

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

Amendment No. 1 to
SCHEDULE TO
(RULE 13e-4)

TENDER OFFER STATEMENT UNDER SECTION 14(d)(1) OR 13(e)(1)
OF THE SECURITIES EXCHANGE ACT OF 1934

ENTEROMEDICS INC.

(Name of Subject Company (Issuer) and Name of Filing Person (Offeror))

Options to Purchase Common Stock, \$0.01 par value
(Title of Class of Securities)

29365M 208
(CUSIP Number of Common Stock Underlying Class of Securities)

Greg S. Lea
Senior Vice President and Chief Financial Officer
EnteroMedics Inc.
2800 Patton Road
St. Paul, Minnesota 55113
(651) 634-3003

(Name, address and telephone number of person authorized to receive notices and communications on behalf of filing person)

Copy to:

Kenneth L. Cutler
Michael W. Clausman
Dorsey & Whitney LLP
50 South Sixth Street, Suite 1500
Minneapolis, Minnesota 55402
(612) 340-2600

CALCULATION OF FILING FEE

Transaction Valuation*: \$579,300

Amount of Filing Fee: \$42.00**

* Estimated solely for purposes of calculating the Amount of Filing Fee. The calculation of Transaction Valuation assumes that all options to purchase shares of the issuer's common stock that may be eligible for exchange in the offer will be tendered pursuant to the offer. These options cover an aggregate of 481,288 shares of the issuer's common stock and have an aggregate value of \$579,300 as of September 21, 2010, calculated based on a Black-Scholes option pricing model.

** The amount of the filing fee, calculated in accordance with the Securities Exchange Act of 1934, as amended, equals \$71.30 per \$1,000,000 of the aggregate amount of the Transaction Value. The Transaction Valuation was calculated solely for purposes of determining the Amount of Filing Fee and should not be used for any other purpose.

Check the box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: \$42 Filing Party: EnteroMedics Inc.
Form or Registration No.: Schedule TO-I Date Filed: September 23, 2010

Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer

Check the appropriate boxes to designate any transactions to which this statement relates:

third-party tender offer subject to Rule 14d-1.

issuer tender offer subject to Rule 13e-4.

going-private transaction subject to Rule 13e-3.

amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer:

EXPLANATORY NOTE

This Amendment No. 1 this (“Amendment No. 1”) amends and supplements the Tender Offer Statement on Schedule TO originally filed with the Securities and Exchange Commission (the “SEC”) on September 23, 2010 (the “Schedule TO”) by EnteroMedics Inc., a Delaware corporation (“EnteroMedics” or the “Company”), in connection with the Company’s offer to its employees to exchange certain outstanding options to purchase shares of the Company’s common stock granted under the Company’s 2003 Stock Incentive Plan as described in the Offer to Exchange Certain Outstanding Stock Options for New Stock Options, dated September 23, 2010, as amended October 25, 2010 (the “Offer to Exchange”) filed with the SEC as Exhibit (a)(1)(A) to this Amendment No. 1.

This Amendment No. 1 is being filed to amend and supplement certain provisions of the Schedule TO to the extent set forth herein.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, this Amendment No. 1 amends and restates only the items and exhibits to the Schedule TO that are being amended and restated, and unaffected items and exhibits are not included herein.

Item 1. Summary Term Sheet.

The information set forth under “Summary Term Sheet—Questions and Answers” in the Offer to Exchange is incorporated herein by reference.

Item 2. Subject Company Information.

(b) Securities.

This Tender Offer on Schedule TO relates to an offer by the Company to all of its employees (including executive officers) to exchange some or all of their outstanding options to purchase the Company’s common stock for fewer new options with exercise prices equal to the closing price per share of the Company’s common stock on the NASDAQ Capital Market on the date of grant (the “Offer”). A stock option will be eligible for exchange if: (i) it has an exercise price of greater than \$6.00 per share; (ii) it was not granted in connection with the performance of consulting services for the Company; (iii) it is held by an employee of the Company who is eligible to participate in the Offer and (iv) it remains outstanding (i.e. unexpired and unexercised) as of the date of grant of the new options (such options are referred to herein as “Eligible Options”).

The Company is making the Offer to all of the employees of the Company who hold Eligible Options (referred to herein as the “Eligible Optionholders”). The Offer is not being made to non-employee directors, consultants and former employees of the Company. To remain eligible to participate in the Offer, the Eligible Optionholders must be employed by the Company on the date the Offer commences and remain employed through the date that the new options are granted.

As of September 15, 2010, approximately 481,288 shares were subject to Eligible Options. The actual number of shares subject to the stock options to be exchanged in the Offer will depend on the number of shares of common stock subject to Eligible Options tendered by the Eligible Optionholders and accepted for exchange.

The Offer is conditioned on obtaining the approval of the Company’s stockholders at the Special Meeting of Stockholders to be held on Friday, October 29, 2010. The Special Meeting was scheduled to be held on Friday, October 22, 2010, but was adjourned until 10:00 a.m. Central Time on October 29, 2010 due to insufficient quorum. The Company is making the Offer upon the terms and subject to the conditions set forth in the Offer to Exchange and in the related accompanying Election to Participate, attached hereto as Exhibit (a)(1)(B).

The information set forth in the Offer to Exchange under “Summary Term Sheet—Questions and Answers,” “Risk Factors,” “The Exchange Offer—Eligible Options; Eligible Optionholders; Expiration Date of This Exchange Offer,” “The Exchange Offer—Exchange Ratios,” “The Exchange Offer—Source and Amount of Consideration; Terms of New Options,” “The Exchange Offer—Conditions of This Exchange Offer” and “The Exchange Offer—Acceptance of Eligible Options for Exchange; Issuance of New Options” is incorporated herein by reference.

Item 4. Terms of the Transaction.**(a) Material Terms.**

The information set forth in the Offer to Exchange under “Summary Term Sheet—Questions and Answers” and the sections under “This Exchange Offer” titled “Eligible Options; Eligible Optionholders; Expiration Date of This Exchange Offer,” “Exchange Ratios,” “Source and Amount of Consideration; Terms of New Options,” “Conditions of This Exchange Offer,” “Procedures for Tendering Eligible Options,” “Acceptance of Eligible Options for Exchange; Issuance of New Options,” “Withdrawal Rights,” “Extension of Exchange Offer; Termination; Amendment,” “Price Range of Our Common Stock,” “Information Concerning Us; Financial Information,” “Status of Eligible Options Acquired by Us in This Exchange Offer,” “Accounting Consequences of This Exchange Offer,” “Legal Matters; Regulatory Approvals and “Material United States Income Tax Consequences” is incorporated herein by reference.

On October 22, 2010, the Company issued a press release announcing that it did not reach a quorum for the special stockholder meeting on Friday, October 22, 2010 and will adjourn the meeting until 10:00 a.m. Central Time on October 29, 2010 at the Company’s headquarters, 2800 Patton Road, St. Paul, Minnesota 55113. As of October 22, 2010, the quorum was at 49.33%. The Company also announced that the Offer has been extended and will now expire at 6:00 p.m. Central Time on October 29, 2010, unless further extended. As of October 22, 2010, a total of 479,216 shares of common stock underlying Eligible Options were validly tendered and not withdrawn, representing approximately 99.6% of the total number of shares of common stock underlying Eligible Options that may be tendered in the Offer. A copy of the press release announcing the adjournment of the special stockholder meeting and the extension of the Offer is attached as Exhibit (a)(1)(H) to this Amendment No. 1 and is incorporated herein by reference.

(b) Purchases.

The Company’s executive officers will be eligible to participate in the Offer to Exchange on the same terms and conditions as the Company’s employees. The information set forth in the Offer to Exchange under “The Exchange Offer—Procedures for Tendering Eligible Options” and “This Exchange Offer—Interests of Directors and Executive Officers; Transactions and Arrangements Concerning Our Options” is incorporated herein by reference.

Item 6. Purposes of the Transaction and Plans or Proposals.**(b) Use of Securities Acquired.**

The information set forth in Offer to Exchange under “This Exchange Offer—Acceptance of Eligible Options for Exchange; Issuance of New Options,” “This Exchange Offer—Status of Eligible Options Acquired by Us in This Exchange Offer” and “This Exchange Offer—Accounting Consequences of This Exchange Offer” is incorporated herein by reference.

(c) Plans.

The information set forth in the Offer to Exchange under “Summary Term Sheet—Questions and Answers” and “This Exchange Offer—Purpose of This Exchange Offer” is incorporated herein by reference.

Item 7. Source and Amount of Funds or Other Consideration.**(a) Source of Funds.**

The information set forth in the Offer to Exchange under “This Exchange Offer—Source and Amount of Consideration; Terms of New Options,” “The Exchange Offer—Exchange Ratios” and “This Exchange Offer—Fees and Expenses” is incorporated herein by reference.

(b) Conditions.

The information set forth in the Offer to Exchange under “This Exchange Offer—Conditions of This Exchange Offer” is incorporated herein by reference.

Item 12. Exhibits.

