination for Insolvency. EnteroMedics may terminate this Agreement effective upon written notice to Distributor (i) upon the institution by or against Distributor of insolvency, receivership, liquidation, moratorium, bankruptcy or similar proceedings or any other proceedings for the settlement of Distributor's debts, (ii) upon Distributor's making an assignment or compromise for the benefit of creditors or a similar proceeding, or (iii) upon Distributor's dissolution or ceasing to do business. Distributor shall notify EnteroMedics of any event described in clauses (i) through (iii) above no later than ten (10) days after the occurrence of such an event.

(d) Termination for Change of Control.

(1) If Distributor undergoes a Distributor Change of Control (as defined below), Distributor shall promptly notify EnteroMedics of such event and EnteroMedics may terminate this Agreement by giving at least sixty (60) days written notice of the Termination Date to Distributor. The term "Distributor Change of Control" shall mean Distributor's acquisition by, or merger with, a third party, the sale of all or substantially all of Distributor's assets, or a transaction pursuant to which the owners or

shareholders of Distributor that hold more than fifty percent (50%) of Distributor's equity or other ownership interest prior to the transaction cease to own at least fifty percent (50%) of such interest after the transaction. Distributor shall notify EnteroMedics of any Distributor Change of Control or potential Distributor Change of Control as soon as legally possible, and in no event later than ten (10) days after the closing of such an event.

(2) If EnteroMedics undergoes an EnteroMedics Change of Control (as defined below), EnteroMedics shall promptly notify Distributor of such event and EnteroMedics may terminate this Agreement by giving at least sixty (60) days written notice of the termination date to Distributor. The term "EnteroMedics Change of Control" shall mean EnteroMedics' acquisition by, or merger with, a third party or the sale of all or substantially all of EnteroMedics' assets. EnteroMedics shall notify Distributor of any EnteroMedics Change of Control or potential EnteroMedics Change of Control as soon as legally possible, and in no event later than ten (10) days after the closing of such an event.

(e) Ceasing to do Business. EnteroMedics may terminate this Agreement at any time by giving written notice to Distributor if EnteroMedics ceases to sell the Products.

(f) Partial Termination. In the event that EnteroMedics is entitled to terminate this Agreement for any reason as provided in this Section 6, EnteroMedics shall have the option, in its sole discretion, in lieu of terminating this Agreement in its entirety, to terminate Distributor's rights in specified parts of the Territory and/or to convert Distributor's exclusive distribution rights to non-exclusive distribution rights.

(g) Fulfillment of Orders upon Termination. After the Termination Date EnteroMedics shall be obligated to fulfill only those Purchase Orders that were accepted by EnteroMedics prior to the Termination Date, provided that EnteroMedics shall have no such obligation if EnteroMedics terminates this Agreement pursuant to Sections 6(b) through 6(d). If Distributor is a party to any commitment to any third party to supply the Products after the Termination Date, including under any contract entered into by Distributor with any public tender or purchasing authority, Distributor shall cooperate without delay in the transfer to EnteroMedics or EnteroMedics' designee of any such contract.

(h) Records, Products and Trademarks. Within ten (10) days after the Termination Date, Distributor shall provide to EnteroMedics all of the most current versions of the following documents: sales records, training records, service records, update reports, warranty service reports, and agreements with Customers. Effective upon the Termination Date, Distributor shall cease its use of all trademarks, service marks, trade names, URLs, domain names, and other brand identifiers of EnteroMedics and shall cease representing to any third party that it is affiliated in any way with EnteroMedics. Notwithstanding the foregoing, the Distributor shall be entitled to retain copies of materials described in this Section 6(h) and to continue to use such materials and trademarks solely as necessary to fulfill its obligations under Section 6(j).

(i) Inventory of Products. EnteroMedics shall have the option, but not the obligation, to inspect and repurchase from Distributor all or any portion of the Products remaining in Distributor's inventory as of the Termination Date. The purchase price for any such Products repurchased by EnteroMedics shall be the invoiced price to Distributor for such Products, less depreciation calculated in accordance with EnteroMedics' policies and less any appropriate amount for spoilage or deterioration, plus freight to the original shipping point. Distributor shall promptly ship any such repurchased Products at EnteroMedics' expense to one or more locations designated by EnteroMedics. Distributor shall have the right for ninety (90) days after the Termination Date to sell all or a portion of any of its inventory of Products which EnteroMedics declines to repurchase.

(j) Service Responsibility after Termination Date. If requested by EnteroMedics in writing, Distributor shall continue to provide warranty and other Product service to existing Customers with respect to the Products for a period designated by EnteroMedics of up to three (3) months after the Termination Date. Any such warranty and other service rights will be on a non-exclusive basis and may be extended upon written agreement by EnteroMedics and Distributor. Except as set forth in this Section 6(j), Distributor shall cease providing service or otherwise interacting with Customers with respect to the Products as of the Termination Date. Distributor shall assign to EnteroMedics any agreements with Customers designated by EnteroMedics promptly upon EnteroMedics' request in connection with any termination or expiration of this Agreement.

(k) Subdistributors. Distributor shall, and shall cause any authorized subdistributors: (i) to cease to represent itself as authorized to market or sell the Products; (ii) remove, to the extent practical, any printed materials and references to the Products from its sales manuals and other materials; and (iii) discontinue the use of any display materials on its premises containing any references to the Products; provided, that nothing herein shall be deemed to restrict or limit the ability of Distributor or its subdistributors from disposing of Products in inventory at the time of termination as provided herein.

(l) No Compensation. In the event either party terminates this Agreement for any reason in accordance with the terms of this Agreement, the parties hereby agree that, subject to the obligation to make payment of any amounts then owed, and without prejudice to any other remedies which either party may have in respect of any breach of this Agreement, neither party shall be entitled to any compensation or like payment from the other as a result of such termination.

(m) Survival of Certain Obligations and Terms. Termination of this Agreement shall not release either party from the obligation to make payment of all amounts then or thereafter due and payable. All definitions and the provisions of this Agreement which by their nature are intended to continue in effect after termination or expiration of this Agreement, including Sections 2(g) (General Performance Standards) , 2(h) (Legal Compliance), (Insurance), 3(d) (Product Field Actions), 4(h) (No Other Remuneration), 7 (Limitation of Remedies), 8 (Proprietary Rights and Confidentiality), 9 (Trademarks and Trade Names) and 10 (General Provisions), shall survive the termination or expiration of this Agreement for any reason. All other rights and obligations of the parties shall cease upon termination of this Agreement.

7. LIMITATION OF REMEDIES

ENTEROMEDICS SHALL NOT BE LIABLE FOR ANY LOSS OR DAMAGE CAUSED BY DELAY IN FURNISHING PRODUCTS AND SERVICES OR ANY OTHER PERFORMANCE UNDER THIS AGREEMENT. IN NO EVENT SHALL ENTEROMEDICS' LIABILITY OF ANY KIND INCLUDE ANY SPECIAL, INDIRECT, INCIDENTAL OR CONSEQUENTIAL LOSSES OR DAMAGES, EVEN IF ENTEROMEDICS SHALL HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH POTENTIAL LOSS OR DAMAGE.

8. PROPRIETARY RIGHTS AND CONFIDENTIALITY

(a) Proprietary Rights. Distributor agrees that EnteroMedics owns all right, title, and interest in all of EnteroMedics' patents, trademarks, trade names, inventions, copyrights, know-how, trade secrets and other intellectual property relating to the design, manufacture, operation or service of the Products including all incidental discoveries. EnteroMedics grants Distributor a license to sell the Products and to use the Products solely as necessary to perform its obligations under this Agreement. Except for the foregoing license, the sale of the Products hereunder to Distributor does not and will not be deemed to confer upon Distributor any right, interest or license in any patents or patent applications, or copyrights or other proprietary rights that EnteroMedics or any third party may have in the Products or otherwise and shall not confer on Distributor any right to manufacture or have manufactured, duplicated or otherwise copied or reproduced any of the Products or any part or component thereof. EnteroMedics shall retain exclusive ownership of all proprietary rights in and to all documentation and other data and materials pertaining to any Products. All rights not expressly granted to Distributor in this Agreement are reserved by EnteroMedics.

(b) Reverse Engineering. Except where such restriction is expressly prohibited by law, Distributor will not reverse engineer or otherwise attempt to derive or obtain information about the functioning, manufacture or operation of the Products.

(c) Confidentiality. EnteroMedics may disclose certain Confidential Information (as defined below) to Distributor to permit Distributor to perform its obligations under this Agreement. Distributor shall not use any Confidential Information for any purposes or activities other than those specifically authorized in this Agreement, and shall not disclose any Confidential Information to third parties without EnteroMedics' prior written approval. The foregoing use and disclosure restrictions with respect to Confidential Information shall apply during the Term and after the Termination Date. "Confidential Information" means all nonpublic data and information of EnteroMedics, including any proprietary information, technical data, trade secrets or know how, including research, product plans, products, services, customers, customer lists, markets, software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances or other business information of EnteroMedics communicated, orally, electronically, or in writing, to Distributor. The foregoing provisions shall not apply, or shall cease to apply, to Confidential Information if such information that: (i) is known to Distributor at the time of disclosure to Distributor by EnteroMedics as evidenced by written records; (ii) becomes public knowledge without a breach of confidence by Distributor or any third party; or (iii) is required to be disclosed pursuant to any statutory or regulatory provision or court order (provided that

Distributor promptly notifies EnteroMedics of such potential required disclosure and assists EnteroMedics in preventing or limiting such disclosure). The Distributor shall have the burden of establishing any of the foregoing exceptions by clear and convincing evidence. Without limiting the foregoing, Distributor shall not publish any technical description of the Products beyond the descriptions published publicly by EnteroMedics. Distributor shall return or destroy all Confidential Information in Distributor's possession within ten (10) days after the Termination Date (except as required to perform Distributor's obligations under Section 6(h)) and, upon EnteroMedics' request, shall certify in a writing signed by an officer of Distributor that it has done so.

9. TRADEMARKS AND TRADE NAMES

(a) Use. During the Term, and subject to the terms and conditions of this Agreement, Distributor shall have the right in the Territory to indicate to the public that it is an authorized distributor of the Products and to advertise the Products in the Territory under the trademarks and trade names specified on attached Exhibit F ("EnteroMedics Trademarks"). Distributor shall not use any EnteroMedics Trademark as part of its business name; as part of prominent signage displaying Distributor's business name; in any Uniform Resource Locator (URL) for any website; in any name for any user, user group or account on any social networking or similar website, (e.g. Twitter or Facebook); or for any other similar use in existence at any time during the Term or thereafter, except with EnteroMedics' prior written consent. Distributor shall not create new service or trademarks or trade-names based in whole or in part on the EnteroMedics Trademarks. Distributor shall not alter or remove any of EnteroMedics Trademarks applied to the Products by EnteroMedics. All goodwill associated with Distributor's use of the EnteroMedics Trademarks shall inure solely to the benefit of EnteroMedics. Distributor shall not permit any agent or subdistributor of Distributor to use the EnteroMedics Trademarks without EnteroMedics' prior written approval; use or permit any agent or subdistributor of Distributor to use any trademark or product names confusingly similar to those used by EnteroMedics; or use or permit any agent or subdistributor of Distributor to use the EnteroMedics Trademarks on any objects not containing the Products.

(b) Ownership; Infringement. Nothing herein shall grant to Distributor any right, title or interest in the EnteroMedics Trademarks. Distributor acknowledges EnteroMedics' exclusive ownership of and rights in the EnteroMedics Trademarks and the validity of all registrations therefore, and agrees to take no action contrary to such ownership and rights during the Term and thereafter. Distributor will assist EnteroMedics, if requested, by providing documentation of use of the EnteroMedics Trademarks in connection with any trademark or service mark application. Distributor shall not attempt to register the EnteroMedics Trademarks without prior written approval from EnteroMedics. In the event that any infringement of any of EnteroMedics Trademarks shall come to Distributor's attention, Distributor shall promptly inform EnteroMedics thereof. EnteroMedics, in its sole discretion, shall determine whether or not to initiate or pursue proceedings against any such infringer. Nothing in this Section 9 is to be construed as a representation or guarantee by EnteroMedics that Distributor's use of EnteroMedics Trademarks in the Territory will not infringe the rights of others. If at any time during the Term Distributor challenges or assists others to challenge any EnteroMedics Trademark or the registration thereof or attempts to register any trademarks or trade names confusingly similar to the EnteroMedics Trademarks, EnteroMedics shall have the right to terminate this Agreement effective immediately upon written notice to Distributor.

(c) Customer Use. Upon a Customer's satisfactory completion of required training in the Products, the Customer shall be authorized to use the EnteroMedics Trademarks solely in its promotion and delivery of services utilizing the Products and only in accordance with EnteroMedics' guidelines for such professional use.

(d) Approval. All representations of the EnteroMedics Trademarks that Distributor intends to use or publish shall (i) use the appropriate trademark symbol and legends in conjunction therewith, (ii) shall first be submitted to EnteroMedics for approval (which shall not be unreasonably withheld) of design, color, and other details, or shall be exact copies of EnteroMedics Trademarks, and (iii) shall otherwise comply with EnteroMedics' then-current trademark guidelines provided to Distributor from time to time during the Term. Distributor agrees to provide to EnteroMedics copies, in English and any language into which the materials have been translated in accordance with this Agreement, prior to any public use of the materials. Distributor shall modify any such materials and activities to ensure compliance with this Agreement upon EnteroMedics' request.

10. GENERAL PROVISIONS

(a) Governing Law. This Agreement will be governed in all respects by the laws of the state of Minnesota, USA without regard to conflicts of law principles that would require the application of the laws or any other jurisdiction and excluding application of the United Nations Convention on Contracts for the International Sale of Goods.

(b) Litigation Rights Reserved. If any dispute arises with respect to the unauthorized use of Confidential Information, EnteroMedics Trademarks or EnteroMedics' other intellectual property, Distributor's breach of noncompetition provisions of this Agreement, or with respect to an act or omission of Distributor relating to the Products which in EnteroMedics' reasonable judgment negatively impacts the reputation of EnteroMedics or the Products or the safety of the public, the aggrieved party may seek any available remedy at law or equity from a court of competent jurisdiction, in addition to its right to arbitration as provided in Section 10(c).

(c) Dispute Resolution. In the event of any dispute between the parties as to the performance or interpretation of any of the provisions of this Agreement or as to matters related to but not covered by this Agreement, the parties shall first attempt to find a mutually agreeable solution by consultation in good faith. If the parties are unable thus to resolve any dispute, except as provided in Section 10(b) above, any dispute, claim or controversy arising out of or relating to this Agreement, or the breach thereof, shall be settled by final and binding arbitration at London, England. The arbitration shall be conducted in accordance with the Arbitration Rules of the London Court of International Arbitration (the "Rules"). Any such arbitration shall be conducted by three (3) arbitrators appointed by mutual agreement of the parties or, failing such agreement, in accordance with the Rules. All arbitrators shall be native English speakers, at least one arbitrator shall be an experienced medical device industry professional, and at least one arbitrator shall be an experienced business attorney with background in the distribution of medical devices. The arbitration shall be conducted in the English language, which language

controls this Agreement and all correspondence hereunder. Notwithstanding any contrary provisions in the Rules, each party shall bear its own costs and expenses of the arbitration and one-half (1/2) of the fees and costs for the arbitrator unless the arbitrator determines the fees and costs should be borne by one of the parties. The arbitrator may not award or assess punitive damages against either party and the award of the arbitration shall be final and binding upon the parties hereto.

(b) If any legal action or proceeding to enforce an arbitration award is necessary, the same may be brought in any court of competent jurisdiction. Distributor has named the following person as its authorized representative to accept service of documents requiring formal service of process in the United Kingdom. Distributor may replace such person only after having obtained EnteroMedics' written consent to such replacement:

Name: _____
Street: _____
City: _____
Phone No: _____
Fax No: _____

(d) Severability; Waiver. If any provision of this Agreement is held to be invalid or unenforceable for any reason for a court of competent jurisdiction, the remaining provisions will continue in full force without being impaired or invalidated in any way. The failure of either party to insist upon strict performance of any provision of this Agreement, or to exercise any right provided for herein, shall not be deemed to be a waiver for the future of such provision or right, and no waiver of any provision or right shall affect the right of the waiving party to enforce any other provision or right herein.