Item 12 of the Schedule TO is hereby amended and supplemented by adding the following:

- (a)(1)(A) Offer to Exchange Certain Outstanding Stock Options for New Stock Options dated September 23, 2010, as amended October 25, 2010
- (a)(1)(H) Press Release Announcing the Extension of the Exchange Offer

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

ENTEROMEDICS INC.

By: _____ /s/ GREG S. LEA
Name: **Greg S. Lea**
Title: **Senior Vice President and Chief Financial Officer**

Dated: October 25, 2010

EXHIBIT INDEX

- (a)(1)(A) Offer to Exchange Certain Outstanding Stock Options for New Stock Options, dated September 23, 2010, as amended October 25, 2010
- (a)(1)(B)* Election to Participate
- (a)(1)(C)* Notice of Withdrawal
- (a)(1)(D)* Form of Email Communication to Eligible Optionholders
- (a)(1)(E)* Form of Communication to Eligible Optionholders Participating in the Exchange Offer Confirming Receipt of Election to Participate
- (a)(1)(F)* Form of Communication to Eligible Optionholders Confirming Receipt of Notice of Withdrawal
- (a)(1)(G)* Form of Confirmation Email to Participating Eligible Optionholders
- (a)(1)(H) Press Release Announcing the Extension of the Exchange Offer
- (b) Not applicable
- (d)(1) 2003 Stock Incentive Plan, as amended (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 11, 2009 (File No. 001-33818), and incorporated herein by reference)†
- (d)(2) Standard form of Incentive Stock Option Agreement pursuant to the 2003 Stock Incentive Plan (previously filed as Exhibit 10.13 to the Company's Registration Statement on Form S-1 filed on May 25, 2007 (File No. 333-143265), and incorporated herein by reference)†
- (d)(3) Standard form of Non-Incentive Stock Option Agreement pursuant to the 2003 Stock Incentive Plan (previously filed as Exhibit 10.14 to the Company's Registration Statement on Form S-1 filed on May 25, 2007 (File No. 333-143265), and incorporated herein by reference)†
- (d)(4)* Form of Non-Incentive Stock Option Agreement for New Options for U.S. to be granted pursuant to the Exchange Offer†
- (g) Not applicable
- (h) Not applicable

* Previously filed

† Management contract or compensatory plan or arrangement

ENTEROMEDICS INC.

OFFER TO EXCHANGE CERTAIN OUTSTANDING STOCK OPTIONS
FOR NEW STOCK OPTIONS**This Offer to Exchange Certain Outstanding Stock Options for New Stock Options (the “Exchange Offer”)
and your withdrawal rights will expire at 6:00 p.m. Central Time
on October 29, 2010, unless extended (the “Expiration Date”).**

EnteroMedics Inc., a Delaware corporation (“*EnteroMedics*,” “*we*,” “*us*,” or “*our*”) is offering our employees (including executive officers) the opportunity to voluntarily exchange outstanding options to purchase shares of EnteroMedics common stock granted under our 2003 Stock Incentive Plan, as amended (the “*2003 Plan*”), that have an exercise price per share greater than \$6.00 (which is currently greater than the highest per share closing price of our common stock for the 52-week period immediately preceding the Expiration Date of the Exchange Offer) (“*Eligible Options*”).

- Each Eligible Option that you elect to tender will be exchanged for the grant of a new option to purchase shares of EnteroMedics common stock (“*New Options*”).
- Each New Option will be issued under the 2003 Plan and will have an exercise price equal to the closing price per share of EnteroMedics common stock on the NASDAQ Capital Market on October 29, 2010.
- Each New Option will be exercisable for fewer shares of our common stock than the Eligible Option it replaces. The number of shares underlying New Options will be based on an exchange ratio designed to result in the fair value of the New Options being approximately equal in the aggregate to the fair value of the Eligible Options that are tendered for cancellation in the Exchange Offer. The model used to calculate fair value is based on a number of assumptions. For additional information, see “The Exchange Offer—Exchange Ratios.”
- Each New Option will have a new vesting schedule and vest such that one-third of the shares underlying the option will be immediately vested on the date of grant and the remaining shares will vest monthly for 24 months. Vesting is conditioned on your continued employment with us through each applicable vesting date.
- Upon the occurrence of a “Change in Control” (as defined in the stock option agreement), 50% of the unvested portion of the New Options would become fully vested. In addition, in the event of a Change in Control in which the employment of the employee is terminated, 100% of the remaining unvested portion of the New Option would immediately vest and would be exercisable for five years following termination of employment.
- Each New Option will be a non-qualified stock option for U.S. federal income tax purposes and will have a term of seven years from the date of grant.

We have issued stock options under the 2003 Plan as a means of promoting the long-term success of our business because we believe that sharing ownership with our employees aligns their interest with EnteroMedics’ interests and the interests of our stockholders and encourages our employees to devote the best of their abilities to EnteroMedics. However, our Board of Directors has observed that many of our employees have outstanding stock options with exercise prices that are significantly higher than the current market price per share of our common stock. These stock options are commonly referred to as being “underwater.” As a result, these stock options have little value as either an incentive or retention tool.

This Exchange Offer is intended to address this situation by providing our employees with an opportunity to exchange Eligible Options for New Options granted under the 2003 Plan. By making this Exchange Offer, we intend to provide our employees with the opportunity to hold stock options that over time may have a greater potential to increase in value, thereby creating better incentives for employees to remain with EnteroMedics and contribute to achieving our business objectives.

If you participate in this Exchange Offer, you will receive one New Option under the 2003 Plan for every Eligible Option you tender for cancellation and exchange pursuant to this Exchange Offer using the applicable exchange ratio. You may elect to participate in this Exchange Offer with respect to any of your Eligible Options, and you will not be required to exchange all of your Eligible Options. However, you may not tender less than all of a particular Eligible Option in the Exchange Offer. We intend to grant New Options to Eligible Optionholders (as defined below) on the same day we cancel the Eligible Options that are exchanged pursuant to this Exchange Offer (the “*New Option Grant Date*”), which we expect to be October 29, 2010.

This Exchange Offer is not conditioned on a minimum number of Eligible Options being submitted for exchange or a minimum number of Eligible Optionholders participating. This Exchange Offer is conditioned on obtaining the approval of our stockholders at the Special Meeting of Stockholders to be held on Friday, October 29, 2010. The special meeting was scheduled to be held on Friday, October 22, 2010, but was adjourned until 10:00 a.m. Central Time on October 29, 2010 due to insufficient quorum. In the event that the approval of our stockholders is not obtained at the Special Meeting, the Exchange Offer will be terminated and we will not accept any Eligible Options for cancellation and exchange pursuant to the Exchange Offer.

If you choose not to participate in this Exchange Offer, you will continue to hold your Eligible Options on the same terms and conditions and pursuant to the stock option agreements under which they were originally granted. However, if the Exchange Offer extends for 30 or more calendar days, the tax treatment of Eligible Options which qualify as incentive stock options under U.S. federal tax laws may change. For more information, see “The Exchange Offer—Material United States Income Tax Consequences.”

Shares of EnteroMedics common stock are traded on the NASDAQ Capital Market under the symbol “ETRM.” On September 22, 2010, the closing price per share of EnteroMedics common stock on the NASDAQ Capital Market was \$1.81. The current market price of our common stock, however, is not necessarily indicative of future stock prices, and we cannot predict what the closing price per share of our common stock will be on October 29, 2010.

GLOSSARY OF TERMS USED IN EXCHANGE OFFER

Cancellation Date

The Eligible Options will be canceled on the date that they are tendered to EnteroMedics and accepted by us pursuant to this Exchange Offer. We expect that the Cancellation Date will be the same date as the Expiration Date and the New Option Grant Date.

Eligible Optionholders

Every employee (including executive officers) of EnteroMedics on the date this Exchange Offer starts who holds one or more Eligible Options and who continues to be an employee of EnteroMedics as of the Expiration Date. Our non-employee directors, consultants and former employees are not eligible to participate in the Exchange Offer.

Eligible Options

Any outstanding stock option for the purchase of shares of EnteroMedics common stock granted under our 2003 Plan, whether vested or unvested, with an exercise price per share greater than \$6.00 (which is currently greater than the highest per share closing price of our common stock for the 52-week period immediately preceding the Expiration Date of the Exchange Offer). However, options granted to individuals in connection with the performance of consulting services for EnteroMedics are not eligible to be exchanged in the Exchange Offer.

Exchange Offer

We refer to this document as the Exchange Offer.

Expiration Date

We expect that the Expiration Date of the Offering Period will be October 29, 2010 at 6:00 p.m. Central Time. We may extend the Expiration Date at our discretion. If we extend the offer, the term “Expiration Date” will refer to the time and date at which the extended offer expires.

October 29 Price

The closing price per share of EnteroMedics common stock on the NASDAQ Capital Market on the last trading day before the expiration of the Exchange Offer, which is currently expected to be October 29, 2010.

New Options

New stock options issued under the 2003 Plan that will replace the Eligible Options tendered pursuant to this Exchange Offer. New Options will be subject to the terms of our 2003 Plan and a new stock option agreement between you and EnteroMedics. For more details about the 2003 Plan, see “This Exchange Offer—2003 Plan.”