(e) Notices. Any notice or communication permitted or required hereunder will be in writing and will be delivered by facsimile transmission with confirmation of receipt; in person or by internationally recognized express courier; or mailed by certified or registered airmail, postage prepaid, return receipt requested ("Mail"), and addressed as set forth in the preamble to this Agreement or to such other facsimile number or address as either party may provide from time to time to the other. If notice is given in person, by courier or by facsimile, it will be effective upon receipt; and if notice is given by Mail, it will be effective five (5) business days after deposit in the Mail.

(f) Force Majeure. Other than Distributor's obligation to make payments under this Agreement, if performance of this Agreement or any obligation hereunder (other than the obligation to pay any amounts due) is prevented, restricted, or interfered with by any act or condition whatsoever beyond the reasonable control of the affected party (including the failure of any suppliers to perform), the party so affected, upon giving prompt notice to the non-affected party, will be excused from such performance to the extent of such prevention, restriction, or interference.

(g) Construction. Section headings are provided solely for reference purposes and in no way define, limit, interpret, or describe the scope or extent of such section or in any way affect this Agreement. When used in this Agreement, the term "including" means "including without limitation" unless expressly stated to the contrary.

(h) Privacy Authority. Distributor irrevocably authorizes EnteroMedics, its employees and agents to make such inquiries as it deems necessary to investigate the creditworthiness or other information requirements of Distributor from time to time including the making of inquiries of persons that are trade references, the bankers of Distributor or any other credit providers (collectively the "Information Sources") and Distributor hereby authorizes the Information Sources to disclose to EnteroMedics such information concerning Distributor.

(i) Assignment. Distributor may not assign, delegate or otherwise transfer any right or obligation of Distributor under this Agreement whether by agreement, operation of law, or otherwise, without the express prior written consent of EnteroMedics. EnteroMedics shall have the right to assign this Agreement, including to any successor-in-interest to EnteroMedics. Any purported assignment, delegation, or transfer in violation of this Section 10(i) will be null and void. Subject to the foregoing, this Agreement in its entirety will bind each party and its permitted successors and assigns.

(j) Amendments. Any amendments, modifications, supplements, or other changes to this Agreement must be in writing and signed by duly authorized representatives of each party.

(k) Entire Agreement. This Agreement and the exhibits hereto constitute the entire agreement between the parties with respect to the subject matter hereof, and supersede all prior or contemporaneous representations, understandings, agreements, or communications between the parties, whether written or oral, relating to the subject matter hereof.

(l) Counterparts. This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original, and all of which together will constitute one instrument.

IN WITNESS WHEREOF, the parties have caused their duly authorized representatives to execute this Agreement as of the Effective Date.

ENTEROMEDICS, INC.

/s/ Dr. Mark B Knudson
By: Dr. Mark B Knudson
President & CEO

BADER SULTAN & BROTHERS CO. W.L.L

/s/ Emad Al-Zaben
By: Emad Al-Zaben
General Manager

Exhibit A—Territory, Sales Channel, Products and Prices

Exhibit B—Quality and Regulatory Roles and Responsibilities

Exhibit C—Minimum Purchase Requirements

Exhibit D—Training Record

Exhibit E—Service Record

Exhibit F—Trademarks

Exhibit G—Monthly Forecast and Report

Exhibit H—Minimum Marketing, Promotion, and Regulatory Targets

EXHIBIT A

TERRITORY, SALES CHANNEL, PRODUCTS AND PRICES

1. Territory:

Exclusive: Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates, Oman, Yemen, Iraq and Lebanon.

2. Sales Channel:

Bariatric surgery for treatment of obesity and comorbidities, diabetes and hypertension in humans.

3. Products and Prices:

Products, prices and distributor discounts are as follows:

Products	Catalog No.	Price
Maestro RC System Kit (includes Model ____ implant kit and Model ____ patient kit), Clinician Programmer, individual components and parts for field replacement and training, Model Numbers and FRU's to be identified, consistent with CE Marking. and supplied in an addendum to this agreement	To be supplied in addendum	[*] per unit Not including Clinical Programmer Pricing or FRU Pricing

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

EXHIBIT B

QUALITY AND REGULATORY ROLES AND RESPONSIBILITIES

[specify contents]

Product	Responsibilities	
	EnteroMedics	Distributor

EXHIBIT C

MINIMUM PURCHASE REQUIREMENTS

Year	Number of Units
2012	[*]
2013	[*]
2014	[*]
2015	[*]
2016	[*]

The above yearly minimum purchase requirements will increase upon FDA approval of the Product according to the following terms:

In the year when FDA approval is announced, the calendar yearly total will be divided by 4 to derive a pro rata calendar quarterly number. In each full calendar quarter that the Product has FDA approval, that quarterly minimum purchase number will be [*].

For each calendar year after FDA approval, the Minimum Purchase Requirement will be [*].

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

EXHIBIT D

TRAINING RECORD

[format to be specified by EnteroMedics]

EXHIBIT E

SERVICE RECORD

[format to be specified by EnteroMedics]

EXHIBIT F

TRADEMARKS

[to be specified by EnteroMedics]

EXHIBIT G

MONTHLY FORECAST AND REPORT

MONTHLY FORECAST - UNITS

Current Month	Next Month	Following Month

The total rolling quarterly forecast comprising the aggregate number of units for each month shall constitute a binding purchase commitment as per Section 2(e).
[confirm mechanics of forecast and binding orders and content of reports]

MONTHLY REPORT - ACTUAL SALES - UNITS AND PURCHASE PRICE

	Mnth 1	Mnth 2	Mnth 3	Mnth 4	Mnth 5	Mnth 6	Mnth 7	Mnth 8	Mnth 9	Mnth 10	Mnth 11	Mnth 12
Actual sales—units												
Purchase price per unit												

** ***[This report should be by customer/surgeon and/or at least by country]***

EXHIBIT H

MINIMUM MARKETING, PROMOTION, AND REGULATORY TARGETS

	Year 1	Year 2	Year 3
Sales personnel in the territory	[*]	[*]	[*]
Sales calls—surgeons	[*]	[*]	[*]
Sales calls—other [discuss]			
Trade shows	[*]	[*]	[*]
Medical conferences [discuss]			
Workshops	[*]	[*]	[*]
Regulatory approvals	All countries in the Territory		
Reimbursement approvals [discuss]			

***** [Bracketed numbers above are Distributor's proposal and subject to EnteroMedics' review. Items above noted "[discuss]" were deleted by Distributor and are subject to discussion.]***

Distributor will have a stand at trade shows that includes a visual display, promotional literature and demonstration example of the Products.

Workshop contents, to be approved by EnteroMedics, to include:

- Description of VBLOC therapy and technology
- Description of Maestro RC System
- Clinical trial data
- Surgeon training protocol
- Patient selection and management
- Recommended patient weight loss program and follow-up
- Training of surgeons
- Each workshop to be a 2-day event, with training of surgeons on the second day. Distributor will pay for all expenses (including but not limited to travel, hotel, and meals) for one non-surgeon EnteroMedics training person (consistent with EnteroMedics travel and expense reimbursement policies), and hotel, meals and business class travel only for an EnteroMedics surgeon to train surgeons from the Territory attending the workshop. EnteroMedics. will pay all other expenses (e.g., expenses other than hotel, meals and travel expenses) for the EnteroMedics surgeon. In every annual period, at least 50% of the workshops are expected to be in Dubai, and 25% are expected to be in Saudi Arabia, subject to agreement of the parties.

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

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LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (this "**Agreement**") dated as of April 16, 2012 (the "**Effective Date**") between **SILICON VALLEY BANK**, a California corporation ("**Bank**"), and **ENTEROMEDICS INC.**, a Delaware corporation ("**Borrower**"), provides the terms on which Bank shall lend to Borrower and Borrower shall repay Bank. **This Agreement amends and restates in its entirety the "Amended SVB/Borrower Loan Agreement" (as defined in the First Amendment to Loan and Security Agreement, dated February 8, 2010, between Borrower and Bank) as the same has from time to time been previously amended (the "Prior Agreement"). Except for the provisions of the Prior Agreement being amended and restated in this Agreement, all other existing documents, instruments and agreements by Borrower with or in favor of Bank shall continue in full force and effect, including without limitation, all control and security agreements, all warrants to purchase stock or other securities or interests, all investor rights and other agreements relating to stock or securities, and all UCC-1 financing statements and other documents filed with governmental offices which create or perfect liens or security interests in favor of Bank.** The parties agree as follows:

1 ACCOUNTING AND OTHER TERMS

Accounting terms not defined in this Agreement shall be construed following GAAP. Calculations and determinations must be made following GAAP. Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth in Section 13. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided by the Code to the extent such terms are defined therein.

2 LOAN AND TERMS OF PAYMENT

2.1 Promise to Pay. Borrower hereby unconditionally promises to pay Bank the outstanding principal amount of all Credit Extensions and accrued and unpaid interest thereon as and when due in accordance with this Agreement.

2.1.1 Term Loan.

(a) Availability. Subject to the terms and conditions of this Agreement, Bank agrees to make to Borrower, and Borrower agrees to borrow from Bank, the Term Loan 2012 described below.

(i) Bank agrees to lend $10,000,000 (the "**Tranche A**") to Borrower within five (5) days from the Effective Date subject to the satisfaction of the terms and conditions of this Agreement, and Borrower agrees to borrow such Tranche A from Bank.

(ii) Borrower and Bank acknowledge and agree that Borrower is obligated to Bank for the "Term Loan" (as that term is used in the Prior Agreement, and which is herein referred to as the "**Prior Term Loan**"), the principal amount of which was $4,652,192.66 as of April 9, 2012. Borrower authorizes and instructs Bank to apply funds from Tranche A, up to the sum of the unpaid principal balance of the Prior Term Loan plus any and all accrued and unpaid interest on the Prior Term Loan and plus any other amounts that are due with respect to the Prior Term Loan (other than the "Final Payment" as that term is used in the Prior Loan Agreement—said "Final Payment" shall instead become the Final Payment under this Agreement, payable as set forth herein), to such Prior Term Loan principal, interest and other amounts in order to repay the same in full. Borrower acknowledges and agrees that such funds so applied shall be deemed advanced by Bank to Borrower as part of Tranche A.

(iii) Provided that the Tranche B Condition is satisfied as determined by Bank in its good faith business judgment, and subject to the satisfaction of the terms and conditions of this Agreement, during the Draw Period Bank agrees to lend an additional $10,000,000 (the "**Tranche B**") to Borrower, and Borrower in its sole discretion agrees to borrow such Tranche B from Bank. (Tranche A, together with Tranche B if made, shall be collectively referred to as the "**Term Loan 2012**".)

(b) Repayment. Borrower shall pay Bank accrued interest on Term Loan 2012 beginning on the first day of the calendar month following the month during which Tranche A is advanced and continuing on the same day of each succeeding month. Borrower shall repay Term Loan 2012 in (i) thirty (30) equal installments of

principal, plus (ii) monthly payments of accrued interest (each combined (i) and (ii) payment, a "**Term Loan Payment**"). Beginning on April 1, 2013, a Term Loan Payment shall be payable on the first day of each month. Borrower's final Term Loan Payment, due on September 1, 2015 (the "**Term Loan Maturity Date**"), shall include all outstanding principal and accrued and unpaid interest under Term Loan 2012, plus the Final Payment, plus all other sums, if any, that shall have become due and payable hereunder with respect to Term Loan 2012. Term Loan 2012 may only be prepaid in accordance with Sections 2.1.1(c) and 2.1.1(d). Once repaid, Term Loan 2012 may not be reborrowed.

(c) Permitted Prepayment. Provided that no Event of Default has occurred and is continuing, Borrower shall have the option to prepay all, but not less than all, of the outstanding Term Loan 2012, provided Borrower (i) provides written notice to Bank of Borrower's election to prepay Term Loan 2012 at least twenty (20) but not more than forty-five (45) days prior to such prepayment, and (ii) pays to Bank, on the date of such prepayment (A) all outstanding principal plus accrued interest of Term Loan 2012, (B) a fee equal to the Make-Whole Premium with respect to the Term Loan 2012, provided that such Make-Whole Premium with respect to the prepayment of Term Loan 2012 shall not be charged if such prepayment is part of a replacement of Term Loan 2012 with a new facility from another division of Bank, (C) the Final Payment, and (D) all other sums, if any, that shall have become due and payable with respect to Term Loan 2012. Without limitation on the fact that the Make-Whole Premium and the Final Payment shall be due on the date of the prepayment, the Make-Whole Premium and the Final Payment shall bear interest from the date due until paid at a rate equal to the highest rate applicable to the Obligations.

(d) Mandatory Prepayment. If all or a portion of Term Loan 2012 becomes due and payable according to the terms hereof because of the occurrence and continuance of an Event of Default, on the date that it has become due and payable according to the terms hereof Borrower shall pay to Bank, in addition to any other sums owing, a fee equal to the Make-Whole Premium with respect to the amount of Term Loan 2012 that has become due and payable according to the terms hereof because of the occurrence and continuance of an Event of Default, plus the Final Payment. Without limitation on the fact that the Make-Whole Premium and the Final Payment shall be due as set forth in the preceding sentence, the Make-Whole Premium and the Final Payment shall bear interest from the date due until paid at a rate equal to the highest rate applicable to the Obligations.

2.2 [Reserved].

2.3 Payment of Interest on the Credit Extensions.

(a) Interest Rate.

(i) Term Loan. Subject to Section 2.3(b), the principal amount outstanding under Term Loan 2012 shall accrue interest at a fixed per annum rate equal to eight percent (8%), which interest shall be payable monthly.

(b) Default Rate. Immediately upon the occurrence and during the continuance of an Event of Default, Obligations shall bear interest at a rate per annum which is five percentage points (5.00%) above the rate that is otherwise applicable thereto (the "**Default Rate**") unless Bank otherwise elects from time to time in its sole discretion to impose a smaller increase. Fees and expenses which are required to be paid by Borrower pursuant to the Loan Documents (including, without limitation, Bank Expenses) but are not paid when due shall bear interest until paid at a rate equal to the highest rate applicable to the Obligations. Payment or acceptance of the increased interest rate provided in this Section 2.3(b) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of Bank.

(c) [Reserved].

(d) Computation; 360-Day Year. In computing interest, the date of the making of any Credit Extension shall be included and the date of payment shall be excluded; *provided*, *however*, that if any Credit Extension is repaid on the same day on which it is made, such day shall be included in computing interest on such Credit Extension. Interest shall be computed on the basis of a 360-day year for the actual number of days elapsed.

(e) Debit of Accounts. Bank may debit any of Borrower's deposit accounts, including the Designated Deposit Account, for principal and interest payments or any other amounts Borrower owes Bank when due. These debits shall not constitute a set-off.

(f) Interest Payment Date. Unless otherwise provided, interest is payable monthly, in arrears, on the first calendar day of each month.

2.4 Fees and Bank Expenses. Borrower shall pay to Bank:

(a) Commitment Fee. A fully earned, non-refundable commitment fee of $50,000 on the Effective Date and of $50,000 on the Funding Date of Tranche B;

(b) Make-Whole Premium. The Make-Whole Premiums when due pursuant to the terms of hereof; and

(c) Bank Expenses. All Bank Expenses (including reasonable attorneys' fees and expenses for documentation and negotiation of this Agreement) incurred through and after the Effective Date, when due (or, if there is no stated due date, upon demand by Bank).

2.5 Payments; Application of Payments.

(a) All payments (including prepayments) to be made by Borrower under any Loan Document shall be made in immediately available funds in U.S. Dollars, without setoff or counterclaim, before 12:00 p.m. Pacific time on the date when due. Payments of principal and/or interest received after 12:00 p.m. Pacific time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment shall be due the next Business Day, and additional fees or interest, as applicable, shall continue to accrue until paid.

(b) Borrower shall have no right to specify the order or the accounts to which Bank shall allocate or apply any payments required to be made by Borrower to Bank or otherwise received by Bank under this Agreement when any such allocation or application is not specified elsewhere in this Agreement.