Each New Option will differ from Eligible Options in the following ways:

- The exercise price per share for each New Option will be equal to the October 29 Price;
- Each New Option will be exercisable for fewer shares of our common stock than the Eligible Option it replaces. The number of shares underlying New Options will be based on an exchange ratio designed to result in the fair value of the New Options being approximately equal in the aggregate to the fair value of the Eligible Options that are tendered for cancellation in the Exchange Offer. The model used to calculate fair value is based on a number of assumptions. For additional information, see “The Exchange Offer—Exchange Ratios;”
- Each New Option will have a new vesting schedule and vest such that one-third of the shares underlying the option will be immediately vested on the date of grant and the remaining shares will vest monthly for 24 months. Vesting is conditioned on your continued employment with us through each applicable vesting date;
- Upon the occurrence of a “Change in Control” (as defined in the stock option agreement), 50% of the unvested portion of the New Options would become fully vested. In addition, in the event of a Change in Control in which the employment of the employee is terminated, 100% of the remaining unvested portion of the New Option would immediately vest and would be exercisable for five years following termination of employment; and
- Each New Option will be a non-qualified stock option for U.S. federal income tax purposes and will have a term of seven years from the New Option Grant Date.

New Option Grant Date

We expect the New Option Grant Date will be October 29, 2010. If the Expiration Date is extended, the Cancellation Date and the New Option Grant Date will be similarly extended.

Offering Period

The offering period for this Exchange Offer will start on September 23, 2010 and expire at 6:00 p.m. Central Time on the Expiration Date.

Schedule TO

Tender Offer Statement on Schedule TO filed by EnteroMedics with the U.S. Securities and Exchange Commission (“SEC”).

Vesting Schedule

The New Options will be subject to a new vesting schedule which is described in greater detail in “This Exchange Offer—Source and Amount of Consideration; Terms of New Options.” The New Options will vest such that one-third of the shares underlying the option will be immediately vested on the date of grant and the remaining shares will vest monthly for 24 months.

See “Risk Factors” for a discussion of risks that you should consider before participating in this offer.

IMPORTANT

If you choose to participate in this Exchange Offer, your properly completed and duly executed Election to Participate must be received by EnteroMedics on or before 6:00 p.m. Central Time on October 29, 2010. If you choose not to participate in this Exchange Offer, you do not need to do anything, and your Eligible Options will continue to remain subject to their existing terms and conditions.

You should direct questions about this Exchange Offer or requests for assistance (including requests for additional copies any documents relating to this Exchange Offer) to Jody Dahlman at (651) 634-3071 or jdahlman@enteromedics.com.

Although our Compensation Committee has recommended and our Board of Directors has approved the Exchange Offer, consummation of the Exchange Offer is subject to, and conditioned on, the conditions described in the section entitled “This Exchange Offer–Conditions of This Exchange Offer.” Neither EnteroMedics nor our Board of Directors makes any recommendation as to whether you should exchange, or refrain from exchanging, your Eligible Options in the Exchange Offer. You must make your own decision whether to exchange your Eligible Options. You should consult your personal outside advisor(s) if you have questions about your financial or tax situation as it relates to this Exchange Offer.

THIS EXCHANGE OFFER DOCUMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR ANY STATE OR FOREIGN SECURITIES COMMISSION NOR HAS THE SEC OR ANY STATE OR FOREIGN SECURITIES COMMISSION PASSED UPON THE FAIRNESS OR MERITS OF THIS EXCHANGE OFFER OR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

WE HAVE NOT AUTHORIZED ANY PERSON TO MAKE ANY RECOMMENDATION ON OUR BEHALF AS TO WHETHER OR NOT YOU SHOULD EXCHANGE YOUR ELIGIBLE OPTIONS PURSUANT TO THIS EXCHANGE OFFER. YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT OR IN DOCUMENTS TO WHICH WE HAVE REFERRED YOU. WE HAVE NOT AUTHORIZED ANYONE TO GIVE YOU ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THIS EXCHANGE OFFER OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DOCUMENT OR AS PROVIDED ON THE EXCHANGE OFFER WEBSITE. IF ANYONE MAKES ANY RECOMMENDATION OR REPRESENTATION TO YOU OR GIVES YOU ANY INFORMATION, YOU SHOULD NOT RELY UPON THAT RECOMMENDATION, REPRESENTATION OR INFORMATION AS HAVING BEEN AUTHORIZED BY US.

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SUMMARY TERM SHEET

Questions and Answers

EnteroMedics Inc. is offering to exchange Eligible Options held by Eligible Optionholders for New Options to be granted under the 2003 Plan. The following are answers to some questions you may have about this Exchange Offer. We encourage you to carefully read this section and the remainder of this document. Where appropriate, we have included references to the relevant sections of this document where you can find a more complete description of the topics in this summary.

A. GENERAL OPTION EXCHANGE QUESTIONS

Q1: Why are we allowing Eligible Optionholders to exchange their options?

A: As part of recognizing the contributions of our employees and aligning their interests with our future success, we grant our employees stock options as part of their compensation. However, many of our employees have stock options that are “underwater,” which means that the stock options have an exercise price that is significantly higher than the current market price of our common stock.

By participating in this Exchange Offer, whereby Eligible Optionholders can exchange Eligible Options for New Options, our Eligible Optionholders have the opportunity to hold options that have a lower exercise price and, therefore, greater value and appreciation potential. We believe this will create better incentives for employees to remain with EnteroMedics and contribute to achieving our business objectives.

Q2: What stock options are we offering to exchange in the Exchange Offer?

A: An Eligible Option is any outstanding stock option granted under our 2003 Plan, whether vested or unvested, with an exercise price greater than \$6.00 (which is currently greater than the highest per share closing price of our common stock for the 52-week period immediately preceding the Expiration Date of the Exchange Offer). However, options granted to individuals in connection with the performance of consulting services for EnteroMedics are not eligible to be exchanged in the Exchange Offer.

Q3: Who can participate in the Exchange Offer?

A: You are eligible if you meet ALL three of the following criteria:

- You are a full or part-time employee (including executive officer) of EnteroMedics on the date this Exchange Offer starts.
- You hold one or more Eligible Options.
- You continue to be a full or part-time employee of EnteroMedics as of the end of the Exchange Offer (expected to be at 6:00 p.m. Central Time on October 29, 2010).

Note, that to participate in the Exchange Offer, you must be an Eligible Optionholder through the entire Offering Period. If you are not an Eligible Optionholder throughout the entire Offering Period, any election you make to participate in this Exchange Offer will be automatically voided and your existing Eligible Options will remain outstanding and unchanged.

Our non-employee directors, consultants and former employees are not eligible to participate in the Exchange Offer.

Q4: Does this Exchange Offer include both vested and unvested options?

A: Yes, this Exchange Offer includes all Eligible Options, whether vested or unvested. If you have exercised an option, it is no longer outstanding, and it is not eligible.

Q5: Can I exchange stock options that I have already exercised?

A: This Exchange Offer applies only to Eligible Options. A stock option that has been fully exercised is no longer outstanding and is not eligible. However, if you have exercised an Eligible Option in part, the remaining unexercised portion of that option is outstanding and may be tendered for exchange pursuant to the Exchange Offer. Options for which you have properly submitted an exercise notice prior to the Expiration Date will be considered exercised, whether or not you have received the shares that you have purchased.

Q6: Can I exchange only a portion of my Eligible Options?

A: You may choose to tender one Eligible Option in its entirety and not tender another Eligible Option. You may not, however, tender less than all of a particular Eligible Option. If you have exercised an Eligible Option in part, the option is outstanding only to the extent of the unexercised portion of the option.

Q7: How many shares will my New Options be exercisable for?

A: The number of shares underlying the New Options that you receive will depend on the exercise price(s) of your tendered Eligible Options and the applicable exchange ratios, as shown in the table below. The exchange ratios were designed to result in the fair value of the New Options being approximately equal in the aggregate to the fair value of the Eligible Options that are tendered for cancellation in the Exchange Offer, assuming that all Eligible Options are exchanged. We used a standard valuation model and applied a 10% discount to the current value of the Eligible Options to determine the actual exchange ratios. If, after the exchange of Eligible Options, you would be left with a fractional share underlying the New Option, we will round up to the nearest whole share and cancel any fractional shares.

<u>If the Per Share Exercise Price of an Eligible Option is</u>	<u>The Exchange Ratio is (Eligible Option to New Option)</u>
\$6.00 to \$9.99	1.03 to 1
\$10.00 to \$19.99	1.10 to 1
\$20.00 to \$29.99	1.20 to 1
\$30.00 to \$39.99	1.26 to 1
\$40.00 and Up	1.37 to 1

Note that the exchange ratios apply to each of your Eligible Options separately. This means that each of your Eligible Options may be subject to different exchange ratios. For additional information, see “The Exchange Offer—Exchange Ratios.”