3 CONDITIONS OF LOANS

3.1 Conditions Precedent to Initial Credit Extension. Bank's obligation to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, such documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate, including, without limitation:

(a) duly executed original signatures to the Loan Documents;

(b) duly executed original signatures to the Tranche A Warrant;

(c) duly executed original signatures to the Control Agreements required pursuant hereto;

(d) Borrower's Operating Documents and a good standing certificate of Borrower certified by the Secretary of State of the States of Delaware and Minnesota as of a date no earlier than thirty (30) days prior to the Effective Date;

(e) duly executed original signatures to the completed Borrowing Resolutions for Borrower;

(f) certified copies, dated as of a recent date, of financing statement searches, as Bank shall request, accompanied by written evidence (including any UCC termination statements) that the Liens indicated in any such financing statements either constitute Permitted Liens or have been or, in connection with the initial Credit Extension, will be terminated or released;

(g) the Perfection Certificate of Borrower, together with the duly executed original signature thereto;

(h) a copy of Borrower's Investors' Rights Agreement and any amendments thereto;

(i) evidence satisfactory to Bank that the insurance policies required by Section 6.5 hereof are in full force and effect, together with appropriate evidence showing lender loss payable and/or additional insured clauses and cancellation notice to Bank (or endorsements reflecting the same) in favor of Bank; and

(j) payment of the fees and Bank Expenses then due as specified in Section 2.4 hereof.

3.2 Conditions Precedent to all Credit Extensions. Bank's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following conditions precedent:

(a) except as otherwise provided in Section 3.5(a), timely receipt of an executed Payment/Advance Form;

(b) the representations and warranties in this Agreement shall be true, accurate, and complete in all material respects on the date of the Payment/Advance Form and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, and no Event of Default shall have occurred and be continuing or result from the Credit Extension. Each Credit Extension is Borrower's representation and warranty on that date that the representations and warranties in this Agreement remain true, accurate, and complete in all material respects; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; and

(c) in Bank's sole discretion, there has not been a Material Adverse Change.

3.3 [Reserved].

3.4 Covenant to Deliver. Borrower agrees to deliver to Bank each item required to be delivered to Bank under this Agreement as a condition precedent to any Credit Extension. Borrower expressly agrees that a Credit Extension made prior to the receipt by Bank of any such item shall not constitute a waiver by Bank of Borrower's obligation to deliver such item, and the making of any Credit Extension in the absence of a required item shall be in Bank's sole discretion.

3.5 Procedures for Borrowing.

(a) Term Loans. Subject to the prior satisfaction of all other applicable conditions to the making of any term loan (or any tranche thereof) set forth in this Agreement, to obtain a term loan (or any tranche thereof), Borrower shall notify Bank (which notice shall be irrevocable) by electronic mail, facsimile, or telephone by 12:00 p.m. Pacific time at least five (5) Business Days prior to the date the term loan (or tranche thereof) is to be made. Together with any such notification, Borrower shall deliver to Bank by electronic mail or facsimile a completed Payment/Advance Form executed by a Responsible Officer or his or her designee. Bank may rely on any telephone notice given by a person whom Bank believes is a Responsible Officer or designee. Bank shall credit term loans (and tranches thereof) to the Designated Deposit Account.

4 CREATION OF SECURITY INTEREST

4.1 Grant of Security Interest. Borrower hereby grants Bank, to secure the payment and performance in full of all of the Obligations, a continuing security interest in, and pledges to Bank, the Collateral, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof. The grant of security interest and pledge by Borrower contained herein is without limitation on the security interests and Liens granted by Borrower under any other Loan Documents and without limitation on the security interests and Liens granted by Borrower under the Prior Agreement, which security interests and Liens granted under the Prior Agreement shall continue, uninterrupted, as amended and restated by this Agreement.

Borrower acknowledges that it previously has entered, and/or may in the future enter, into Bank Services Agreements with Bank. Regardless of the terms of any Bank Services Agreement, Borrower agrees that any amounts Borrower owes Bank thereunder shall be deemed to be Obligations hereunder and that it is the intent of Borrower and Bank to have all such Obligations secured by the first priority perfected security interest in the Collateral granted herein (subject only to Permitted Liens that, pursuant to the terms hereof, are allowed to have superior priority to Bank's Lien in this Agreement).

If this Agreement is terminated, Bank's Lien in the Collateral shall continue until the Obligations (other than inchoate indemnity obligations) are satisfied in full, and at such time, Bank shall, at Borrower's sole cost and expense, terminate its security interest in the Collateral and all rights therein shall revert to Borrower. In the event (x) all Obligations (other than inchoate indemnity obligations), except for Bank Services, are satisfied in full, and (y) this Agreement is terminated, Bank shall terminate the security interest granted herein upon Borrower providing cash collateral acceptable to Bank in its good faith business judgment for Bank Services, if any. In the event such Bank Services consist of outstanding Letters of Credit, Borrower shall provide to Bank cash collateral in an amount equal to 110% of the Dollar Equivalent of the face amount of all such Letters of Credit plus all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its good faith business judgment), to secure all of the Obligations relating to such Letters of Credit.

4.2 Cash Collateral. If, as determined by Bank in its sole discretion, (a) upon disclosure of the ReCharge Clinical Trial results Borrower does not meet the Primary Clinical Endpoints of its ReCharge Clinical Trial or (b) the ReCharge Clinical Trial results are not fully disclosed to the public prior to February 15, 2013, then, within three (3) Business Days after the earlier of such disclosure or February 15, 2013, Borrower shall provide cash to Bank in an amount equal to the lesser of [*] or the outstanding principal balance of Term Loan 2012 (the "**Initial Cash Collateralization**", for Bank to hold as part of the Collateral in an account maintained at Bank with respect to which Borrower's access shall be restricted. In the event Bank has made Tranche B and Borrower does not receive (and provide Bank with such evidence of such receipt as Bank shall reasonably request), after April 1, 2012 and on or before [*], aggregate gross proceeds from the issuance by Borrower of its common and/or preferred stock of at least [*], then on [*] Borrower shall provide cash to Bank in an amount equal to (i) the lesser of [*] or the outstanding principal balance of Term Loan 2012, less (ii) the amount of cash provided to and held by Bank pursuant to the Initial Cash Collateralization, for Bank to hold as part of the Collateral in an account maintained at Bank with respect to which Borrower's access shall be restricted. Borrower shall have no right to withdraw, transfer, direct or otherwise have access to the funds in such account(s) until the Obligations (other than inchoate indemnity obligations) are satisfied in full. Without limitation on Section 4.1 hereof, Borrower grants to Bank a security interest in such account(s) and all funds therein to secure the payment and performance of the Obligations. Borrower agrees to complete and execute any documents that Bank shall require in its good faith business judgment in order to establish and maintain such account(s).

4.3 Priority of Security Interest. Borrower represents, warrants, and covenants that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral (subject only to Permitted Liens that, pursuant to the terms hereof, are allowed to have superior priority to Bank's Lien under this Agreement). If Borrower shall acquire a commercial tort claim, Borrower shall promptly notify Bank in a writing signed by Borrower of the general details thereof and grant to Bank in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to Bank.

4.4 Authorization to File Financing Statements. Borrower hereby authorizes Bank to file financing statements, without notice to Borrower, with all appropriate jurisdictions to perfect or protect Bank's interest or rights hereunder, including a notice that any disposition of the Collateral (other than a disposition permitted under Section 7.1), by either Borrower or any other Person, shall be deemed to violate the rights of Bank under the Code.

5 REPRESENTATIONS AND WARRANTIES

Borrower represents, warrants and agrees as follows:

5.1 Due Organization, Authorization; Power and Authority. Borrower is duly existing and in good standing as a Registered Organization in its jurisdiction of formation and is qualified and licensed to do business and is in good standing in any jurisdiction in which the conduct of its business or its ownership of property requires that it be qualified except where the failure to do so could not reasonably be expected to have a material adverse effect on Borrower's business. In connection with this Agreement, Borrower has delivered to Bank a completed certificate signed by Borrower, entitled "Perfection Certificate". Borrower represents and warrants to Bank that (a) Borrower's exact legal name is that indicated on the Perfection Certificate and on the signature page hereof; (b) Borrower is an organization of the type and is organized in the jurisdiction set forth in the Perfection Certificate; (c) the Perfection Certificate accurately sets forth Borrower's organizational identification number or

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accurately states that Borrower has none; (d) the Perfection Certificate accurately sets forth Borrower's place of business, or, if more than one, its chief executive office as well as Borrower's mailing address (if different than its chief executive office); (e) except as may be otherwise set forth in the Perfection Certificate, Borrower (and each of its predecessors) has not, in the past five (5) years, changed its jurisdiction of formation, organizational structure or type, or any organizational number assigned by its jurisdiction; and (f) all other information set forth on the Perfection Certificate pertaining to Borrower and each of its Subsidiaries is accurate and complete (it being understood and agreed that Borrower may from time to time update certain information in the Perfection Certificate after the Effective Date to the extent permitted by one or more specific provisions in this Agreement). If Borrower is not now a Registered Organization but later becomes one, Borrower shall promptly notify Bank of such occurrence and provide Bank with Borrower's organizational identification number.

The execution, delivery and performance by Borrower of the Loan Documents to which it is a party have been duly authorized, and do not (i) conflict with any of Borrower's organizational documents, (ii) contravene, conflict with, constitute a default under or violate any material Requirement of Law, (iii) contravene, conflict or violate any applicable order, writ, judgment, injunction, decree, determination or award of any Governmental Authority by which Borrower or any of its Subsidiaries or any of their property or assets may be bound or affected, (iv) require any action by, filing, registration, or qualification with, or Governmental Approval from, any Governmental Authority (except such Governmental Approvals which have already been obtained and are in full force and effect or (v) constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which it is a party or by which it is bound in which the default could reasonably be expected to have a material adverse effect on Borrower's business.

5.2 Collateral. Borrower has good title to, has rights in, and the power to transfer each item of the Collateral upon which it purports to grant a Lien hereunder, free and clear of any and all Liens except Permitted Liens. Borrower has no Collateral Accounts other than the Collateral Accounts with Bank, the Collateral Accounts, if any, described in the Perfection Certificate delivered to Bank in connection herewith, or of which Borrower has given Bank notice and taken such actions as are necessary to give Bank a perfected security interest therein. The Accounts are bona fide, existing obligations of the Account Debtors.

The Collateral is not in the possession of any third party bailee (such as a warehouse) except as otherwise provided in the Perfection Certificate. None of the components of the Collateral shall be maintained at locations other than as provided in the Perfection Certificate or as permitted pursuant to Section 7.2.

All Inventory is in all material respects of good and marketable quality, free from material defects.

Borrower is the sole owner of the Intellectual Property which it owns or purports to own except for (a) non-exclusive licenses granted to its customers in the ordinary course of business, (b) over-the-counter software that is commercially available to the public, and (c) material Intellectual Property licensed to Borrower and noted on the Perfection Certificate. Each Patent which it owns or purports to own and which is material to Borrower's business is valid and enforceable, and no part of the Intellectual Property which Borrower owns or purports to own and which is material to Borrower's business has been judged invalid or unenforceable, in whole or in part. To the best of Borrower's knowledge, no claim has been made that any part of the Intellectual Property violates the rights of any third party except to the extent such claim would not reasonably be expected to have a material adverse effect on Borrower's business.

Except as noted on the Perfection Certificate, Borrower is not a party to, nor is it bound by, any Restricted License.

5.3 [Reserved].

5.4 Litigation. There are no actions or proceedings pending or, to the knowledge of the Responsible Officers, threatened in writing by or against Borrower or any of its Subsidiaries involving more than, individually or in the aggregate, Two Hundred Fifty Thousand Dollars ($250,000).

5.5 Financial Statements; Financial Condition. All consolidated financial statements for Borrower and any of its Subsidiaries delivered to Bank fairly present in all material respects Borrower's consolidated financial condition and Borrower's consolidated results of operations as of the dates specified in the financial statements. There has not been any material deterioration in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank.

5.6 Solvency. The fair salable value of Borrower's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; Borrower is not left with unreasonably small capital after the transactions in this Agreement; and Borrower is able to pay its debts (including trade debts) as they mature.

5.7 Regulatory Compliance. Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act of 1940, as amended. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations X, T and U of the Federal Reserve Board of Governors). Borrower has complied in all material respects with the Federal Fair Labor Standards Act. Neither Borrower nor any of its Subsidiaries is a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company" as each term is defined and used in the Public Utility Holding Company Act of 2005. Borrower has not violated any laws, ordinances or rules, the violation of which could reasonably be expected to have a material adverse effect on its business. None of Borrower's or any of its Subsidiaries' properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each of its Subsidiaries have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all Government Authorities that are necessary to continue their respective businesses as currently conducted.

5.8 Subsidiaries; Investments. Borrower does not own any stock, partnership interest or other equity securities except for Permitted Investments.

5.9 Tax Returns and Payments; Pension Contributions. Borrower has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower. Borrower may defer payment of any contested taxes, provided that Borrower (a) in good faith contests its obligation to pay the taxes by appropriate proceedings promptly and diligently instituted and conducted, (b) notifies Bank in writing of the commencement of, and any material development in, the proceedings, (c) posts bonds or takes any other steps required to prevent the governmental authority levying such contested taxes from obtaining a Lien upon any of the Collateral that is other than a "Permitted Lien". Borrower is unaware of any claims or adjustments proposed for any of Borrower's prior tax years which could result in additional taxes becoming due and payable by Borrower. Borrower has paid all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and Borrower has not withdrawn from participation in, and has not permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

5.10 Use of Proceeds. Borrower shall use the proceeds of the Credit Extensions solely to repay existing Indebtedness, as working capital and to fund its general business requirements and not for personal, family, household or agricultural purposes.

5.11 Full Disclosure. No written representation, warranty or other statement of Borrower in any certificate or written statement given to Bank, as of the date such representation, warranty, or other statement was made, taken together with all such written certificates and written statements given to Bank, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading (it being recognized by Bank that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected or forecasted results).

5.12 Indebtedness. Borrower is not liable for any Indebtedness other than Permitted Indebtedness.

5.13 Definition of "Knowledge.**"** For purposes of the Loan Documents, whenever a representation or warranty is made to Borrower's knowledge or awareness, to the "best of" Borrower's knowledge, or with a similar qualification, knowledge or awareness means the actual knowledge, after reasonable investigation, of the Responsible Officers.

6 AFFIRMATIVE COVENANTS

Borrower agrees that Borrower shall do all of the following:

6.1 Government Compliance.

(a) Maintain its and all its Subsidiaries' legal existence and good standing in their respective jurisdictions of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to have a material adverse effect on Borrower's business or operations. Borrower shall comply, and have each Subsidiary comply, with all laws, ordinances and regulations to which it is subject, noncompliance with which could have a material adverse effect on Borrower's business.

(b) Obtain all of the Governmental Approvals necessary for the performance by Borrower of its obligations under the Loan Documents to which it is a party and the grant of a security interest to Bank in all of the Collateral. Borrower shall promptly provide copies of any such obtained Governmental Approvals to Bank.

6.2 Financial Statements, Reports, Certificates. Deliver to Bank:

(a) [Reserved];

(b) [Reserved];

(c) Monthly Financial Statements. As soon as available, but no later than thirty (30) days after the last day of each month, a company prepared consolidated balance sheet, cash flow and income statement covering Borrower's consolidated operations for such month certified by a Responsible Officer and in a form acceptable to Bank (the "**Monthly Financial Statements**");

(d) Monthly Compliance Certificate. Within thirty (30) days after the last day of each month and together with the Monthly Financial Statements, a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such month, Borrower was in full compliance with all of the terms and conditions of this Agreement, and setting forth calculations showing compliance with the financial covenants, if any, set forth in this Agreement and such other information as Bank shall reasonably request;

(e) Annual Audited Financial Statements. As soon as available, but no later than ninety (90) days after the last day of Borrower's fiscal year, audited consolidated financial statements prepared under GAAP, consistently applied, together with an unqualified opinion on the financial statements from an independent certified public accounting firm acceptable to Bank in its reasonable discretion;

(f) Other Statements. Within five (5) days of delivery, copies of all statements, reports and notices made available to Borrower's security holders or to any holders of Subordinated Debt;

(g) SEC Filings. In the event that Borrower becomes subject to the reporting requirements under the Exchange Act within five (5) days of filing, copies of all periodic and other reports, proxy statements and other materials filed by Borrower with the SEC, any Governmental Authority succeeding to any or all of the functions of the SEC or with any national securities exchange, or distributed to its shareholders, as the case may be. Documents required to be delivered pursuant to the terms hereof (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which Borrower posts such documents, or provides a link thereto, on Borrower's website on the Internet at Borrower's website address;

(h) Legal Action Notice. A prompt report of any legal actions pending or threatened in writing against Borrower or any of its Subsidiaries that could result in damages or costs to Borrower or any of its Subsidiaries of, individually or in the aggregate, Two Hundred Fifty Thousand Dollars ($250,000) or more;

(i) Intellectual Property Notice. Prompt written notice of (i) any material change in the composition of the Intellectual Property, (ii) the registration of any copyright, including any subsequent ownership right of Borrower in or to any copyright, patent or trademark not previously disclosed in writing to Bank, and (iii) Borrower's knowledge of an event that could reasonably be expected to materially and adversely affect the value of the Intellectual Property; and

(j) Budgets and Projections. Not later than sixty (60) days after the beginning of each fiscal year of Borrower, (A) annual operating budgets (including income statements, balance sheets and cash flow statements, by month) for Borrower for such fiscal year, and (B) annual financial projections for Borrower for such fiscal year (on a quarterly basis), as approved by Borrower's board of directors, together with any related business forecasts used in the preparation of such annual financial projections; and

(k) Other Financial Information. Budgets, sales projections, operating plans and other financial information reasonably requested by Bank.