Q8: How will my Eligible Options be exchanged if they have both milestone- and time-based vesting?

A: There are five outstanding Eligible Options that were awarded to our executive officers and management in 2008, which have milestone- and time-based vesting provisions (the “*Milestone Options*”). Some of the milestones established for the Milestone Options have been met and some are still pending, however, since some of the milestones were missed and these are the only outstanding options that have an element of performance-based vesting, if the Milestone Options are tendered for cancellation and exchange in the Exchange Offer, the optionholders will forfeit the milestone-based portion of the Milestone Options and will receive New Options only in exchange for the time-based vesting portion of the Milestone Options. The number of shares underlying the New Options issued in exchange for the Milestone Options will be determined using an exchange ratio of 1.37 to 1 because the current exercise prices of the Milestone options are between \$49.62 and \$49.82.

Q9: Why isn't the exchange ratio one-for-one?

A: We believe the exchange ratios must balance the interests of both our employees and our stockholders. As a result, we have designed the exchange ratios so that the Exchange Offer is value neutral from an accounting perspective. A value neutral exchange means that the fair value of the New Options, as determined by our option pricing model, is approximately equal to the fair value, in the aggregate, of the Eligible Options tendered for exchange. Consequently, using our option pricing model and the closing price per share of our common stock on the NASDAQ Capital Market on September 15, 2010, a value neutral exchange requires that more shares be tendered than are granted in the Exchange Offer, since the model assumes, among other things, that the New Options will be granted with exercise prices substantially lower than the exercise prices of the tendered Eligible Options and will result in a greater potential for the optionholder to realize value from the exercise of such options. For additional information, see “The Exchange Offer—Exchange Ratios.”

Q10: What are the new vesting terms for New Options?

A: The New Options will vest such that one-third of the shares underlying the option will be immediately vested on the date of grant and the remaining shares will vest monthly for 24 months. Upon the occurrence of a “Change in Control” (as defined in the stock option agreement), 50% of the unvested portion of the New Options would become fully vested. In addition, in the event of a Change in Control in which the employment of the employee is terminated, 100% of the remaining unvested portion of the New Option would immediately vest and would be exercisable for five years following termination of employment.

Q11: Are there any material differences between New Options and previously granted Eligible Options?

A: Yes. Each New Option will differ from your Eligible Options in the following ways:

- The exercise price per share for each New Option will be equal to the October 29 Price;
- Each New Option will be exercisable for fewer shares of our common stock than the Eligible Option it replaces. The number of shares underlying New Options will be based on an exchange ratio designed to result in the fair value of the New Options being approximately equal in the aggregate to the fair value of the Eligible Options that are tendered for cancellation in the Exchange Offer. The model used to calculate fair value is based on a number of assumptions. For additional information, see “The Exchange Offer—Exchange Ratios;”
- Each New Option will have a new vesting schedule and vest such that one-third of the shares underlying the option will be immediately vested on the date of grant and the remaining shares will vest monthly for 24 months. Vesting is conditioned on your continued employment with us through each applicable vesting date;
- Upon the occurrence of a “Change in Control” (as defined in the stock option agreement), 50% of the unvested portion of the New Options would become fully vested. In addition, in the event of a Change in Control in which the employment of the employee is terminated, 100% of the remaining unvested portion of the New Option would immediately vest and would be exercisable for five years following termination of employment; and
- Each New Option will be a non-qualified stock option for U.S. federal income tax purposes and will have a term of seven years from the New Option Grant Date.

For more information, see “This Exchange Offer—Source and Amount of Consideration; Terms of New Options,” “This Exchange Offer—2003 Plan” and “This Exchange Offer—Material United States Income Tax Consequences.”

Q12: Do I have to participate in this Exchange Offer?

A: No. Your participation in this Exchange Offer is completely voluntary. If you choose not to participate, you will keep any Eligible Options and you will not receive any New Options pursuant to the Exchange Offer.

Q13: What happens to my Eligible Options if I elect not to participate in this Exchange Offer or if they are not accepted for exchange in this Exchange Offer?

A: This Exchange Offer will not affect your Eligible Options if you elect not to participate in this Exchange Offer or if your Eligible Options are not accepted for exchange in this Exchange Offer. However, if the Exchange Offer extends for 30 or more calendar days, the tax treatment of Eligible Options which qualify as incentive stock options under U.S. federal tax laws may change. For more information, see “The Exchange Offer—Material United States Income Tax Consequences.”

Q14: If I participate in this Exchange Offer, when will I receive the New Options?

A: We will issue new stock option agreements as soon as we can following the date that your Eligible Options are accepted for exchange and canceled. We expect the New Option Grant Date will be October 29, 2010. We expect your stock records to be updated in our stock administration system and that of Morgan Stanley Smith Barney as soon as administratively possible after the New Option Grant Date.

Q15: What happens to my Eligible Options if my employment with EnteroMedics ends before the end of the Offering Period?

A: If you participate in the Exchange Offer and your employment ends before the end of the Exchange Offer (which is expected to be at 6:00 p.m. Central Time on October 29, 2010), your participation in the Exchange Offer will be canceled and you will not be able to exchange your Eligible Options.

For example, if you elect to participate in the Exchange Offer on September 30, 2010 and your employment at EnteroMedics ends on October 15, 2010, you will no longer be eligible to participate in the Exchange Offer and your Eligible Options will remain subject to their existing terms and conditions. In that case, generally you may exercise your existing stock options for 90 days after your termination date to the extent they are vested and in accordance with their terms. See “This Exchange Offer—Eligible Options; Eligible Optionholders; Expiration Date of This Exchange Offer” for more information.

Q16: What happens to my New Options if my employment with EnteroMedics ends after the end of the Offering Period?

A: If your employment ends after the end of the Offering Period of the Exchange Offer (other than because of your disability or death), any New Options will not continue to vest and any unvested portion will be canceled as of the date of termination (excluding any notice period that may be required under applicable law). Any vested and unexercised portion of the New Options will generally be exercisable for 90 days after termination (or one year if your termination was on account of your disability or death). You should not view this Exchange Offer or EnteroMedics’ acceptance of your election to voluntarily participate in the Exchange Offer as a promise by EnteroMedics to continue your employment.

Q17: What if I am on an authorized leave of absence during this Exchange Offer or on the New Option Grant Date?

A: If you are on an authorized leave of absence, you will still be able to participate in this Exchange Offer. If you exchange your Eligible Options while you are on an authorized leave of absence before the expiration of this Exchange Offer, you will be entitled to receive New Options on the New Option Grant Date as long as you still meet the eligibility requirements described above and your properly completed and duly executed election to participate is received by EnteroMedics on or before the Expiration Date.

Q18: Are there any conditions to this Exchange Offer?

A: This Exchange Offer is not conditioned on a minimum number of Eligible Options being submitted for exchange or a minimum number of Eligible Optionholders participating. However, this Exchange Offer is conditioned on obtaining the approval of our stockholders at the Special Meeting of Stockholders to be held on Friday, October 29, 2010. The special meeting was scheduled to be held on Friday, October 22, 2010, but was adjourned until 10:00 a.m. Central Time on October 29, 2010 due to insufficient quorum. In the event that the approval of our stockholders is not obtained at the Special Meeting, the Exchange Offer will be terminated and we will not accept any Eligible Options for cancellation and exchange pursuant to the Exchange Offer. See “This Exchange Offer—Conditions of This Exchange Offer” for more information.

Notwithstanding any other provision of this Exchange Offer, we will not be required to accept any options tendered to us, and we may terminate or amend the Exchange Offer, or postpone our acceptance and cancellation of any options tendered to us subject to Rule 13e-4(f)(5) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), prior to the Expiration Date. In that case, your options will be treated as if you had not tendered them.

Q19: Can I exercise the New Options immediately?

A: We intend to grant New Options on October 29, 2010, which is during our quarterly trading blackout period. Subject to your compliance with the terms of our Insider Trading Policy, you may exercise the vested portion of your New Options through Morgan Stanley Smith Barney’s website immediately after they are granted, however, until the end of the quarterly trading blackout period and any other blackout period that may be imposed by EnteroMedics, you will not be able to complete a cashless exercise of the New Options or sell the exercised shares from any New Option. Please see our Insider Trading Policy posted on our website at www.enteromedics.com.

B. HOW DOES THE EXCHANGE OFFER WORK (DETAILS OF THE OFFER) QUESTIONS

Q1: What is the expected timeline of this Exchange Offer?

A: We currently expect the timeline of this Exchange Offer to be:

- September 23, 2010: Offering Period begins
- October 29, 2010: Exercise price of New Options is determined based on the closing price per share of EnteroMedics common stock on the NASDAQ Capital Market (this date may change as a result of regulatory review or at EnteroMedics' discretion)
- October 29, 2010: Offering Period ends at 6:00 p.m. Central Time (this date may change as a result of regulatory review or at EnteroMedics' discretion)

Q2: How will this Exchange Offer work?

A: At any time before the Exchange Offer closes, Eligible Optionholders may exchange, or tender, all or a portion of their Eligible Options for New Options. If you choose to participate in the Exchange Offer, your properly completed election to participate must be sent to us either by email to Jody Dahlman (jdahlman@enteromedics.com) or by registered mail or courier and received on or before 6:00 p.m. Central Time on October 29, 2010. To make this election, you will need to agree to all of the terms and conditions of the offer as set forth in the offer documents.

Your Eligible Options will not be considered exchanged until you have delivered your election to participate to us. You must properly elect to participate in the Exchange Offer before the end of the Offering Period. We do not have any plans at this time to offer another option exchange program in the future, and we will strictly enforce the deadline by which you must decide whether to participate in this Exchange Offer. You do not need to return your stock option agreements relating to any tendered Eligible Options, as they will be automatically canceled if they are accepted by us for exchange.

EnteroMedics will accept your election to participate in, or withdrawal from, the Exchange Offer either by email to Jody Dahlman (jdahlman@enteromedics.com) or by registered mail or courier to: EnteroMedics Inc., Attn: Jody Dahlman, 2800 Patton Road, St. Paul, Minnesota 55113. You are responsible for keeping your evidence of the date and time of emailing, mailing or shipment. EnteroMedics will not accept requests for participation in, or withdrawal from, the Exchange Offer delivered by any other means. You are responsible for making sure that, if you wish to participate in the Exchange Offer, you follow the appropriate process described in this document. Under certain conditions, EnteroMedics reserves the right to reject any or all tenders of Eligible Options that we determine are not appropriate or would be unlawful to accept. See "This Exchange Offer—Procedures for Tendering Eligible Options" and "This Exchange Offer—Conditions of this Exchange Offer" for more information.

EnteroMedics expects to accept all properly tendered Eligible Options no later than the end of the Offering Period, subject to EnteroMedics' right to extend, amend, withdraw, or terminate this Exchange Offer.

Q3: How do I find out how many Eligible Options I have and what their exercise prices are?

A: You can review your individual stock option information, including all of your stock option grants to date and the status of each stock option, online at the Morgan Stanley Smith Barney website (www.benefitaccess.com). You can at any time confirm the number of Eligible Options that you have, their grant dates, exercise prices, and vested shares on the Morgan Stanley Smith Barney website.

Q4: How long do I have to decide whether to participate in this Exchange Offer?

A: Currently, this Exchange Offer expires at 6:00 p.m. Central Time on October 29, 2010. Although we do not currently intend to do so, we may, in our sole discretion, extend the Offering Period of this Exchange Offer at any time. If we extend this Exchange Offer, we will publicly announce the extension and the new Expiration Date no later than 9:00 a.m. Central Time on the next business day after the last previously scheduled or announced Expiration Date. Once we confirm the Expiration Date, no exceptions will be made. See "This Exchange Offer—Extension of Exchange Offer; Termination; Amendment" for more information.

Q5: How should I decide whether or not to exchange my Eligible Options for New Options?

A: In addition to this document, we may schedule a meeting with Eligible Optionholders to explain the terms of the Exchange Offer and Jody Dahlman (651-634-3071 or jdahlman@enteromedics.com) will be available to answer question you may have about the Exchange Offer process. However, we are not making any recommendation as to whether you should or should not participate in the Exchange Offer. You should speak to your own outside legal counsel, accountant or financial advisor for further advice. No one from EnteroMedics is, or will be, authorized to provide you with additional information in this regard. Please also review the "Risk Factors" that appear after this Summary Term Sheet.

Q6: If I exchange my Eligible Options for New Options, am I giving up my rights to the Eligible Options?

A: Yes. When we accept your Eligible Options for exchange, they will be canceled and you will no longer have any rights to them. They will be replaced with the New Options.

Q7: May I change my mind after electing to participate in or withdraw from this Exchange Offer?

A: Yes. Up until 6:00 p.m. Central Time on October 29, 2010, you may change your mind after you have submitted an election to participate in or a withdrawal from the Exchange Offer. To do this your new election form or withdrawal form must be sent to us either by email to Jody Dahlman (jdahlman@enteromedics.com) or by registered mail or courier and received on or before 6:00 p.m. Central Time on October 29, 2010. You are responsible for keeping your evidence of the date and time of emailing, mailing or shipment.

You may change your mind as many times as you wish, but you will be bound by the last properly completed and submitted election form or withdrawal form we receive before the end of the Offering Period, which is scheduled for October 29, 2010, at 6:00 p.m. Central Time. If we extend the Offering Period, you may submit an election form or withdrawal form at any time until the extended offer expires.

Q8: May I change my mind about how many Eligible Options I want to exchange?

A: Yes. Up until 6:00 p.m. Central Time on October 29, 2010, you may change your mind about how many Eligible Options you want to exchange after you have submitted an election to participate in the Exchange Offer. You may change the number of Eligible Options you elect to exchange at any time during the Offering Period by completing and submitting a new election form to us either by email to Jody Dahlman (jdahlman@enteromedics.com) or by registered mail or courier to: EnteroMedics Inc., Attn: Jody Dahlman, 2800 Patton Road, St. Paul, Minnesota 55113. You are responsible for keeping your evidence of the date and time of emailing, mailing or shipment.

You may change your mind as many times as you wish, but you will be bound by the last properly completed and submitted election form we receive before the end of the Offering Period, which is scheduled for October 29, 2010 at 6:00 p.m. Central Time. If we extend the Offering Period, you may change your election at any time until the extended offer expires.

Q9: How do I withdraw my election to participate?

A: To withdraw your election with respect to some or all of your Eligible Options, your properly completed notice of withdrawal must be sent to us either by email to Jody Dahlman (jdahlman@enteromedics.com) or by registered mail or courier to: EnteroMedics Inc., Attn: Jody Dahlman, 2800 Patton Road, St. Paul, Minnesota 55113 and received on or before 6:00 p.m. Central Time on October 29, 2010. You are responsible for keeping your evidence of the date and time of emailing, mailing or shipment.

Q10: How will I know whether you have received my election to participate or my notice of withdrawal?

A: We will send you an email to confirm receipt of your election to participate in the Exchange Offer or your notice of withdrawal from the Exchange Offer within five business days of EnteroMedics' receipt of your election to participate or notice of withdrawal. You should save the confirmation email you receive along with the copies of your submitted election to participate and/or notice of withdrawal and evidence of delivery for your records and future reference.

Q11: What will happen if I do not make a valid election to participate in the Exchange Offer by the end of the Offering Period?

A: If we do not receive your election to participate in the Exchange Offer by the end of the Offering Period, then all your Eligible Options will remain outstanding at their original exercise price and subject to their original terms. If you prefer not to exchange your Eligible Options, you do not need to do anything.

Q12: What happens if I do nothing?

A: If you do not elect to participate in the Exchange Offer by the Expiration Date, then all your Eligible Options will remain outstanding at their original exercise price and subject to their original terms. However, if the Exchange Offer extends for 30 or more calendar days, the tax treatment of Eligible Options which qualify as incentive stock options under U.S. federal tax laws may change. For more information, see “The Exchange Offer—Material United States Income Tax Consequences.”

Q13: Are you expecting the Exchange Offer to be a one-time event?

A: We do not currently anticipate offering optionholders another opportunity to exchange “underwater” options for new options in the future.

Q14: Can you extend or shorten the length of this Exchange Offer?

A: While EnteroMedics has the discretion to shorten or extend the length of the Exchange Offer (provided that the Exchange Offer is open for at least 20 business days), we do not intend to do so. If we shorten or extend this Exchange Offer, we will notify you about the new Expiration Date.

Q15: What happens if, after the New Option Grant Date, my New Options end up being “underwater”?

A: We can provide no assurance as to the possible price of our common stock at any time in the future. We do not anticipate offering optionholders another opportunity to exchange “underwater” options for new options in the future.

Q16: Will this Exchange Offer affect future equity grants?

A: No. We may grant future equity awards on a discretionary basis as determined by EnteroMedics’ management and our Board of Directors.

Q17: What if I have questions about this Exchange Offer or I need additional copies of this Exchange Offer or any documents attached to or referred to in this Exchange Offer?

A: You should direct questions about this Exchange Offer (including requests for additional copies of any Exchange Offer documents) to Jody Dahlman at (651) 634-3071 or jdahlman@enteromedics.com.

C. TAX QUESTIONS

Q1: Will I owe taxes if I exchange my Eligible Options in this Exchange Offer?

A: We believe that the exchange of Eligible Options for New Options should be treated as a non-taxable exchange and that you will not be required to recognize income for U.S. federal income tax purposes at the time of grant. However, the tax consequences of the Exchange Offer are not entirely certain.

You generally will have taxable income upon exercise of your New Options, at which time EnteroMedics will also generally have a tax withholding obligation. You may also have taxable income when you sell the shares issued upon exercise of the New Options.

You should consult with your tax advisor to determine the personal tax consequences to you of participating in this Exchange Offer. If you are subject to the tax laws of a country other than the United States, you should be aware that there may be additional or different tax consequences that may apply to you.

Q2: Will my New Options be incentive stock options or non-qualified stock options for U.S. federal income tax purposes?