6.3 Inventory; Returns. Keep all Inventory in good and marketable condition, free from material defects. Returns and allowances between Borrower and its Account Debtors shall follow Borrower's customary practices as they exist at the Effective Date. Borrower must promptly notify Bank of all returns, recoveries, disputes and claims that involve more than Two Hundred Fifty Thousand Dollars ($250,000).

6.4 Taxes; Pensions. Timely file, and require each of its Subsidiaries to timely file, all required tax returns and reports and timely pay, and require each of its Subsidiaries to timely pay, all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower and each of its Subsidiaries, except for deferred payment of any taxes contested pursuant to the terms of Section 5.9 hereof, and shall deliver to Bank, on demand, appropriate certificates attesting to such payments, and pay all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms.

6.5 Insurance. Keep its business and the Collateral insured for risks and in amounts standard for companies in Borrower's industry and location and as Bank may reasonably request. Insurance policies shall be in a form, with companies, and in amounts that are satisfactory to Bank. All property policies shall have a lender's loss payable endorsement showing Bank as the sole lender loss payee and waive subrogation against Bank. All liability policies shall show, or have endorsements showing, Bank as an additional insured. All policies (or their respective endorsements) shall provide that the insurer shall give Bank at least twenty (20) days notice (at least ten (10) days notice in the case of cancellation due to nonpayment) before canceling, amending, or declining to renew its policy. At Bank's request, Borrower shall deliver certified copies of policies and evidence of all premium payments. Proceeds payable under any policy shall, at Bank's option, be payable to Bank on account of the Obligations. Notwithstanding the foregoing, (a) so long as no Event of Default has occurred and is continuing, Borrower shall have the option of applying the proceeds of any casualty policy up to Fifty Thousand Dollars ($50,000) with respect to any loss, but not exceeding One Hundred Thousand Dollars ($100,000) in the aggregate for all losses under all casualty policies in any one year, toward the replacement or repair of destroyed or damaged property; provided that any such replaced or repaired property (i) shall be of equal or like value as the replaced or repaired Collateral and (ii) shall be deemed Collateral in which Bank has been granted a first priority security interest, and (b) after the occurrence and during the continuance of an Event of Default, all proceeds payable under such casualty policy shall, at the option of Bank, be payable to Bank on account of the Obligations. If Borrower fails to obtain insurance as required under this Section 6.5 or to pay any amount or furnish any required proof of payment to third persons and Bank, Bank may make all or part of such payment or obtain such insurance policies required in this Section 6.5, and take any action under the policies Bank deems prudent.

6.6 Operating Accounts.

(a) Maintain all of its and all of its Subsidiaries' operating and other deposit accounts and other Collateral Accounts with Bank and Bank's Affiliates.

(b) Without limitation on subsection "a" above, (i) provide Bank five (5) days prior written notice before establishing any Collateral Account at or with any bank or financial institution other than Bank or Bank's Affiliates, and (ii) for each Collateral Account that Borrower at any time maintains, Borrower shall cause the applicable bank or financial institution (other than Bank) at or with which such Collateral Account is maintained to execute and deliver a Control Agreement or other appropriate instrument with respect to such Collateral Account to perfect Bank's Lien in such Collateral Account in accordance with the terms hereunder which Control Agreement may not be terminated without the prior written consent of Bank.

(c) Notwithstanding anything to the contrary in this Section 6.6, subsections "a" and "b" above shall not apply to (i) such accounts of Borrower's Subsidiary EnteroMedics Europe Sárl maintained in Switzerland or (ii) deposit accounts exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of Borrower's employees and identified to Bank by Borrower as such.

6.7 Financial Covenants. Maintain the following:

(a) Minimum Revenue. Borrower's revenue generated from the sale of VBLOC Obesity Devices to Retail Patients or distributors for the periods that begin on January 1, 2012 and end on the dates set forth below shall be equal to at least the amounts set forth below for such dates.

End of Period	Minimum Revenue for Period
March 31, 2013	[*]
June 30, 2013	[*]
September 30, 2013	[*]
December 31, 2013	[*]
March 31, 2014	[*]
June 30, 2014	[*]
September 30, 2014	[*]
December 31, 2014	[*]
March 31, 2015	[*]
June 30, 2015	[*]

(b) Minimum Implants. On or before each date set forth below, Borrower shall have implanted at least the number of VBLOC Obesity Devices in Retail Patients set forth below for such date.

Date	Number of Devices
March 31, 2013	[*]
June 30, 2013	[*]
September 30, 2013	[*]
December 31, 2013	[*]
March 31, 2014	[*]
June 30, 2014	[*]
September 30, 2014	[*]
December 31, 2014	[*]
March 31, 2015	[*]
June 30, 2015	[*]

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

6.8 Protection of Intellectual Property Rights.

(a) (i) Protect, defend and maintain the validity and enforceability of its Intellectual Property; (ii) promptly advise Bank in writing of material infringements of its Intellectual Property; and (iii) not allow any Intellectual Property material to Borrower's business to be abandoned, forfeited or dedicated to the public without Bank's written consent.

(b) Provide written notice to Bank within thirty (30) days of entering or becoming bound by any Restricted License (other than over-the-counter software that is commercially available to the public). Borrower shall take such steps as Bank requests to obtain the consent of, or waiver by, any person whose consent or waiver is necessary for (i) any Restricted License to be deemed "Collateral" and for Bank to have a security interest in it that might otherwise be restricted or prohibited by law or by the terms of any such Restricted License, whether now existing or entered into in the future, and (ii) Bank to have the ability in the event of a liquidation of any Collateral to dispose of such Collateral in accordance with Bank's rights and remedies under this Agreement and the other Loan Documents.

6.9 Litigation Cooperation. From the date hereof and continuing through the termination of this Agreement, make available to Bank, upon reasonable notice and at reasonable times, without expense to Bank, Borrower and its officers, employees and agents and Borrower's books and records, to the extent that Bank may deem them reasonably necessary to prosecute or defend any third-party suit or proceeding instituted by or against Bank with respect to any Collateral or relating to Borrower.

6.10 Additional Warrants. Concurrently herewith, Borrower shall provide Bank with a duly executed warrant to purchase 106,746 shares of the publicly traded common stock of Borrower, exercisable for ten years, at a price of $2.34 per share (the "**Tranche A Warrant**"). On the Funding Date for Tranche B, Borrower shall provide Bank with a duly executed warrant to purchase publicly traded common stock of Borrower, exercisable for ten years, at a price per share equal to the average closing price of Borrower's publicly traded common stock for the 10 trading days immediately preceding such Funding Date, for a number of shares to be determined by dividing $250,000 by such price per share, and in the same form and substance as the Tranche A Warrant (the "**Tranche B Warrant**").

6.11 Changes to Terms. Without limitation on any right that Bank would otherwise have to exercise rights and remedies (whether or not commercially reasonable) upon the occurrence and continuation of an Event of Default, or to require changes (whether or not commercially reasonable) to the terms of Term Loan 2012 or this Agreement as a condition to forbearing from exercising such rights and remedies upon the occurrence and continuation of an Event of Default; if Borrower's annual operating budgets or annual financial projections, as approved by Borrower's board of directors, are revised from the versions provided to Bank on February 24, 2012, Borrower shall agree, in writing, to any commercially reasonable changes to the terms of Term Loan 2012 or this Agreement that Bank shall request.

6.12 Access to Collateral; Books and Records. Allow Bank, or its agents, at reasonable times, on one (1) Business Day's notice (provided no notice is required if an Event of Default has occurred and is continuing), to inspect the Collateral and audit and copy Borrower's Books. The foregoing inspections and audits shall be at Borrower's expense, and the charge therefor shall be $850 per person per day (or such higher amount as shall represent Bank's then-current standard charge for the same), plus reasonable out-of-pocket expenses. In the event Borrower and Bank schedule an audit more than ten (10) days in advance, and Borrower cancels or seeks to reschedule the audit with less than ten (10) days written notice to Bank, then (without limiting any of Bank's rights or remedies), Borrower shall pay Bank a fee of $1,000 plus any out-of-pocket expenses incurred by Bank to compensate Bank for the anticipated costs and expenses of the cancellation or rescheduling.

6.13 Further Assurances. Execute any further instruments and take further action as Bank reasonably requests to perfect or continue Bank's Lien in the Collateral or to effect the purposes of this Agreement. Deliver to Bank, within ten (10) days after the same are sent or received, copies of all correspondence, reports, documents and other filings with any Governmental Authority regarding compliance with or maintenance of Governmental Approvals or Requirements of Law or that could reasonably be expected to have a material effect on any of the Governmental Approvals or otherwise on the operations of Borrower or any of its Subsidiaries.

7 <u>NEGATIVE COVENANTS</u>

Borrower agrees that Borrower shall not do any of the following without Bank's prior written consent:

7.1 Dispositions. Convey, sell, lease, transfer, assign, or otherwise dispose of (collectively, "**Transfer**"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Transfers (a) of Inventory in the ordinary course of business; (b) of worn-out or obsolete furniture, fixtures and other Equipment; (c) consisting of Permitted Liens and Permitted Investments; (d) of non-exclusive licenses for the use of the property of Borrower or its Subsidiaries in the ordinary course of business; and (e) that are other ordinary course of business dispositions and that do not exceed an aggregate of $100,000 (valued at the higher of cost or fair market value) in any fiscal year.

7.2 Changes in Business, Management, Ownership, or Business Locations. (a) Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower and such Subsidiary, as applicable, or reasonably related thereto; (b) liquidate or dissolve; or (c) (i) permit the existing Chief Executive Officer or Chief Financial Officer of the Borrower to cease to hold such position or (ii) permit or suffer any Change in Control.

Borrower shall not, without at least thirty (30) days prior written notice to Bank: (1) add any new offices or business locations, including warehouses (unless such new offices or business locations contain less than Two Hundred Fifty Thousand Dollars ($250,000) in Borrower's assets or property) or deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Two Hundred Fifty Thousand Dollars ($250,000) to a bailee at a location other than to a bailee and at a location already disclosed in the Perfection Certificate, (2) change its jurisdiction of organization, (3) change its organizational structure or type, (4) change its legal name, or (5) change any organizational number (if any) assigned by its jurisdiction of organization. If Borrower intends to deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Two Hundred Fifty Thousand Dollars ($250,000) to a bailee, and Bank and such bailee are not already parties to a bailee agreement governing both the Collateral and the location to which Borrower intends to deliver the Collateral, then Borrower will first receive the written consent of Bank, and such bailee shall execute and deliver a bailee agreement in form and substance satisfactory to Bank in its sole discretion.

7.3 Mergers or Acquisitions. Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person (including, without limitation, by the formation of any Subsidiary), other than acquisitions of property where (a) total consideration including cash and the value of any non-cash consideration, for all such acquisitions does not in the aggregate exceed One Hundred Thousand Dollars ($100,000) in any fiscal year of Borrower and (b) no Event of Default has occurred and is continuing or would exist after giving effect to the acquisitions. A Subsidiary may merge or consolidate into another Subsidiary.

7.4 Indebtedness. Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

7.5 Encumbrance. Create, incur, allow, or suffer any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, or permit any Collateral not to be subject to the first priority security interest granted herein, or enter into any agreement, document, instrument or other arrangement (except with or in favor of Bank) with any Person which directly or indirectly prohibits or has the effect of prohibiting Borrower or any Subsidiary from assigning, mortgaging, pledging, granting a security interest in or upon, or encumbering any of Borrower's or any Subsidiary's Intellectual Property, except as may be otherwise permitted in Section 7.1 hereof and the definition of "Permitted Liens" herein.

7.6 Maintenance of Collateral Accounts. Maintain any Collateral Account except pursuant to the terms of Section 6.6 hereof.

7.7 Distributions; Investments. (a) Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock provided that (i) Borrower may convert any of its convertible securities into other securities pursuant to the terms of such convertible securities or otherwise in exchange thereof, (ii) Borrower may pay dividends solely in common stock; and (iii) Borrower may repurchase the stock of former employees or consultants pursuant to stock repurchase agreements so long as an Event of Default does not exist at the time of such repurchase and would not exist after giving effect to such repurchase, provided that the aggregate of all such repurchases does not exceed One Hundred Thousand Dollars ($100,000) per fiscal year; or (b) directly or indirectly make any Investment other than Permitted Investments, or permit any of its Subsidiaries to do so.

7.8 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower, except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person.

7.9 Subordinated Debt. (a) Make or permit any payment on any Subordinated Debt, except under the terms of the subordination, intercreditor, or other similar agreement to which such Subordinated Debt is subject, or (b) amend any provision in any document relating to the Subordinated Debt which would increase the amount thereof or the amount of any permitted payments thereof or adversely affect the subordination thereof to Obligations owed to Bank.

7.10 Compliance. Become an "investment company" or a company controlled by an "investment company", under the Investment Company Act of 1940, as amended, or undertake as one of its important activities extending credit to purchase or carry margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System), or use the proceeds of any Credit Extension for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on Borrower's business, or permit any of its Subsidiaries to do so; withdraw or permit any Subsidiary to withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any present pension, profit sharing and deferred compensation plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

8 EVENTS OF DEFAULT

Any one of the following shall constitute an event of default (an "**Event of Default**") under this Agreement:

8.1 Payment Default. Borrower fails to (a) make any payment of principal or interest on any Credit Extension on its due date, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable (which three (3) Business Day cure period shall not apply to payments due on the Term Loan Maturity Date). During the cure period, the failure to make or pay any payment specified under clause (a) or (b) hereunder is not an Event of Default (but no Credit Extension will be made during the cure period);

8.2 Covenant Default.

(a) Borrower fails or neglects to perform any obligation in Sections 6.2, 6.4, 6.5, 6.6, 6.7, 6.8(b), 6.10, 6.12 or violates any covenant in Section 7; or

(b) Borrower fails or neglects to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement or any Loan Documents, and as to any default (other than those specified in this Section 8) under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure the default within ten (10) days after the occurrence thereof; provided, however, that if the default cannot by its nature be cured within the ten (10) day period or cannot after diligent attempts by Borrower be cured within such ten (10) day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to cure the default shall not be deemed an Event of Default (but no Credit Extensions shall be made during such cure period). Cure periods provided under this section shall not apply, among other things, to financial covenants or any other covenants set forth in clause (a) above;

8.3 Material Adverse Change. A Material Adverse Change occurs;

8.4 Attachment; Levy; Restraint on Business.

(a) (i) The service of process seeking to attach, by trustee or similar process, $10,000 or more of funds of Borrower or of any entity under the control of Borrower (including a Subsidiary) on deposit or otherwise maintained with Bank or any Bank Affiliate, or (ii) a notice of lien or levy is filed against any material portion of Borrower's assets by any government agency, and the same under subclauses (i) and (ii) hereof are not, within ten (10) days after the occurrence thereof, discharged or stayed (whether through the posting of a bond or otherwise); provided, however, no Credit Extensions shall be made during any ten (10) day cure period; or

(b) (i) any material portion of Borrower's assets is attached, seized, levied on, or comes into possession of a trustee or receiver, or (ii) any court order enjoins, restrains, or prevents Borrower from conducting any material part of its business;

8.5 Insolvency (a) Borrower is unable to pay its debts (including trade debts) as they become due or otherwise becomes insolvent; (b) Borrower begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against Borrower and not dismissed or stayed within thirty (30) days (but no Credit Extensions shall be made while of any of the conditions described in clause (a) exist and/or until any Insolvency Proceeding is dismissed);