A: All New Options will be non-qualified stock options for U.S. federal income tax purposes, regardless whether the Eligible Options tendered in the Exchange Offer are incentive stock options or non-qualified stock options.

We recommend that you review the section below entitled “Material United States Income Tax Consequences” and consult with your own tax advisors to determine the tax consequences to you in light of your particular circumstances of receiving non-qualified stock options in the Exchange Offer. You should also consult your tax advisor if you hold Eligible Options and are subject to taxation in a country other than the United States.

Q3: If I have incentive stock options under U.S. federal tax laws, what happens if I elect not to tender them in the Exchange Offer?

A: If you hold stock options that qualify as incentive stock options under U.S. federal tax laws, the tax status of those incentive stock options should not be affected by the Exchange Offer unless the Exchange Offer extends for 30 or more calendar days. Any incentive stock options that are Eligible Options subject to the Exchange Offer but that you do not tender in response to this Exchange Offer will be treated as having been modified if the Exchange Offer extends for 30 or more calendar days and, accordingly, will be treated under the tax rules as having been regranted. Because the U.S. tax rules limit the amount of options that can qualify as incentive stock options, this means that some of the incentive stock options that you hold may cease to qualify as such. For more information, please review the section below entitled “Material United States Income Tax Consequences.”

RISK FACTORS

Participation in this Exchange Offer involves a number of potential risks and uncertainties, including those described below. You should carefully consider these risks and uncertainties and we encourage you to consult with your financial, legal and/or tax advisors as necessary before deciding whether to participate in this Exchange Offer. In addition, we strongly urge you to read the sections in this Exchange Offer discussing the tax consequences of participating in this Exchange Offer, as well as the rest of this Exchange Offer for a more in-depth discussion of the risks that may apply to you.

Risks Related to The Exchange Offer

The exchange ratios used in determining the number of shares underlying the New Options you will be eligible to receive for your tendered Eligible Options take into account a number of factors and assumptions, so the actual value of your New Options may be more or less than the computed fair value of your Eligible Options.

The number of shares underlying the New Options that you will be eligible to receive has been determined based on an exchange ratio.

<u>If the Per Share Exercise Price of an Eligible Option is</u>	<u>The Exchange Ratio is (Eligible Option to New Option)</u>
\$6.00 to \$9.99	1.03 to 1
\$10.00 to \$19.99	1.10 to 1
\$20.00 to \$29.99	1.20 to 1
\$30.00 to \$39.99	1.26 to 1
\$40.00 and Up	1.37 to 1

We determined these exchange ratios by first dividing the Eligible Options into groups based on the exercise prices listed above and calculating the aggregate fair value of each group using a Black-Scholes option pricing model. We also applied a 10% discount to the current value of the Eligible Options. Black-Scholes models are a method of attempting to determine the fair value of an option, and we use similar models in accounting for our option expense. These models, however, are theoretical, and were initially developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, characteristics not present in our or most other companies’ option grants under employee option plans. Existing valuation models, including variations of the Black-Scholes model, may not provide reliable measures of the values of our stock-based compensation, including with respect to the Exchange Offer. There currently is no market-based mechanism or other practical application to verify the reliability and accuracy of our estimates stemming from the Black-Scholes option pricing model we used, in part, to determine the exchange ratios, nor is there a means to compare and adjust the estimates to actual values.

The Black-Scholes model we used takes into account the following assumptions to estimate fair value: (i) the closing price per share of our common stock on the NASDAQ Capital Market on September 15, 2010, (ii) a blend of implied volatilities derived from publicly traded options and the weekly historical share price volatility for a term commensurate with the remaining term of the Eligible Options and the expected term of the New Options, (iii) risk free interest rates that vary with the remaining term of the Eligible Options and the expected term of the New Options, (iv) an estimated term that reflects the underwater nature and the remaining contractual term of the Eligible Options as of September 15, 2010 and the expected term of the New Options, (v) the option exercise prices and (vi) a 0.00% dividend yield. The exchange ratios were designed to result in a fair value of the New Options that is approximately equal to the fair value, in the aggregate, of the Eligible Options that are tendered, assuming that all Eligible Options are tendered in the Exchange Offer.

Depending on the assumptions used to determine the fair value of your Eligible Options and the New Options, it is possible that a Black-Scholes valuation of your New Options may be more or less than a Black-Scholes valuation of your Eligible Options. In addition, the exchange ratios were established as of September 15, 2010, prior to the commencement of the Exchange Offer. The Black-Scholes fair values of the Eligible Options and the New Options as of the New Option Grant Date or any future date may differ materially from the Black-Scholes fair values determined as of September 15, 2010. Accordingly, it is important for you to evaluate the Exchange Offer based on your assessment of the future price of our common stock, the specific Eligible Options you currently hold and other applicable risk factors.

If you exchange Eligible Options for New Options in the Exchange Offer and your employment with EnteroMedics terminates before the New Options fully vest, you will forfeit any unvested portion of your New Options.

If you elect to participate in the Exchange Offer, the New Options will have a new vesting schedule such that one-third of the shares underlying the option will vest immediately and the remaining shares will vest monthly for 24 months. Generally, if your employment with us terminates, your New Options will cease vesting according to the terms of the stock option agreement, and any unvested portion of your New Options will be canceled as of your termination date. Accordingly, if you exchange Eligible Options for New Options in the Exchange Offer and your employment with us terminates before the New Options fully vest, you will forfeit any unvested portion of your New Options even if the Eligible Options tendered in the Exchange Offer were fully vested at the time of the exchange or would have been fully vested before your termination date. As a result, you may have fewer vested shares underlying your New Options at the time of your termination date than if you had declined to participate in the Exchange Offer.

Nothing in the Exchange Offer confers upon you the right to remain an employee of EnteroMedics. The terms of your employment with us remain unchanged. We cannot guarantee or provide you with any assurance that you will not be subject to involuntary termination or that you will otherwise remain employed until the New Option Grant Date, the date your New Options are fully vested or thereafter.

If the trading price of our common stock decreases after the New Option Grant Date, you will not be able to realize any gain from the exercise of your New Options.

The exercise price per share of all New Options will be equal to the closing price per share of our common stock on the NASDAQ Capital Market on the last full trading date before the Expiration Date, which is currently expected to be October 29, 2010, subject to any extension of the Exchange Offer. If the trading price of our common stock decreases after the New Option Grant Date, the exercise price of your New Options will be greater than the trading price of our common stock and you will not be able to realize any gain from the exercise of your New Options. The trading price of our common stock has been volatile and there can be no assurance that the price of our common stock will increase after the New Option Grant Date.

If the price of our common stock increases over time, the value of the New Options that you receive in the Exchange Offer may ultimately be less than the value of the Eligible Options that you tendered in the Exchange Offer.

We have designed the Exchange Offer to be value neutral, which means that the fair value of the New Options, as determined based on our option pricing model, is approximately equal to the fair value, in the aggregate, of the Eligible Options being tendered for exchange. (The model calculates fair value based on several assumptions,

including that all Eligible Options are tendered for exchange and certain valuation assumptions made as of September 15, 2010). As a result, you will be issued a lesser number of shares underlying the New Options than shares underlying the Eligible Options you tender for exchange.

Because you will receive a lesser number of shares underlying the New Options in the Exchange Offer than shares underlying the Eligible Options you tender for exchange, it is possible that, at some point in the future, your tendered Eligible Options would have been economically more valuable than the New Options granted in the Exchange Offer, depending on the exercise prices of your Eligible Options and the increase in the price of our common stock during the term of the New Options.

If you have incentive stock options, the tax treatment of New Options may not be as favorable, and if the Exchange Offer extends for 30 or more calendar days, the tax status of any incentive stock options you hold may be affected.

Because all New Options issued in the Exchange Offer will be non-qualified stock options for U.S. federal income tax purposes, an individual's tax treatment upon exercise of the New Options may differ from the treatment otherwise applicable to the tendered Eligible Options. An Eligible Optionholder who participates in the Exchange Offer and receives the New Options will recognize ordinary income upon exercise of the New Options equal to the excess, if any, of the fair market value of the purchased common shares on the exercise date over the exercise price of the New Options. Any ordinary income recognized on the exercise of the New Options will be subject to applicable income and employment tax withholding. Upon disposition of the shares resulting from the exercise of the New Options, the Eligible Optionholder will recognize a capital gain or loss (which will be long- or short-term depending on whether the shares were held for more than one year) equal to the difference between the amount realized on disposition and the sum of the amount paid for the shares plus any amount recognized as ordinary income upon acquisition of the shares.

If you hold incentive stock options that are Eligible Options but you do not tender those incentive stock options pursuant to the Exchange Offer, the tax status of those incentive stock options should not be affected by the Exchange Offer unless the Exchange Offer extends for 30 or more calendar days. If the Exchange Offer extends 30 or more calendar days, the incentive stock options will be treated under the tax rules as having been modified and, accordingly, as regranted. In those circumstances, the tax status of any incentive stock options that you hold may be affected even if you elect not to participate in the Exchange Offer. Any incentive stock options that cease to qualify as incentive stock options will be treated as non-qualified stock options for purposes of determining its U.S. income tax treatment. For more information, see "Material United States Income Tax Consequences."