8.6 Other Agreements. There is, under any agreement to which Borrower or any Guarantor is a party with a third party or parties, (a) any default resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount individually or in the aggregate in excess of One Hundred Thousand Dollars ($100,000); or (b) any default by Borrower or any Guarantor, the result of which could have a material adverse effect on Borrower's or any Guarantor's business; provided, however, that the Event of Default under this Section 8.6 caused by the occurrence of a default under such other agreement shall be cured or waived for purposes of this Agreement upon Bank receiving written notice from the party asserting such default of such cure or waiver of the default under such other agreement, if at the time of such cure or waiver under such other agreement (a) Bank has not declared an Event of Default under this Agreement and/or exercised any rights with respect thereto; (b) any such cure or waiver does not result in an Event of Default under any other provision of this Agreement or any Loan Document; and (c) in connection with any such cure or waiver under such other agreement, the terms of any agreement with such third party are not modified or amended in any manner which could in the good faith judgment of Bank be materially less advantageous to Borrower or any Guarantor;

8.7 Judgments. One or more final judgments, orders, or decrees for the payment of money in an amount, individually or in the aggregate, of at least One Hundred Thousand Dollars ($100,000) (not covered by independent third-party insurance as to which liability has been accepted by such insurance carrier) shall be rendered against Borrower and the same are not, within ten (10) days after the entry thereof, discharged or execution thereof stayed or bonded pending appeal, or such judgments are not discharged prior to the expiration of any such stay (provided that no Credit Extensions will be made prior to the discharge, stay, or bonding of such judgment, order, or decree);

8.8 Misrepresentations. Borrower or any Person acting for Borrower makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to Bank or to induce Bank to enter this Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect when made;

8.9 Subordinated Debt or Lien. Any document, instrument, or agreement evidencing any Subordinated Debt shall for any reason be revoked or invalidated or otherwise cease to be in full force and effect; any Person shall be in breach thereof or contest in any manner the validity or enforceability thereof or deny that it has any further liability or obligation thereunder; a default or breach occurs under any agreement between Borrower and any creditor of Borrower that signed a subordination, intercreditor, or other similar agreement with or in favor of Bank, or any creditor that has signed such an agreement with or in favor of Bank breaches any term of such agreement; or the Obligations shall for any reason be subordinated or shall not have the priority contemplated by this Agreement or any such subordination, intercreditor, or other similar agreement;

8.10 Guaranty. (a) Any guaranty of any Obligations terminates or ceases for any reason to be in full force and effect; (b) any Guarantor does not perform any obligation or covenant under any guaranty of the Obligations; (c) any circumstance described in Sections 8.3, 8.4, 8.5, 8.7, or 8.8 occurs with respect to any Guarantor; (d) the death, liquidation, winding up, or termination of existence of any Guarantor; or (e) (i) a material impairment in the perfection or priority of Bank's Lien in the collateral provided by Guarantor or in the value of such collateral or (ii) a material adverse change in the general affairs, management, results of operation, condition (financial or otherwise) or the prospect of repayment of the Obligations occurs with respect to any Guarantor; or

8.11 Governmental Approvals. Any Governmental Approval shall have been (a) revoked, rescinded, suspended, modified in an adverse manner or not renewed in the ordinary course for a full term or (b) subject to any decision by a Governmental Authority that designates a hearing with respect to any applications for renewal of any

of such Governmental Approval or that could result in the Governmental Authority taking any of the actions described in clause (a) above, and such decision or such revocation, rescission, suspension, modification or non-renewal causes, or could reasonably be expected to cause, a Material Adverse Change.

9 BANK'S RIGHTS AND REMEDIES

9.1 Rights and Remedies. If an Event of Default has occurred and is continuing, Bank may, without notice or demand, do any or all of the following:

(a) declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by Bank);

(b) stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Bank;

(c) for any Letters of Credit, demand that Borrower (i) deposit cash with Bank in an amount equal to 110% of the Dollar Equivalent of the aggregate face amount of all Letters of Credit remaining undrawn (plus all interest, fees, and costs due or to become due in connection therewith (as estimated by Bank in its good faith business judgment)), to secure all of the Obligations relating to such Letters of Credit, as collateral security for the repayment of any future drawings under such Letters of Credit, and Borrower shall forthwith deposit and pay such amounts, and (ii) pay in advance all letter of credit fees scheduled to be paid or payable over the remaining term of any Letters of Credit;

(d) terminate any FX Contracts;

(e) verify the amount of, demand payment of and performance under, and collect any Accounts and General Intangibles, settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that Bank considers advisable, and notify any Person owing Borrower money of Bank's security interest in such funds;

(f) make any payments and do any acts it considers necessary or reasonable to protect the Collateral and/or its security interest in the Collateral. Borrower shall assemble the Collateral if Bank requests and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;

(g) apply to the Obligations any (i) balances and deposits of Borrower it holds, or (ii) any amount held by Bank owing to or for the credit or the account of Borrower;

(h) ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral. Bank is hereby granted a non-exclusive, royalty-free license or other right to use, without charge, Borrower's labels, Patents, Copyrights, mask works, rights of use of any name, trade secrets, trade names, Trademarks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section, Borrower's rights under all licenses and all franchise agreements inure to Bank's benefit;

(i) place a "hold" on any account maintained with Bank and/or deliver a notice of exclusive control, any entitlement order, or other directions or instructions pursuant to any Control Agreement or similar agreements providing control of any Collateral;

(j) demand and receive possession of Borrower's Books; and

(k) exercise all rights and remedies available to Bank under the Loan Documents or at law or equity, including all remedies provided under the Code (including disposal of the Collateral pursuant to the terms thereof).

9.2 Power of Attorney. Borrower hereby irrevocably appoints Bank as its lawful attorney-in-fact, exercisable upon the occurrence and during the continuance of an Event of Default, to: (a) endorse Borrower's

name on any checks or other forms of payment or security; (b) sign Borrower's name on any invoice or bill of lading for any Account or drafts against Account Debtors; (c) settle and adjust disputes and claims about the Accounts directly with Account Debtors, for amounts and on terms Bank determines reasonable; (d) make, settle, and adjust all claims under Borrower's insurance policies; (e) pay, contest or settle any Lien, charge, encumbrance, security interest, and adverse claim in or to the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; and (f) transfer the Collateral into the name of Bank or a third party as the Code permits. Borrower hereby appoints Bank as its lawful attorney-in-fact to sign Borrower's name on any documents necessary to perfect or continue the perfection of Bank's security interest in the Collateral regardless of whether an Event of Default has occurred until all Obligations have been satisfied in full and Bank is under no further obligation to make Credit Extensions hereunder. Bank's foregoing appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and Bank's obligation to provide Credit Extensions terminates.

9.3 Protective Payments. If Borrower fails to obtain the insurance called for by Section 6.5 or fails to pay any premium thereon or fails to pay any other amount which Borrower is obligated to pay under this Agreement or any other Loan Document, Bank may obtain such insurance or make such payment, and all amounts so paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then highest rate applicable to the Obligations, and secured by the Collateral. Bank will make reasonable efforts to provide Borrower with notice of Bank obtaining such insurance at the time it is obtained or within a reasonable time thereafter. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

9.4 Application of Payments and Proceeds Upon Default. If an Event of Default has occurred and is continuing, Bank may apply any funds in its possession, whether from Borrower account balances, payments, proceeds realized as the result of any collection of Accounts or other disposition of the Collateral, or otherwise, to the Obligations in such order as Bank shall determine in its sole discretion. Any surplus shall be paid to Borrower or other Persons legally entitled thereto; Borrower shall remain liable to Bank for any deficiency. If Bank, in its good faith business judgment, directly or indirectly enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, Bank shall have the option, exercisable at any time, of either reducing the Obligations by the principal amount of the purchase price or deferring the reduction of the Obligations until the actual receipt by Bank of cash therefor.

9.5 Bank's Liability for Collateral. So long as Bank complies with reasonable banking practices regarding the safekeeping of the Collateral in the possession or under the control of Bank, Bank shall not be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other Person. Borrower bears all risk of loss, damage or destruction of the Collateral.

9.6 No Waiver; Remedies Cumulative. Bank's failure, at any time or times, to require strict performance by Borrower of any provision of this Agreement or any other Loan Document shall not waive, affect, or diminish any right of Bank thereafter to demand strict performance and compliance herewith or therewith. No waiver hereunder shall be effective unless signed by the party granting the waiver and then is only effective for the specific instance and purpose for which it is given. Bank's rights and remedies under this Agreement and the other Loan Documents are cumulative. Bank has all rights and remedies provided under the Code, by law, or in equity. Bank's exercise of one right or remedy is not an election and shall not preclude Bank from exercising any other remedy under this Agreement or other remedy available at law or in equity, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay in exercising any remedy is not a waiver, election, or acquiescence.

9.7 Demand Waiver. Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Bank on which Borrower is liable.

10 NOTICES

All notices, consents, requests, approvals, demands, or other communication by any party to this Agreement or any other Loan Document must be in writing and shall be deemed to have been validly served, given, or delivered: (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the U.S. mail, first class, registered or certified mail return receipt requested, with proper postage prepaid; (b) upon transmission, when

sent by electronic mail or facsimile transmission; (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (d) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address, facsimile number, or email address indicated below. Bank or Borrower may change its mailing or electronic mail address or facsimile number by giving the other party written notice thereof in accordance with the terms of this Section 10.

If to Borrower:	EnteroMedics Inc. 2800 Patton Road Saint Paul, MN 55113 Attn: David Brooks Fax: (651) 634-3212 Email: dbrooks@enteromedics.com
If to Bank:	Silicon Valley Bank 1550 Utica Avenue South St. Louis Park, MN 55416 Attn: Adam Glick Fax: (952) 714-9330 Email: AGlick@svb.com

11 CHOICE OF LAW, VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE

California law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California; provided, however, that nothing in this Agreement shall be deemed to operate to preclude Bank from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favor of Bank. Borrower expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and Borrower hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. Borrower hereby waives personal service of the summons, complaints, and other process issued in such action or suit and agrees that service of such summons, complaints, and other process may be made by registered or certified mail addressed to Borrower at the address set forth in, or subsequently provided by Borrower in accordance with, Section 10 of this Agreement and that service so made shall be deemed completed upon the earlier to occur of Borrower's actual receipt thereof or three (3) days after deposit in the U.S. mails, proper postage prepaid.

TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO WAIVE THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY, if the above waiver of the right to a trial by jury is not enforceable, the parties hereto agree that any and all disputes or controversies of any nature between them arising at any time shall be decided by a reference to a private judge, mutually selected by the parties (or, if they cannot agree, by the Presiding Judge of the Santa Clara County, California Superior Court) appointed in accordance with California Code of Civil Procedure Section 638 (or pursuant to comparable provisions of federal law if the dispute falls within the exclusive jurisdiction of the federal courts), sitting without a jury, in Santa Clara County, California; and the parties hereby submit to the jurisdiction of such court. The reference proceedings shall be conducted pursuant to and in accordance with the provisions of California Code of Civil Procedure §§ 638 through 645.1, inclusive. The private judge shall have the power, among others, to grant provisional relief, including without limitation, entering temporary restraining orders, issuing preliminary and permanent injunctions and appointing receivers. All such proceedings shall be closed to the public and confidential and all records relating thereto shall be permanently sealed. If during the course of any dispute, a party desires to seek provisional relief, but a judge has not been appointed at that point pursuant to the judicial reference procedures, then such party may apply to the Santa Clara County, California Superior Court for such relief. The proceeding before the private judge shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The

parties shall be entitled to discovery which shall be conducted in the same manner as it would be before a court under the rules of discovery applicable to judicial proceedings. The private judge shall oversee discovery and may enforce all discovery rules and orders applicable to judicial proceedings in the same manner as a trial court judge. The parties agree that the selected or appointed private judge shall have the power to decide all issues in the action or proceeding, whether of fact or of law, and shall report a statement of decision thereon pursuant to California Code of Civil Procedure § 644(a). Nothing in this paragraph shall limit the right of any party at any time to exercise self-help remedies, foreclose against collateral, or obtain provisional remedies. The private judge shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

12 GENERAL PROVISIONS

12.1 Successors and Assigns. This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights or obligations under it without Bank's prior written consent (which may be granted or withheld in Bank's discretion). Bank has the right, without the consent of or notice to Borrower, to sell, transfer, assign, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights, and benefits under this Agreement and the other Loan Documents.

12.2 Indemnification. Borrower agrees to indemnify, defend and hold Bank and its directors, officers, employees, agents, attorneys, or any other Person affiliated with or representing Bank (each, an "**Indemnified Person**") harmless against: (a) all obligations, demands, claims, and liabilities (collectively, "**Claims**") claimed or asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (b) all losses or expenses (including Bank Expenses) in any way suffered, incurred, or paid by such Indemnified Person as a result of, following from, consequential to, or arising from transactions between Bank and Borrower (including reasonable attorneys' fees and expenses), except for Claims and/or losses directly caused by such Indemnified Person's gross negligence or willful misconduct.

12.3 Time of Essence. Time is of the essence for the performance of all Obligations in this Agreement.

12.4 Severability of Provisions. Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

12.5 Correction of Loan Documents. Bank may correct patent errors and fill in any blanks in the Loan Documents consistent with the agreement of the parties.

12.6 Amendments in Writing; Waiver; Integration. No purported amendment or modification of any Loan Document, or waiver, discharge or termination of any obligation under any Loan Document, shall be enforceable or admissible unless, and only to the extent, expressly set forth in a writing signed by the party against which enforcement or admission is sought. Without limiting the generality of the foregoing, no oral promise or statement, nor any action, inaction, delay, failure to require performance or course of conduct shall operate as, or evidence, an amendment, supplement or waiver or have any other effect on any Loan Document. Any waiver granted shall be limited to the specific circumstance expressly described in it, and shall not apply to any subsequent or other circumstance, whether similar or dissimilar, or give rise to, or evidence, any obligation or commitment to grant any further waiver. The Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of the Loan Documents merge into the Loan Documents.

12.7 Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one Agreement.

12.8 Survival. All covenants, representations and warranties made in this Agreement continue in full force until this Agreement has terminated pursuant to its terms and all Obligations (other than inchoate indemnity obligations and any other obligations which, by their terms, are to survive the termination of this Agreement) have been paid in full and satisfied. Without limiting the foregoing, except as otherwise provided in Section 4, the grant of security interest by Borrower in Section 4 shall survive until the termination of all Bank Services Agreements. The obligation of Borrower in Section 12.2 to indemnify the Indemnified Persons shall survive until all statutes of limitation with respect to the Claims, losses and expenses for which indemnity is given shall have run.

12.9 Confidentiality. In handling any confidential information, Bank agrees to maintain the confidentiality of the information, but disclosure of information may be made: (a) to Bank's Subsidiaries or Affiliates (it being understood that the Subsidiaries or Affiliates to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential); (b) to prospective transferees or purchasers of any interest in the Credit Extensions (provided, however, the Bank shall obtain such prospective transferee's or purchaser's agreement to the terms of this Section 12.9); (c) as required by law, regulation, subpoena, or other order; (d) to Bank's regulators or as otherwise required in connection with Bank's examination or audit; (e) as Bank considers appropriate in exercising remedies under the Loan Documents; and (f) to third-party service providers of Bank so long as such service providers have executed a confidentiality agreement with Bank with terms no less restrictive than those contained herein. For purposes of this Section 12.9, "confidential information" means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries, other than any such information that is available to Bank on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries. Confidential information does not include information that either: (i) is in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain after disclosure to Bank through no breach of this obligation by Bank; or (ii) is disclosed to Bank by a third party, if Bank does not know that the third party is prohibited from disclosing the information.

In the event that Bank is required by law or legal process (e.g. by deposition, interrogatory, request for information or documents, subpoena, civil investigation demand or similar process, but not including by requirements of disclosure to Bank's regulators or in connection with Bank's examination or audit) to disclose any confidential information, Bank shall provide the Borrower with prompt notice, unless notice is prohibited by law, of any such requirement so that Borrower may seek a protective order or other appropriate remedy.

Bank may use confidential information for any purpose, including, without limitation, for the development of client databases, reporting purposes, and market analysis, so long as Bank does not disclose Borrower's identity or the identity of any person associated with Borrower unless otherwise expressly permitted by this Agreement. The provisions of the immediately preceding sentence shall survive the termination of this Agreement.

12.10 Attorneys' Fees, Costs and Expenses. In any action or proceeding between Borrower and Bank arising out of or relating to the Loan Documents, the prevailing party shall be entitled to recover its reasonable attorneys' fees and other costs and expenses incurred, in addition to any other relief to which it may be entitled.

12.11 Electronic Execution of Documents. The words "execution," "signed," "signature" and words of like import in any Loan Document shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and enforceability as a manually executed signature or the use of a paper-based recordkeeping systems, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act.

12.12 Captions. The headings used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

12.13 Construction of Agreement. The parties mutually acknowledge that they and their attorneys have participated in the preparation and negotiation of this Agreement. In cases of uncertainty this Agreement shall be construed without regard to which of the parties caused the uncertainty to exist.

12.14 Relationship. The relationship of the parties to this Agreement is determined solely by the provisions of this Agreement. The parties do not intend to create any agency, partnership, joint venture, trust, fiduciary or other relationship with duties or incidents different from those of parties to an arm's-length contract.

12.15 Third Parties. Nothing in this Agreement, whether express or implied, is intended to: (a) confer any benefits, rights or remedies under or by reason of this Agreement on any persons other than the express parties to it and their respective permitted successors and assigns; (b) relieve or discharge the obligation or liability of any person not an express party to this Agreement; or (c) give any person not an express party to this Agreement any right of subrogation or action against any party to this Agreement.

13 DEFINITIONS

13.1 Definitions. As used in the Loan Documents, the word "shall" is mandatory, the word "may" is permissive, the word "or" is not exclusive, the words "includes" and "including" are not limiting, the singular includes the plural, and numbers denoting amounts that are set off in brackets are negative. As used in this Agreement, the following capitalized terms have the following meanings:

"**Account**" is any "account" as defined in the Code with such additions to such term as may hereafter be made, and includes, without limitation, all accounts receivable and other sums owing to Borrower.

"**Account Debtor**" is any "account debtor" as defined in the Code with such additions to such term as may hereafter be made.

"**Affiliate**" is, with respect to any Person, each other Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person's managers and members.

"**Agreement**" is defined in the preamble hereof.

"**Bank**" is defined in the preamble hereof.

"**Bank Expenses**" are all audit fees and expenses, costs, and expenses (including reasonable attorneys' fees and expenses) for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to Borrower or any Guarantor.

"**Bank Services**" are any products, credit services, and/or financial accommodations previously, now, or hereafter provided to Borrower or any of its Subsidiaries by Bank or any Bank Affiliate, including, without limitation, any letters of credit, cash management services (including, without limitation, merchant services, direct deposit of payroll, business credit cards, and check cashing services), interest rate swap arrangements, and foreign exchange services as any such products or services may be identified in Bank's various agreements related thereto (each, a "**Bank Services Agreement**").

"**Borrower**" is defined in the preamble hereof.

"**Borrower's Books**" are all Borrower's books and records including ledgers, federal and state tax returns, records regarding Borrower's assets or liabilities, the Collateral, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

"**Borrowing Resolutions**" are, with respect to any Person, those resolutions adopted by such Person's Board of Directors and delivered by such Person to Bank approving the Loan Documents to which such Person is a party and the transactions contemplated thereby, together with a certificate executed by its Secretary on behalf of such Person certifying that (a) such Person has the authority to execute, deliver, and perform its obligations under each of the Loan Documents to which it is a party, (b) that set forth in such certificate is a true, correct, and complete copy of the resolutions then in full force and effect authorizing and ratifying the execution, delivery, and performance by such Person of the Loan Documents to which it is a party, (c) the name(s) of the Person(s) authorized to execute the Loan Documents on behalf of such Person, together with a sample of the true signature(s) of such Person(s), and (d) that Bank may conclusively rely on such certificate unless and until such Person shall have delivered to Bank a further certificate canceling or amending such prior certificate.

"**Business Day**" is any day that is not a Saturday, Sunday or a day on which Bank is closed.

"Cash Equivalents" means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having the highest rating from either Standard & Poor's Ratings Group or Moody's Investors Service, Inc.; (c) Bank's certificates of deposit issued maturing no more than one (1) year after issue; and (d) money market funds at least ninety-five percent (95%) of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (c) of this definition.

"**Change in Control**" means any event, transaction, or occurrence as a result of which any "person" (as such term is defined in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934, as an amended (the "**Exchange Act**")), other than a trustee or other fiduciary holding securities under an employee benefit plan of Borrower, is or becomes a beneficial owner (within the meaning Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of Borrower, representing forty percent (40%) or more of the combined voting power of Borrower's then outstanding securities.

"**Code**" is the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the State of California; provided, that, to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern; provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, or priority of, or remedies with respect to, Bank's Lien on any Collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the State of California, the term "**Code**" shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies and for purposes of definitions relating to such provisions.

"**Collateral**" is any and all properties, rights and assets of Borrower described on Exhibit A.

"**Collateral Account**" is any Deposit Account, Securities Account, or Commodity Account.

"**Commodity Account**" is any "commodity account" as defined in the Code with such additions to such term as may hereafter be made.

"**Compliance Certificate**" is that certain certificate in the form attached hereto as Exhibit B.

"**Contingent Obligation**" is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation, in each case, directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but "Contingent Obligation" does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

"**Control Agreement**" is any control agreement entered into among the depository institution at which Borrower maintains a Deposit Account or the securities intermediary or commodity intermediary at which Borrower maintains a Securities Account or a Commodity Account, Borrower, and Bank pursuant to which Bank obtains control (within the meaning of the Code) over such Deposit Account, Securities Account, or Commodity Account.

"**Copyrights**" are any and all copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret.

"**Credit Extension**" is Term Loan 2012 or any other extension of credit by Bank for Borrower's benefit.

"**Default Rate**" is defined in Section 2.3(b).

"**Deposit Account**" is any "deposit account" as defined in the Code with such additions to such term as may hereafter be made.

"**Designated Deposit Account**" is Borrower's deposit account, account number [*], maintained with Bank.

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

"**Dollars**," "**dollars**" or use of the sign "**$**" means only lawful money of the United States and not any other currency, regardless of whether that currency uses the "$" sign to denote its currency or may be readily converted into lawful money of the United States.

"**Dollar Equivalent**" is, at any time, (a) with respect to any amount denominated in Dollars, such amount, and (b) with respect to any amount denominated in a Foreign Currency, the equivalent amount therefor in Dollars as determined by Bank at such time on the basis of the then-prevailing rate of exchange in San Francisco, California, for sales of the Foreign Currency for transfer to the country issuing such Foreign Currency.

"**Draw Period**" is the period of time from the Effective Date through the earlier to occur of (a) February 15, 2013 or (b) an Event of Default.

"**Effective Date**" is defined in the preamble hereof.

"**Equipment**" is all "equipment" as defined in the Code with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

"**ERISA**" is the Employee Retirement Income Security Act of 1974, and its regulations.

"**Event of Default**" is defined in Section 8.

"**Exchange Act**" is the Securities Exchange Act of 1934, as amended.

"Final Payment" is a payment (in addition to and not a substitution for the regular monthly payments of principal plus accrued interest) of $500,000 due with respect to Term Loan 2012 on the earlier to occur of (a) the Term Loan Maturity Date, (b) any acceleration of Term Loan 2012, or (c) the prepayment of Term Loan 2012.

"**Foreign Currency**" means lawful money of a country other than the United States.

"**Funding Date**" is any date on which a Credit Extension is made to or for the account of Borrower which shall be a Business Day.

"**FX Contract**" is any foreign exchange contract by and between Borrower and Bank under which Borrower commits to purchase from or sell to Bank a specific amount of Foreign Currency on a specified date.

"**GAAP**" is generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination.

"**General Intangibles**" is all "general intangibles" as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation, all Intellectual Property, claims, income and other tax refunds, security and other deposits, payment intangibles, contract rights, options to purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort or otherwise), insurance policies (including without limitation key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind.

"**Governmental Approval**" is any consent, authorization, approval, order, license, franchise, permit, certificate, accreditation, registration, filing or notice, of, issued by, from or to, or other act by or in respect of, any Governmental Authority.

"**Governmental Authority**" is any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

"**Guarantor**" is any present or future guarantor of the Obligations.

"**Indebtedness**" is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations, and (d) Contingent Obligations.

"**Indemnified Person**" is defined in Section 12.2.

"**Insolvency Proceeding**" is any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

"**Intellectual Property**" means all of Borrower's right, title, and interest in and to the following:

(a) its Copyrights, Trademarks and Patents;

(b) any and all trade secrets and trade secret rights, including, without limitation, any rights to unpatented inventions, know-how, operating manuals;

(c) any and all source code;

(d) any and all design rights which may be available to Borrower;

(e) any and all claims for damages by way of past, present and future infringement of any of the foregoing, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Intellectual Property rights identified above; and

(f) all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents.

"**Inventory**" is all "inventory" as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products, including without limitation such inventory as is temporarily out of Borrower's custody or possession or in transit and including any returned goods and any documents of title representing any of the above.

"**Investment**" is any beneficial ownership interest in any Person (including stock, partnership interest or other securities), and any loan, advance or capital contribution to any Person.

"**Letter of Credit**" is a standby or commercial letter of credit issued by Bank upon request of Borrower based upon an application, guarantee, indemnity, or similar agreement.

"**Lien**" is a claim, mortgage, deed of trust, levy, charge, pledge, security interest or other encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise against any property.

"**Loan Documents**" are, collectively, this Agreement, the Warrants, the Perfection Certificate, any Bank Services Agreement, any subordination agreement, any note, or notes or guaranties executed by Borrower or any Guarantor, and any other present or future agreement by Borrower and/or any Guarantor with or for the benefit of Bank, all as amended, restated, or otherwise modified.

"Make-Whole Amount" shall mean, with respect to Term Loan 2012, (a) in the case of a prepayment pursuant to Section 2.1.1(c) hereof, the amount of Term Loan 2012 being prepaid, and (b) in the case of all or a portion of Term Loan 2012 becoming due and payable according to the terms hereof because of the occurrence and continuance of an Event of Default, such amount of Term Loan 2012 that has become due and payable according to the terms hereof.

"Make-Whole Event Date" shall mean, with respect to Term Loan 2012, (a) in the case of a prepayment pursuant to Section 2.1.1(c) hereof, the date of such prepayment, and (b) in the case of all or a portion of Term Loan 2012 becoming due and payable according to the terms hereof because of the occurrence and continuance of an Event of Default, the date such amount of Term Loan 2012 has become due and payable according to the terms hereof.

"Make-Whole Premium" is, with respect to Term Loan 2012, an amount equal to $600,000 if the Make-Whole Event Date with respect to Term Loan 2012 occurs on or before the first anniversary of the Effective Date; 2% of the Make-Whole Amount with respect to Term Loan 2012 if the Make-Whole Event Date with respect to Term Loan 2012 occurs after the first anniversary of the Effective Date but on or before the second anniversary of the Effective Date; 1% of Make-Whole Amount with respect to Term Loan 2012 if the Make-Whole Event Date with respect to Term Loan 2012 occurs after the second anniversary of the Effective Date but before the third anniversary of the Effective Date.

"**Material Adverse Change**" is (a) a material impairment in the perfection or priority of Bank's Lien in the Collateral or in the value of such Collateral; (b) a material adverse change in the business, operations, or condition (financial or otherwise) of Borrower; (c) a material impairment of the prospect of repayment of any portion of the Obligations; or (d) Bank determines, based upon information available to Bank and in Bank's reasonable judgment, that there is a reasonable likelihood that Borrower shall fail to comply with one or more of the financial covenants in Section 6 during the next succeeding financial reporting period.

"**Monthly Financial Statements**" is defined in Section 6.2(c).

"**Obligations**" are Borrower's obligations to pay when due any debts, principal, interest, Bank Expenses, and other amounts Borrower owes Bank now or later, whether under this Agreement, the other Loan Documents, or otherwise, including, without limitation, any interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank, and the performance of Borrower's duties under the Loan Documents.

"Operating Documents" are, for any Person, such Person's formation documents, as certified with the Secretary of State of such Person's state of formation on a date that is no earlier than 30 days prior to the Effective Date, and, (a) if such Person is a corporation, its bylaws in current form, (b) if such Person is a limited liability company, its limited liability company agreement (or similar agreement), and (c) if such Person is a partnership, its partnership agreement (or similar agreement), each of the foregoing with all current amendments or modifications thereto.

"**Patents**" means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

"**Payment/Advance Form**" is that certain form attached hereto as Exhibit C.

"**Perfection Certificate**" is defined in Section 5.1.

"**Permitted Indebtedness**" is:

(a) Borrower's Indebtedness to Bank with respect to (i) this Agreement and the other Loan Documents, (ii) the $200,000 standby letter of credit issued by Bank to Roseville Properties, and (iii) Borrower's $100,000 Bank Corporate Master Card;

(b) Borrower's Indebtedness to the issuer with respect to (i) Borrower's $50,000 American Express Corporate Card and (ii) Borrower's $75,000 US Bank Corporate Visa Card;

(c) Subordinated Debt;

(d) unsecured Indebtedness to trade creditors incurred in the ordinary course of business;

(e) Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of business;

(f) Indebtedness described in subparts (b)-(e) of the definition of Permitted Liens;

(g) [Reserved];

(h) Indebtedness owed by Borrower (or a Subsidiary of Borrower) to any Person providing property, casualty, liability, or other insurance to Borrower (or, in the case of Indebtedness owed by a Subsidiary of Borrower,

to such Subsidiary), so long as the amount of such Indebtedness is not in excess of the amount of the unpaid cost of, and shall be incurred only to defer the cost of, such insurance for the year in which such Indebtedness is incurred and such Indebtedness is outstanding only during such year;

(i) other Indebtedness not exceeding $100,000 in the aggregate outstanding at any time; and

(j) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (a) through (b) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower or its Subsidiary, as the case may be.

"**Permitted Investments**" are:

(a) Investments shown on the Perfection Certificate and existing on the Effective Date;

(b) (i) Cash Equivalents, and (ii) any Investments permitted by Borrower's investment policy, as amended from time to time, provided that such investment policy (and any such amendment thereto) has been approved by Bank;

(c) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of Borrower;

(d) Investments consisting of deposit accounts in which Bank has a perfected security interest;

(e) Investments accepted in connection with Transfers permitted by Section 7.1;

(f) Investments of Subsidiaries in or to other Subsidiaries or Borrower and Investments by Borrower in Subsidiaries not to exceed $100,000 in the aggregate in any fiscal year;

(g) Investments consisting of (i) travel advances and employee relocation loans and other employee loans and advances in the ordinary course of business, and (ii) loans to employees, officers or directors relating to the purchase of equity securities of Borrower pursuant to employee stock purchase plans or agreements approved by Borrower's Board of Directors, not exceeding $100,000 in the aggregate for the foregoing "i" and "ii" outstanding at any time; and

(h) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business.

"**Permitted Liens**" are:

(a) Liens in favor of Bank, and Liens existing on the Effective Date and (i) shown on the Perfection Certificate or (ii) against cash collateral in deposit accounts or pledged certificates of deposit, securing Indebtedness described in subparts (a) or (b) of the definition of Permitted Indebtedness;

(b) Liens for taxes, fees, assessments or other government charges or levies, either not delinquent or being contested in good faith and for which Borrower maintains adequate reserves on its Books, provided that (i) they have no priority over any of the Bank's Liens and (ii) without limitation on "i" above, no notice of any such Lien has been filed or recorded under the Internal Revenue Code of 1986, as amended, and the Treasury Regulations adopted thereunder;

(c) purchase money Liens (i) on Equipment acquired or held by Borrower incurred for financing the acquisition of the Equipment securing no more than $100,000 in the aggregate amount outstanding, or (ii) existing on Equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the Equipment;

(d) Liens of carriers, warehousemen, suppliers, or other Persons that are possessory in nature arising in the ordinary course of business so long as such Liens attach only to Inventory, securing liabilities in the aggregate amount not to exceed $100,000 and which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

(e) Liens to secure payment of workers' compensation, employment insurance, old-age pensions, social security and other like obligations incurred in the ordinary course of business (other than Liens imposed by ERISA), provided they have no priority over any of the Bank's Liens;

(f) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (c), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase;

(g) leases or subleases of real property granted in the ordinary course of business, and leases, subleases, non-exclusive licenses or sublicenses of property (other than real property or intellectual property) granted in the ordinary course of Borrower's business, if the leases, subleases, licenses and sublicenses do not prohibit granting Banks a security interest;

(h) non-exclusive license of intellectual property granted to third parties in the ordinary course of business;

(i) Liens arising from attachments or judgments, orders, or decrees in circumstances not constituting an Event of Default under Section 8.4 or 8.7; and

(j) Liens securing Subordinated Debt if such Liens are subordinated to the Liens in favor of Bank pursuant to a subordination, intercreditor, or other similar agreement in form and substance satisfactory to Bank.