Risks Related to Our Business and Ownership of Our Common Stock

You should carefully review the risk factors contained in our periodic and other reports filed with the SEC, including those in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and the information provided in this Exchange Offer document and the other materials that we have filed with the SEC, before making a decision on whether to tender your Eligible Options for exchange. You may access these filings electronically at the SEC's website at www.sec.gov. In addition, upon request we will provide you with a copy of any or all of the documents to which we have referred you (without charge to you). See "Additional Information" for more information regarding reports we have filed with the SEC and how to obtain copies of or otherwise review these reports.

THIS EXCHANGE OFFER

Purpose of This Exchange Offer

We are making this Exchange Offer to recognize key contributions by our employees (including executive officers) and to align their interests with our stockholders' interests. Stock options have been, and continue to be, an important part of our incentive compensation and retention programs. Stock options are designed to motivate and reward the efforts of our employees by providing incentives for them to grow long-term stockholder value, and encourage their long-term employment.

We have issued stock options under the 2003 Plan as a means of promoting the long-term success of our business because we believe that sharing ownership with our employees aligns their interest with EnteroMedics' interests and the interests of our stockholders and encourages our employees to devote the best of their abilities to EnteroMedics. However, our Board of Directors has observed that many of our employees have outstanding stock options with exercise prices that are higher than the current market price per share of our common stock. These stock options are commonly referred to as being "underwater." As a result, these stock options have little value as either an incentive or retention tool.

This Exchange Offer is intended to address this situation by providing our employees with an opportunity to exchange Eligible Options for New Options issued under the 2003 Plan. By making this Exchange Offer, we intend to provide our employees with the opportunity to hold stock options that over time have a greater potential to increase in value, thereby creating better incentives for employees to remain with EnteroMedics and contribute to achieving our business objectives.

We believe the Exchange Offer will motivate our employees to achieve future growth. By realigning the exercise prices of previously granted stock options more closely with the current per share market price of our common stock, we believe that these stock options will again become important tools to help motivate and retain our existing employees and continue to align their interests with those of our stockholders. While we hope this Exchange Offer will reduce the current disparity between the per share market price of our common stock and the exercise price of outstanding stock options, given the volatile and unpredictable nature of the economy and stock market, we cannot guarantee that, subsequent to the Expiration Date, the per share market price of our common stock will increase to a price that is greater than the exercise price of the New Options.

WE DO NOT MAKE ANY RECOMMENDATION AS TO WHETHER YOU SHOULD EXCHANGE YOUR ELIGIBLE OPTIONS, NOR HAVE WE AUTHORIZED ANY PERSON TO MAKE ANY SUCH RECOMMENDATION. YOU SHOULD EVALUATE CAREFULLY ALL OF THE INFORMATION IN THIS DOCUMENT AND CONSULT YOUR OWN FINANCIAL, LEGAL AND TAX ADVISORS. YOU MUST MAKE YOUR OWN DECISION WHETHER TO EXCHANGE YOUR ELIGIBLE OPTIONS.

Eligible Options; Eligible Optionholders; Expiration Date of This Exchange Offer

We are making an offer to Eligible Optionholders to exchange their Eligible Options that are properly tendered in accordance with "Procedures for Tendering Eligible Options" and not validly withdrawn pursuant to "Withdrawal Rights" before the Expiration Date of this Exchange Offer for New Options with the terms described below.

Cancellation Date

The Eligible Options will be canceled on the date they are tendered to EnteroMedics and accepted by us pursuant to this Exchange Offer. We expect that the Cancellation Date will be the same date as the Expiration Date and the New Option Grant Date.

Eligible Optionholders

Every employee (including executive officers) of EnteroMedics on the date this Exchange Offer starts who holds one or more Eligible Options and who continues to be an employee of EnteroMedics as of the Expiration Date. Our non-employee directors, consultants and former employees are not eligible to participate in the Exchange Offer.

Eligible Options

Any outstanding stock option for the purchase of shares of EnteroMedics common stock granted under our 2003 Plan, whether vested or unvested, with an exercise price per share greater than \$6.00 (which is currently greater than the highest per share closing price of our common stock for the 52-week period immediately preceding the Expiration Date of the Exchange Offer). However, options granted to individuals in connection with the performance of consulting services for EnteroMedics are not eligible to be exchanged in the Exchange Offer.

Exchange Offer

We refer to this document as the Exchange Offer.

Expiration Date

We expect that the Expiration Date of the Offering Period will be October 29, 2010 at 6:00 p.m. Central Time. We may extend the Expiration Date at our discretion. If we extend the offer, the term “Expiration Date” will refer to the time and date at which the extended offer expires.

New Options

New stock options issued under the 2003 Plan that will replace the Eligible Options tendered pursuant to this Exchange Offer. New Options will be subject to the terms of our 2003 Plan and a new stock option agreement between you and EnteroMedics. For more details about the 2003 Plan, see “This Exchange Offer—2003 Plan.”

Each New Option will differ from Eligible Options in the following ways:

- The exercise price per share for each New Option will be equal to the October 29 Price;
- Each New Option will be exercisable for fewer shares of our common stock than the Eligible Option it replaces. The number of shares underlying New Options will be based on an exchange ratio designed to result in the fair value of the New Options being approximately equal in the aggregate to the fair value of the Eligible Options that are tendered for cancellation in the Exchange Offer. The model used to calculate fair value is based on a number of assumptions. For additional information, see “The Exchange Offer—Exchange Ratios;”
- Each New Option will have a new vesting schedule and vest such that one-third of the shares underlying the option will be immediately vested on the date of grant and the remaining shares will vest monthly for 24 months. Vesting is conditioned on your continued employment with us through each applicable vesting date;
- Upon the occurrence of a “Change in Control” (as defined in the stock option agreement), 50% of the unvested portion of the New Options would become fully vested. In addition, in the event of a Change in Control in which the employment of the employee is terminated, 100% of the remaining unvested portion of the New Option would immediately vest and would be exercisable for five years following termination of employment; and
- Each New Option will be a non-qualified stock option for U.S. federal income tax purposes and will have a term of seven years from the New Option Grant Date.

New Option Grant Date

We expect the New Option Grant Date will be October 29, 2010. If the Expiration Date is extended, the Cancellation Date and the New Option Grant Date will be similarly extended.

Offering Period

The offering period for this Exchange Offer will start on September 23, 2010 and expire at 6:00 p.m. Central Time on the Expiration Date.

Vesting Schedule

The New Options will be subject to a new vesting schedule which is described in greater detail in “This Exchange Offer—Source and Amount of Consideration; Terms of New Options.” The New Options will vest such that one-third of the shares underlying the option will be immediately vested on the date of grant and the remaining shares will vest monthly for 24 months.

WE DO NOT MAKE ANY RECOMMENDATION AS TO WHETHER YOU SHOULD EXCHANGE YOUR ELIGIBLE OPTIONS. WE HAVE NOT AUTHORIZED ANY PERSON TO MAKE ANY SUCH RECOMMENDATION. YOU SHOULD EVALUATE CAREFULLY ALL OF THE INFORMATION IN THIS DOCUMENT AND CONSULT YOUR OWN FINANCIAL, LEGAL AND TAX ADVISORS. YOU MUST MAKE YOUR OWN DECISION WHETHER TO EXCHANGE YOUR ELIGIBLE OPTIONS.

NOTHING IN THIS DOCUMENT SHOULD BE CONSTRUED TO CONFER UPON YOU THE RIGHT TO REMAIN AN EMPLOYEE OF ENTEROMEDICS. THE TERMS OF YOUR EMPLOYMENT OR SERVICE WITH US REMAIN UNCHANGED. WE CANNOT GUARANTEE OR PROVIDE YOU WITH ANY ASSURANCE THAT YOU WILL NOT BE SUBJECT TO INVOLUNTARY TERMINATION OR THAT YOU WILL OTHERWISE REMAIN IN OUR EMPLOY UNTIL THE NEW OPTION GRANT DATE OR AFTER THAT DATE.

IF YOU EXCHANGE ELIGIBLE OPTIONS FOR NEW OPTIONS AND YOU CEASE TO BE AN EMPLOYEE OF ENTEROMEDICS BEFORE THE NEW OPTIONS ARE FULLY VESTED, YOU WILL FORFEIT ANY UNVESTED PORTION OF YOUR NEW OPTIONS.