"**Person**" is any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

"**Primary Clinical Endpoints**" means that the results (A) demonstrate a 10% superior margin of excess weight loss (EWL) between the treatment and control group, as measured by the body mass index (BMI) method, at 12 months post-randomization, (B) achieve a non-statistically based but clinically meaningful responder rate of at least 55% of subjects in the treated group achieving at least 20% EWL (by BMI) at 12 months and at least 45% of the subjects in the treated group achieving at least 25% EWL (by BMI) at 12 months and (C) demonstrate that the long-term (through 12 months), implant/revision procedure, device and therapy related serious adverse event rate is less than 15%.

"**Prior Agreement**" is defined in the preamble hereof.

"**Registered Organization**" is any "registered organization" as defined in the Code with such additions to such term as may hereafter be made.

"**Requirement of Law**" is as to any Person, the organizational or governing documents of such Person, and any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"**Responsible Officer**" is any of the Chief Executive Officer, President, Chief Financial Officer and Controller of Borrower.

"Retail Patient" means a human patient who had a "VBLOC Obesity Device" implanted not as part of a clinical trial and who is being charged for the device.

"**Restricted License**" is any material license or other agreement with respect to which Borrower is the licensee (a) that prohibits or otherwise restricts Borrower from granting a security interest in Borrower's interest in such license or agreement or any other property, or (b) for which a default under or termination of could interfere with the Bank's right to sell any Collateral.

"**SEC**" shall mean the Securities and Exchange Commission, any successor thereto, and any analogous Governmental Authority.

"**Securities Account**" is any "securities account" as defined in the Code with such additions to such term as may hereafter be made.

"**Subordinated Debt**" is indebtedness incurred by Borrower subordinated to all of Borrower's now or hereafter indebtedness to Bank (pursuant to a subordination, intercreditor, or other similar agreement in form and substance satisfactory to Bank entered into between Bank and the other creditor), on terms acceptable to Bank.

"**Subsidiary**" is, as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless the context otherwise requires, each reference to a Subsidiary herein shall be a reference to a Subsidiary of Borrower.

"**Term Loan Maturity Date**" is defined in Section 2.1.1(b).

"**Term Loan Payment**" is defined in Section 2.1.1(b).

"**Term Loan 2012**" is defined in Section 2.1.1(a).

"**Trademarks**" means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

"Tranche A" is defined in Section 2.1.1(a).

"Tranche A Warrant" is defined in Section 6.10.

"Tranche B" is defined in Section 2.1.1(a).

"**Tranche B Condition**" shall mean the requirement that the Borrower satisfy Bank in Bank's good faith business judgment (based upon such evidence as Bank shall reasonably request) that all of the following have occurred on or before February 15, 2013: (1) after April 1, 2012 Borrower shall have received aggregate gross proceeds from the issuance of its common and/or preferred stock of at least $5,000,000, (2) on or before December 31, 2012 at least [*] VBLOC Obesity Devices shall have been implanted in Retail Patients and Borrower shall have received at least [*] of revenue generated from the sale of VBLOC Obesity Devices to Retail Patients or distributors, and (3) the ReCharge Clinical Trial results have been disclosed and the results are deemed satisfactory to Bank in its sole discretion with regards to meeting the Primary Clinical Endpoints.

"Tranche B Warrant" is defined in Section 6.10.

"**Transfer**" is defined in Section 7.1.

"VBLOC Obesity Device" means Borrower's implantable device that uses neuroblocking technology to treat obesity.

"**Warrants**" are, collectively, the Warrant to Purchase Stock with an Issue Date of July 8, 2010 originally executed by Borrower in favor of Bank, the Tranche A Warrant, and the Tranche B Warrant when issued.

[Signature page follows.**]**

[*] Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date.

BORROWER:	BANK:
ENTEROMEDICS INC.	**SILICON VALLEY BANK**
By /s/ Greg S. Lea	By /s/ Benjamin Johnson
Name: Greg S. Lea	Name: Benjamin Johnson
Title: SVP & CFO	Title: Senior Relationship Manager

EXHIBIT A – COLLATERAL DESCRIPTION

The Collateral consists of all of Borrower's right, title and interest in and to the following personal property:

All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles (except as provided below), commercial tort claims, documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts, fixtures, letters of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located; and

All Borrower's Books relating to the foregoing, and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral does not include any Intellectual Property; provided, however, the Collateral shall include the goodwill of Borrower's business and all Accounts (including without limitation all license and royalty fees and other revenues and income arising out of or relating to any of the Intellectual Property) and all proceeds of Intellectual Property. If a judicial authority (including a U.S. Bankruptcy Court) would hold that a security interest in the underlying Intellectual Property is necessary to have a security interest in such Accounts and such property that are proceeds of Intellectual Property, then the Collateral shall automatically, and effective as of the Effective Date, include the Intellectual Property to the extent necessary to permit perfection of Bank's security interest in such Accounts and such other property of Borrower that are proceeds of the Intellectual Property.

Pursuant to the terms of a certain negative pledge arrangement with Bank, Borrower has agreed not to encumber any of its Intellectual Property without Bank's prior written consent.

EXHIBIT B

COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK Date: _____
FROM: ENTEROMEDICS INC.

The undersigned authorized officer of EnteroMedics Inc. ("Borrower") certifies that under the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"), (1) Borrower is in complete compliance for the period ending _____with all required covenants except as noted below, (2) there are no Events of Default, (3) all representations and warranties in the Agreement are true and correct in all material respects on this date except as noted below; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, (4) Borrower, and each of its Subsidiaries, has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except as otherwise permitted pursuant to the terms of Section 5.9 of the Agreement, and (5) no Liens have been levied or claims made against Borrower or any of its Subsidiaries relating to unpaid employee payroll or benefits of which Borrower has not previously provided written notification to Bank. Attached are the required documents supporting the certification. The undersigned certifies that these are prepared in accordance with GAAP consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The undersigned acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Agreement.

Please indicate compliance status by circling Yes/No under "Complies" column.

REPORTING COVENANT	REQUIRED	COMPLIES
Monthly financial statements with Compliance Certificate	Monthly within 30 days	Yes No
Annual financial statement (CPA Audited)	FYE within 90 days	Yes No
Annual financial projections	60 days after start of FY	Yes No
10-Q, 10-K and 8-K	Within 5 days after filing with SEC	Yes No

The following is a list of Intellectual Property that was registered (or a registration application submitted), and registered Intellectual Property (or Intellectual Property for which a registration application has been submitted) that was obtained, and not included on the Perfection Certificate or on a prior Compliance Certificate:
(if none, state "None")

FINANCIAL COVENANT	REQUIRED	ACTUAL	COMPLIES
Maintain per Section 6.7 of the Agreement:			
Minimum Revenue from Sales of VBLOC Obesity Devices	See Agreement	_____	Yes No
Minimum Implants of VBLOC Obesity Devices	See Agreement	_____	Yes No

The following financial covenant analys[is][es] and information set forth in Schedule 1 attached hereto are true and accurate as of the date of this Certificate.

The following are the exceptions with respect to the certification above: (If no exceptions exist, state "No exceptions to note.")

ENTEROMEDICS INC.

By: _____

Name: _____

Title: _____

BANK USE ONLY

Received by: _____
AUTHORIZED SIGNER

Date: _____

Verified: _____
AUTHORIZED SIGNER

Date: _____

Compliance Status: Yes No

SCHEDULE 1 TO COMPLIANCE CERTIFICATE

Financial Covenants of Borrower

In the event of a conflict between this Schedule and the Agreement, the terms of the Agreement shall govern.

Dated: _____

I. Revenue from Sales of VBLOC Obesity Devices (Section 6.7(a))

Required: $_____

Actual:

A. Revenue from Sales of VBLOC Obesity Devices $_____

Is line A equal to or greater than $_____?

_____No, not in compliance _____ Yes, in compliance

II. **Implants of VBLOC Obesity Devices** (Section 6.7(b))

Required: _____

Actual:

A. Implants of VBLOC Obesity Devices _____

Is line A equal to or greater than _____?

_____No, not in compliance _____ Yes, in compliance

EXHIBIT C

Silicon Valley Bank
A Member of SVB Financial Group

LOAN PAYMENT/ADVANCE REQUEST FORM

DEADLINE FOR SAME DAY PROCESSING IS NOON P.S.T.*

Fax To: _____ Date: _____

LOAN PAYMENT:

_____ (Borrower)

From Account# _____ To Account # _____
(Deposit Account #) (Loan Account #)

Principal $ _____ and/or Interest $ _____

Authorized Signature: _____ Phone Number: _____
Print Name/Title: _____

LOAN ADVANCE:

Complete *Outgoing Wire Request* section below if all or a portion of the funds from this loan advance are for an outgoing wire.

From Account #_____ To Account #_____
(Loan Account #) (Deposit Account #)

Amount of Advance $_____
All Borrower's representations and warranties in the Loan and Security Agreement are true, correct and complete in all material respects on the date of the request for an advance; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date:

Authorized Signature: _____ Phone Number: _____
Print Name/Title: _____

OUTGOING WIRE REQUEST:
Complete only if all or a portion of funds from the loan advance above is to be wired.
Deadline for same day processing is noon, P.S.T.

Beneficiary Name: _____ Amount of Wire: $ _____
Beneficiary Bank: _____ Account Number: _____
City and State: _____

Beneficiary Bank Transit (ABA)#: _____ Beneficiary Bank Code (Swift. Sort, Chip, etc.): _____
(For international Wire Only)

Intermediary Bank: _____ Transit (ABA) #: _____
For Further Credit to: _____

Special Instruction: _____

By signing below, I (we) acknowledge and agree that my (our) funds transfer request shall be processed in accordance with and subject to the terms and conditions set forth in the agreements(s) covering funds transfer service(s), which agreements(s) were previously received and executed by me (us).

Authorized Signature: _____ 2nd Signature (if required): _____
Print Name/Title: _____ Print Name/Title: _____
Telephone #: _____ Telephone #: _____

* Unless otherwise provided for an Advance bearing interest at LIBOR.

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**ACT**"), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AS SET FORTH IN SECTIONS 5.3 AND 5.4 BELOW, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND LAWS OR IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY, SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS EXEMPT FROM SUCH REGISTRATION.

WARRANT TO PURCHASE STOCK

Company: ENTEROMEDICS INC.
Number of Shares: 106,746
Type/Series of Stock: Common
Warrant Price: $2.34 per share
Issue Date: April 16, 2012
Expiration Date: April 16, 2022 **See also Section 5.1(b).**
CreditFacility: This Warrant to Purchase Stock ("**Warrant**") is issued in connection with that certain Loan and Security Agreement of substantially even date herewith between Silicon Valley Bank and the Company (the "**Loan Agreement**").

THIS WARRANT CERTIFIES THAT, for good and valuable consideration, SILICON VALLEY BANK (together with any successor or permitted assignee or transferee of this Warrant or of any shares issued upon exercise hereof, "**Holder**") is entitled to purchase the number of fully paid and non-assessable shares (the "**Shares**") of the above-stated Type/Series of Stock (the "**Class**") of the above-named company (the "**Company**") at the above-stated Warrant Price, all as set forth above and as adjusted pursuant to Section 2 of this Warrant, subject to the provisions and upon the terms and conditions set forth in this Warrant. Reference is made to Section 5.4 of this Warrant whereby Silicon Valley Bank shall transfer this Warrant to its parent company, SVB Financial Group.

SECTION 1. EXERCISE.

1.1 Method of Exercise. Holder may at any time and from time to time exercise this Warrant, in whole or in part, by delivering to the Company the original of this Warrant together with a duly executed Notice of Exercise in substantially the form attached hereto as Appendix 1 and, unless Holder is exercising this Warrant pursuant to a cashless exercise set forth in Section 1.2, a check, wire transfer of same-day funds (to an account designated by the Company), or other form of payment acceptable to the Company for the aggregate Warrant Price for the Shares being purchased.

1.2 Cashless Exercise. On any exercise of this Warrant, in lieu of payment of the aggregate Warrant Price in the manner as specified in Section 1.1 above, but otherwise in accordance with the requirements of Section 1.1, Holder may elect to receive Shares equal to the value of this Warrant, or portion hereof as to which this Warrant is being exercised. Thereupon, the Company shall issue to the Holder such number of fully paid and non-assessable Shares as are computed using the following formula:

$$X = Y(A-B)/A$$

where:

X = the number of Shares to be issued to the Holder;

Y = the number of Shares with respect to which this Warrant is being exercised (inclusive of the Shares surrendered to the Company in payment of the aggregate Warrant Price);

A = the Fair Market Value (as determined pursuant to Section 1.3 below) of one Share; and

B = the Warrant Price.

1.3 Fair Market Value. If the Company's common stock is then traded or quoted on a nationally recognized securities exchange, inter-dealer quotation system or over-the-counter market (a "**Trading Market**") and the Class is common stock, the fair market value of a Share shall be the closing price or last sale price of a share of common stock reported for the Business Day immediately before the date on which Holder delivers this Warrant together with its Notice of Exercise to the Company. If the Company's common stock is then traded in a Trading Market and the Class is a series of the Company's convertible preferred stock, the fair market value of a Share shall be the closing price or last sale price of a share of the Company's common stock reported for the Business Day immediately before the date on which Holder delivers this Warrant together with its Notice of Exercise to the Company multiplied by the number of shares of the Company's common stock into which a Share is then convertible. If the Company's common stock is not traded in a Trading Market, the Board of Directors of the Company shall determine the fair market value of a Share in its reasonable good faith judgment.

1.4 Delivery of Certificate and New Warrant. Within a reasonable time after Holder exercises this Warrant in the manner set forth in Section 1.1 or 1.2 above, the Company shall deliver to Holder a certificate representing the Shares issued to Holder upon such exercise and, if this Warrant has not been fully exercised and has not expired, a new warrant of like tenor representing the Shares not so acquired.

1.5 Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form, substance and amount to the Company or, in the case of mutilation, on surrender of this Warrant to the Company for cancellation, the Company shall, within a reasonable time, execute and deliver to Holder, in lieu of this Warrant, a new warrant of like tenor and amount.

1.6 Treatment of Warrant Upon Acquisition of Company.

(a) Acquisition. For the purpose of this Warrant, "**Acquisition**" means any transaction or series of related transactions involving: (i) the sale, lease, exclusive license, or other disposition of all or substantially all of the assets of the Company (ii) any merger or consolidation of the Company into or with another person or entity (other than a merger or consolidation effected exclusively to change the Company's domicile), or any other corporate reorganization, in which the stockholders of the Company in their capacity as such immediately prior to such merger, consolidation or reorganization, own less than a majority of the Company's (or the surviving or successor entity's) outstanding voting power immediately after such merger, consolidation or reorganization; or (iii) any sale or other transfer by the stockholders of the Company of shares representing at least a majority of the Company's then-total outstanding combined voting power.

(b) Treatment of Warrant at Acquisition. In the event of an Acquisition in which the consideration to be received by the Company's stockholders consists solely of cash, solely of Marketable Securities or a combination of cash and Marketable Securities (a "**Cash/Public Acquisition**"), either (i) Holder shall exercise this Warrant pursuant to Section 1.1 and/or 1.2 and such exercise will be deemed effective immediately prior to and contingent upon the consummation of such Acquisition or (ii) if Holder elects not to exercise the Warrant, this Warrant will expire immediately prior to the consummation of such Acquisition.

(c) The Company shall provide Holder with written notice of its request relating to the Cash/Public Acquisition (together with such reasonable information as Holder may reasonably require regarding the treatment of this Warrant in connection with such contemplated Cash/Public Acquisition giving rise to such notice), which is to be delivered to Holder not less than seven (7) Business Days prior to the closing of the proposed Cash/Public Acquisition. In the event the Company does not provide such notice, then if, immediately prior to the Cash/Public Acquisition, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Section 1.3 above would be greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be exercised pursuant to Section 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised, and the Company shall promptly notify the Holder of the number of Shares (or such other securities) issued upon such exercise to the Holder and Holder shall be deemed to have restated each of the representations and warranties in Section 4 of the Warrant as the date thereof.

(d) Upon the closing of any Acquisition other than a Cash/Public Acquisition defined above, the acquiring, surviving or successor entity shall assume the obligations of this Warrant, and this Warrant shall thereafter be exercisable for the same securities and/or other property as would have been paid for the Shares issuable upon exercise of the unexercised portion of this Warrant as if such Shares were outstanding on and as of the closing of such Acquisition, subject to further adjustment from time to time in accordance with the provisions of this Warrant.

(e) As used in this Warrant, "**Marketable Securities**" means securities meeting all of the following requirements: (i) the issuer thereof is then subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and is then current in its filing of all required reports and other information under the Act and the Exchange Act; (ii) the class and series of shares or other security of the issuer that would be received by Holder in connection with the Acquisition were Holder to exercise this Warrant on or prior to the closing thereof is then traded in Trading Market, and (iii) Holder would be able to publicly re-sell, within six (6) months following the closing of such Acquisition, all of the issuer's shares and/or other securities that would be received by Holder in such Acquisition were Holder to exercise this Warrant in full on or prior to the closing of such Acquisition.

SECTION 2. ADJUSTMENTS TO THE SHARES AND WARRANT PRICE.

2.1 Stock Dividends, Splits, Etc. If the Company declares or pays a dividend or distribution on the outstanding shares of the Class payable in common stock or other securities or property (other than cash), then upon exercise of this Warrant, for each Share acquired, Holder shall receive, without additional cost to Holder, the total number and kind of securities and property which Holder would have received had Holder owned the Shares of record as of the date the dividend or distribution occurred. If the Company subdivides the outstanding shares of the Class by reclassification or otherwise into a greater number of shares, the number of Shares purchasable hereunder shall be

proportionately increased and the Warrant Price shall be proportionately decreased. If the outstanding shares of the Class are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price shall be proportionately increased and the number of Shares shall be proportionately decreased.

2.2 Reclassification, Exchange, Combinations or Substitution. Upon any event whereby all of the outstanding shares of the Class are reclassified, exchanged, combined, substituted, or replaced for, into, with or by Company securities of a different class and/or series, then from and after the consummation of such event, this Warrant will be exercisable for the number, class and series of Company securities that Holder would have received had the Shares been outstanding on and as of the consummation of such event, and subject to further adjustment thereafter from time to time in accordance with the provisions of this Warrant. The provisions of this Section 2.2 shall similarly apply to successive reclassifications, exchanges, combinations substitutions, replacements or other similar events.

2.3 Conversion of Preferred Stock. If the Class is a class and series of the Company's convertible preferred stock, in the event that all outstanding shares of the Class are converted, automatically or by action of the holders thereof, into common stock pursuant to the provisions of the Company's Certificate of Incorporation, including, without limitation, in connection with the Company's initial, underwritten public offering and sale of its common stock pursuant to an effective registration statement under the Act (the "**IPO**"), then from and after the date on which all outstanding shares of the Class have been so converted, this Warrant shall be exercisable for such number of shares of common stock into which the Shares would have been converted had the Shares been outstanding on the date of such conversion, and the Warrant Price shall equal the Warrant Price in effect as of immediately prior to such conversion divided by the number of shares of common stock into which one Share would have been converted, all subject to further adjustment thereafter from time to time in accordance with the provisions of this Warrant.

2.4 Adjustments for Diluting Issuances. Without duplication of any adjustment otherwise provided for in this Section 2, the number of shares of common stock issuable upon conversion of the Shares shall be subject to anti-dilution adjustment from time to time in the manner set forth in the Company's Articles or Certificate of Incorporation as if the Shares were issued and outstanding on and as of the date of any such required adjustment.

2.5 No Fractional Share. No fractional Share shall be issuable upon exercise of this Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional Share interest arises upon any exercise of the Warrant, the Company shall eliminate such fractional Share interest by paying Holder in cash the amount computed by multiplying the fractional interest by (i) the fair market value (as determined in accordance with Section 1.3 above) of a full Share, less (ii) the then-effective Warrant Price.

2.6 Notice/Certificate as to Adjustments. Upon each adjustment of the Warrant Price, Class and/or number of Shares, the Company, at the Company's expense, shall notify Holder in writing within a reasonable time setting forth the adjustments to the Warrant Price, Class and/or number of Shares and facts upon which such adjustment is based. The Company shall, upon written request from Holder, furnish Holder with a certificate of its Chief Financial Officer, including computations of such adjustment and the Warrant Price, Class and number of Shares in effect upon the date of such adjustment.

SECTION 3. REPRESENTATIONS AND COVENANTS OF THE COMPANY.

3.1 Representations and Warranties. The Company represents and warrants to, and agrees with, the Holder as follows:

(a) The initial Warrant Price referenced on the first page of this Warrant is not greater than the price per share at which shares of the Class were last sold and issued prior to the Issue Date hereof in an arms-length transaction in which at least $500,000 of such shares were sold.

(b) All Shares which may be issued upon the exercise of this Warrant, and all securities, if any, issuable upon conversion of the Shares, shall, upon issuance, be duly authorized, validly issued, fully paid and non-assessable, and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws. The Company covenants that it shall at all times cause to be reserved and kept available out of its authorized and unissued capital stock such number of shares of the Class, common stock and other securities as will be sufficient to permit the exercise in full of this Warrant and the conversion of the Shares into common stock or such other securities.

3.2 Notice of Certain Events. If the Company proposes at any time to:

(a) declare any dividend or distribution upon the outstanding shares of the Class or common stock, whether in cash, property, stock, or other securities and whether or not a regular cash dividend;

(b) offer for subscription or sale pro rata to the holders of the outstanding shares of the Class any additional shares of any class or series of the Company's stock (other than pursuant to contractual pre-emptive rights);

(c) effect any reclassification, exchange, combination, substitution, reorganization or recapitalization of the outstanding shares of the Class;

(d) effect an Acquisition or to liquidate, dissolve or wind up; or

(e) effect an IPO;

then, in connection with each such event, the Company shall give Holder:

(1) at least seven (7) Business Days prior written notice of the date on which a record will be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of outstanding shares of the Class will be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (a) and (b) above;

(2) in the case of the matters referred to in (c) and (d) above at least seven (7) Business Days prior written notice of the date when the same will take place (and specifying the date on which the holders of outstanding shares of the Class will be entitled to exchange their shares for the securities or other property deliverable upon the occurrence of such event); and

(3) with respect to the IPO, at least seven (7) Business Days prior written notice of the date on which the Company proposes to file its registration statement in connection therewith.

Reference is made to Section 1.6(c) whereby this Warrant will be deemed to be exercised pursuant to Section 1.2 hereof if the Company does not give written notice to Holder of a Cash/Public Acquisition as required by the terms hereof. Company will also provide information requested by Holder that is reasonably necessary to enable Holder to comply with Holder's accounting or reporting requirements.

SECTION 4. REPRESENTATIONS, WARRANTIES OF THE HOLDER.

The Holder represents and warrants to the Company as follows:

4.1 Purchase for Own Account. This Warrant and the securities to be acquired upon exercise of this Warrant by Holder are being acquired for investment for Holder's account, not as a nominee or agent, and not with a view to the public resale or distribution within the meaning of the Act. Holder also represents that it has not been formed for the specific purpose of acquiring this Warrant or the Shares.

4.2 Disclosure of Information. Holder is aware of the Company's business affairs and financial condition and has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access.

4.3 Investment Experience. Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. Holder has experience as an investor in securities of companies in the development stage and acknowledges that Holder can bear the economic risk of such Holder's investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables Holder to be aware of the character, business acumen and financial circumstances of such persons.

4.4 Accredited Investor Status. Holder is an "accredited investor" within the meaning of Regulation D promulgated under the Act.

4.5 The Act. Holder understands that this Warrant and the Shares issuable upon exercise hereof have not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the Holder's investment intent as expressed herein. Holder understands that this Warrant and the Shares issued upon any exercise hereof must be held indefinitely unless subsequently registered under the Act and qualified under applicable state securities laws, or unless exemption from such registration and qualification are otherwise available. Holder is aware of the provisions of Rule 144 promulgated under the Act.

4.6 Market Stand-off Agreement. The Holder agrees that the Shares shall be subject to the Market Standoff provisions in Section 1.13 of the Investor Rights Agreement or similar agreement.

4.7 No Voting Rights. Holder, as a Holder of this Warrant, will not have any voting rights until the exercise of this Warrant.

SECTION 5. MISCELLANEOUS.

5.1 Term and Automatic Conversion Upon Expiration.

(a) Term. Subject to the provisions of Section 1.6 above, this Warrant is exercisable in whole or in part at any time and from time to time on or before 6:00 PM, Pacific time, on the Expiration Date and shall be void thereafter.

(b) Automatic Cashless Exercise upon Expiration. In the event that, upon the Expiration Date, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Section 1.3 above is greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be exercised pursuant to Section 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised, and the Company shall, within a reasonable time, deliver a certificate representing the Shares (or such other securities) issued upon such exercise to Holder.

5.2 Legends. The Shares (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) shall be imprinted with a legend in substantially the following form:

> THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**ACT**"), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AS SET FORTH IN THAT CERTAIN WARRANT TO PURCHASE STOCK ISSUED BY THE ISSUER TO SILICON VALLEY BANK DATED _____, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND LAWS OR IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER, SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS EXEMPT FROM SUCH REGISTRATION.

5.3 Compliance with Securities Laws on Transfer. This Warrant and the Shares issuable upon exercise of this Warrant (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) may not be transferred or assigned in whole or in part except in compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company). The Company shall not require Holder to provide an opinion of counsel if the transfer is to SVB Financial Group (Silicon Valley Bank's parent company) or any other affiliate of Holder, provided that any such transferee is an "accredited investor" as defined in Regulation D promulgated under the Act. Additionally, the Company shall also not require an opinion of counsel if there is no material question as to the availability of Rule 144 promulgated under the Act.

5.4 Transfer Procedure. After receipt by Silicon Valley Bank of the executed Warrant, Silicon Valley Bank will transfer all of this Warrant to its parent company, SVB Financial Group. By its acceptance of this Warrant, SVB Financial Group hereby makes to the Company each of the representations and warranties set forth in Section 4 hereof and agrees to be bound by all of the terms and conditions of this Warrant as if the original Holder hereof. Subject to the provisions of Section 5.3 and upon providing the Company with written notice, SVB Financial Group and any subsequent Holder may transfer all or part of this Warrant or the Shares issuable upon exercise of this Warrant (or the securities issuable directly or indirectly, upon conversion of the Shares, if any) to any transferee, provided, however, in connection with any such transfer, SVB Financial Group or any subsequent Holder will give the Company notice of the portion of the Warrant being transferred with the name, address and taxpayer identification number of the transferee and Holder will surrender this Warrant to the Company for reissuance to the transferee(s) (and Holder if applicable); and provided further, that any subsequent transferee other than SVB Financial Group shall agree in writing with the Company to be bound by all of the terms and conditions of this Warrant. Notwithstanding any contrary provision herein, at all times prior to the IPO, Holder may not, without the Company's prior written consent, transfer this Warrant or any portion hereof, or any Shares issued upon any exercise hereof, or any shares or other securities issued upon any conversion of any Shares issued upon any exercise hereof, to any person or entity who directly competes with the Company, except in connection with an Acquisition of the Company by such a direct competitor.

5.5 Notices. All notices and other communications hereunder from the Company to the Holder, or vice versa, shall be deemed delivered and effective (i) when given personally, (ii) on the third (3rd) Business Day after being mailed by first-class registered or certified mail, postage prepaid, (iii) upon actual receipt if given by facsimile or electronic mail and such receipt is confirmed in writing by the recipient, or (iv) on the first Business Day following delivery to a reliable overnight courier service, courier fee prepaid, in any case at such address as may have been furnished to the Company or Holder, as the case may be, in writing by the Company or such Holder from time to time in accordance with the provisions of this Section 5.5. All notices to Holder shall be addressed as follows until the Company receives notice of a change of address in connection with a transfer or otherwise:

SVB Financial Group
Attn: Treasury Department
3003 Tasman Drive, HC 215
Santa Clara, CA 95054
Telephone: (408) 654-7400
Facsimile: (408) 988-8317
Email address: derivatives@svb.com

Notice to the Company shall be addressed as follows until Holder receives notice of a change in address:

EnteroMedics Inc.
Attn: David Brooks
2800 Patton Road
Saint Paul, MN 55113
Telephone: (651) 789-2673
Facsimile: (651) 634-3212
Email: dbrooks@enteromedics.com

5.6 Waiver. This Warrant and any term hereof may be changed, waived, discharged or terminated (either generally or in a particular instance and either retroactively or prospectively) only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

5.7 Attorneys' Fees. In the event of any dispute between the parties concerning the terms and provisions of this Warrant, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable attorneys' fees.

5.8 Counterparts; Facsimile/Electronic Signatures. This Warrant may be executed in counterparts, all of which together shall constitute one and the same agreement. Any signature page delivered electronically or by facsimile shall be binding to the same extent as an original signature page with regards to any agreement subject to the terms hereof or any amendment thereto.

5.9 Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of California, without giving effect to its principles regarding conflicts of law.

5.10 Headings. The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

5.11 Business Days. "**Business Day**" is any day that is not a Saturday, Sunday or a day on which Silicon Valley Bank is closed.

[Remainder of page left blank intentionally]
[Signature page follows]

IN WITNESS WHEREOF, the parties have caused this Warrant to Purchase Stock to be executed by their duly authorized representatives effective as of the Issue Date written above.

"COMPANY"

ENTEROMEDICS INC.

By: _____

Name: _____
(Print)

Title: _____

"HOLDER"

SILICON VALLEY BANK

By: _____

Name: _____
(Print)

Title: _____

APPENDIX 1

NOTICE OF EXERCISE

1. The undersigned Holder hereby exercises its right purchase _____ shares of the Common/Series _____ Preferred [circle one] Stock of _____ (the "**Company**") in accordance with the attached Warrant To Purchase Stock, and tenders payment of the aggregate Warrant Price for such shares as follows:

[ ] check in the amount of $ _____ payable to order of the Company enclosed herewith

[ ] Wire transfer of immediately available funds to the Company's account

[ ] Cashless Exercise pursuant to Section 1.2 of the Warrant

[ ] Other [Describe] _____

2. Please issue a certificate or certificates representing the Shares in the name specified below:

_____

Holder's Name

_____

_____

(Address)

3. By its execution below and for the benefit of the Company, Holder hereby restates each of the representations and warranties in Section 4 of the Warrant to Purchase Stock as of the date hereof.

HOLDER:

_____

By: _____
Name: _____
Title: _____
(Date): _____

Exhibit 31.1

CERTIFICATION

I, Mark B. Knudson, Ph.D., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of EnteroMedics Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ MARK B. KNUDSON, PH.D.
Mark B. Knudson, Ph.D.
President and Chief Executive Officer

Date: May 10, 2012

Exhibit 31.2

CERTIFICATION

I, Greg S. Lea, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of EnteroMedics Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ GREG S. LEA

Greg S. Lea
Senior Vice President and Chief Financial Officer

Date: May 10, 2012

Exhibit 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Mark B. Knudson, Ph.D., in his capacity as Chief Executive Officer of EnteroMedics Inc., hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 to which this Certification is attached as Exhibit 32.1 (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and the results of operations of EnteroMedics Inc. as of, and for, the periods covered by the Report.

By: /s/ MARK B. KNUDSON, PH.D.
Mark B. Knudson, Ph.D.
President and Chief Executive Officer

Date: May 10, 2012

Exhibit 32.2

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Greg S. Lea, in his capacity as Chief Financial Officer of EnteroMedics Inc., hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 to which this Certification is attached as Exhibit 32.2 (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and the results of operations of EnteroMedics Inc. as of, and for, the periods covered by the Report.

By: /s/ GREG S. LEA

Greg S. Lea
Senior Vice President and Chief Financial Officer

Date: May 10, 2012