Exchange Ratios

The number of shares underlying the New Options issued in exchange for your Eligible Options is determined by the exchange ratios. We established the exchange ratios by dividing the Eligible Options into five groups based on their current exercise prices and assigning an exchange ratio to each group that is designed to result in a fair value neutral exchange (calculated using the Black-Scholes option pricing model). The terms of the New Options are designed to have a fair value that is, in the aggregate, not materially greater than the fair value of the Eligible Options, assuming that all Eligible Options are tendered for exchange in the Exchange Offer. The calculation of fair value using the Black-Scholes option pricing model takes into account the following variables: (i) the closing price per share of our common stock on the NASDAQ Capital Market on September 15, 2010, (ii) a blend of implied volatilities derived from publicly traded options and the weekly historical share price volatility for a term commensurate with the remaining term of the Eligible Options and the expected term of the New Options, (iii) risk free interest rates that vary with the remaining term of the Eligible Options and the expected term of the New Options, (iv) an estimated term that reflects the underwater nature and remaining contractual term of the Eligible Options as of September 15, 2010 and the expected term of the New Options, (v) the option exercise prices of the Eligible Options and (vi) a 0.00% dividend yield. We also applied a 10% discount to the current value of the Eligible Options when calculating the exchange ratios.

Setting the exchange ratios in the manner described above was designed so that we could avoid having to recognize any material incremental compensation expense upon the grant of the New Options. However, the exchange ratios were set as of September 15, 2010, prior to the commencement of the Offering Period, and the Black-Scholes fair values of the Eligible Options and the New Options as of the New Option Grant Date or any future date may differ materially from the Black-Scholes fair values determined as of September 15, 2010. Accordingly, it is important for you to evaluate the Exchange Offer based on your assessment of our future share price, the specific options you hold and other applicable risk factors.

The exchange ratios are set forth below. Note that the exchange ratios apply to each of your Eligible Options separately, which means that each of your Eligible Options may be subject to different exchange ratios. For the purpose of applying the exchange ratio, fractional shares underlying New Options will be rounded up to the nearest whole share on a grant-by-grant basis.

<u>If the Per Share Exercise Price of an Eligible Option is</u>	<u>The Exchange Ratio is (Eligible Option to New Option)</u>
\$6.00 to \$9.99	1.03 to 1
\$10.00 to \$19.99	1.10 to 1
\$20.00 to \$29.99	1.20 to 1
\$30.00 to \$39.99	1.26 to 1
\$40.00 and Up	1.37 to 1

For purposes of example only, if you tender one Eligible Option for 100 shares with an exercise price of \$25.00 per share and a second Eligible Option for 100 shares with an exercise price of \$45.00, you will receive a New Option for 84 shares (100 divided by 1.20, rounded up to the nearest whole share) in exchange for the first Eligible Option and a New Option for 73 shares (100 divided by 1.37, rounded up to the nearest whole share) in exchange for the second Eligible Option.

Milestone Options

There are five outstanding Eligible Options that were awarded to our executive officers and management in 2008, which have milestone- and time-based vesting provisions (the "*Milestone Options*"). Some of the milestones established for the Milestone Options have been met and some are still pending, however, since some of the milestones were missed and these are the only outstanding options that have an element of performance-based vesting, if the Milestone Options are tendered for cancellation and exchange in the Exchange Offer, the optionholders will forfeit the milestone-based portion of the Milestone Options and will receive New Options only in exchange for the time-based vesting portion of the Milestone Options. The number of shares underlying the New Options issued in exchange for the Milestone Options will be determined using an exchange ratio of 1.37 to 1 because the current exercise prices of the Milestone Options are between \$49.62 and \$49.82.

Source and Amount of Consideration; Terms of New Options

Consideration

The Eligible Options were granted under our 2003 Plan. Each New Option will also be granted under our 2003 Plan. The total number of shares that may be issued pursuant to the exercise of New Options granted in the Exchange Offer will depend on the rate of participation by Eligible Optionholders. As of September 15, 2010, there were Eligible Options to purchase an aggregate of 481,288 shares of our common stock with a weighted average exercise price of \$27.38 per share. If all Eligible Options are tendered in this Exchange Offer, we would issue New Options to purchase an aggregate of 384,629 shares of our common stock. Eligible Options that are properly tendered for exchange in the Exchange Offer will be immediately canceled upon our acceptance of them in accordance with the terms and conditions of the Exchange Offer. Shares subject to canceled options will be returned to the share reserve of the 2003 Plan and will be available for future grant under and in accordance with the terms of the 2003 Plan.

Terms of New Options

New stock options issued under the 2003 Plan will replace the Eligible Options tendered pursuant to this Exchange Offer. New Options will be subject to the terms of our 2003 Plan and a new stock option agreement between you and EnteroMedics.

The exercise price of all New Options granted in exchange for the tender of existing Eligible Options will be equal to the closing price per share of our common stock on the NASDAQ Capital Market on the last full trading day prior to the Expiration Date, which is currently expected to be October 29, 2010, subject to any extension of the Offering Period.

All New Options will have a new term of seven years, regardless of the number of years remaining in the term of the tendered Eligible Options. In addition, each New Option will be subject to a new vesting schedule and vest such that one-third of the shares underlying the option will be immediately vested on the date of grant and the remaining shares will vest monthly for 24 months.

You will not be able to exercise your New Options until such options have vested in accordance with the new vesting schedule. If you cease to be employed by EnteroMedics prior to the end of the vesting period for any reason, all unvested options will be forfeited, subject to the provisions of the 2003 Plan.

Upon the occurrence of a "Change in Control" (as defined in the stock option agreement), 50% of the unvested portion of the New Options would become fully vested. In addition, in the event of a Change in Control in which the employment of the employee is terminated, 100% of the remaining unvested portion of the New Option would immediately vest and would be exercisable for five years following termination of employment.

The New Options will also be non-qualified stock options for U.S. federal income tax purposes.

The other terms and conditions of the New Options will be set forth in new stock option agreements to be entered into as of the New Option Grant Date and delivered to you as soon as practicable following the New Option Grant Date. **As a condition to your participating in the Exchange Offer and to receiving New Options in the exchange, you must enter into a new stock option agreement for each New Option.** The terms of the new stock option agreements may be different from your existing stock option agreements. You should carefully review the differences. The form of stock option agreement for the New Options to be issued under the 2003 Plan is filed with the SEC as an exhibit to the Schedule TO.

Eligible Options are subject to the terms and conditions of the 2003 Plan and the stock option agreements you received at the time of the original grant. The stock option agreements contain important information, such as the grant date, the number of shares, the exercise price, the expiration date and what happens to the option in certain events, such as death, disability, retirement, voluntary or involuntary termination and change in control. New Options will be subject to the form of stock option agreement described above and the 2003 Plan. For more details about the 2003 Plan, see “This Exchange Offer—2003 Plan.”

NOTHING IN THIS DOCUMENT SHOULD BE CONSTRUED TO CONFER UPON YOU THE RIGHT TO REMAIN AN EMPLOYEE OF ENTEROMEDICS. THE TERMS OF YOUR EMPLOYMENT OR SERVICE WITH US REMAIN UNCHANGED. WE CANNOT GUARANTEE OR PROVIDE YOU WITH ANY ASSURANCE THAT YOU WILL NOT BE SUBJECT TO INVOLUNTARY TERMINATION OR THAT YOU WILL OTHERWISE REMAIN IN OUR EMPLOY UNTIL THE NEW OPTION GRANT DATE OR AFTER THAT DATE.

IF YOU EXCHANGE ELIGIBLE OPTIONS FOR NEW OPTIONS AND YOU CEASE TO BE AN EMPLOYEE OF ENTEROMEDICS BEFORE THE NEW OPTIONS ARE FULLY VESTED, YOU WILL FORFEIT ANY UNVESTED PORTION OF YOUR NEW OPTION.

Conditions of This Exchange Offer

All Eligible Optionholders have been included in this Exchange Offer. Subject to, and conditioned upon, the terms and conditions of this Exchange Offer, we expect to accept all tenders of Eligible Options from all such Eligible Optionholders.

This Exchange Offer is conditioned on obtaining the approval of our stockholders at the Special Meeting of Stockholders to be held on Friday, October 29, 2010 (the “*Special Meeting*”). The Special Meeting was scheduled to be held on Friday, October 22, 2010, but was adjourned until 10:00 a.m. Central Time on October 29, 2010 due to insufficient quorum. In the event that the approval of our stockholders is not obtained at the Special Meeting, the Exchange Offer will be terminated and we will not accept any Eligible Options for cancellation and exchange pursuant to the Exchange Offer. The approval of the Exchange Offer requires the affirmative vote of the holders of a majority of the shares of our common stock present in person or by proxy at the Special Meeting and entitled to vote.

In addition, we will not be required to accept any Eligible Options tendered for exchange, and we may withdraw or terminate this Exchange Offer, or postpone our acceptance and cancellation of any Eligible Options tendered for exchange, in each case subject to Rule 13e-4(f)(5) under the Exchange Act, if, at any time on or after the date hereof and before the Expiration Date: (1) we are prohibited by applicable securities laws from giving effect to the Exchange Offer; (2) any event or events occur that have resulted or are reasonably likely to result, as determined in our reasonable judgment, in a material adverse change in our business or financial condition; or (3) any event or events occur that have resulted or are reasonably likely to result, as determined in our reasonable judgment, in a material impairment of the contemplated benefits of the offer to us (see “This Exchange Offer—Purposes of This Exchange Offer”).

Procedures For Tendering Eligible Options

If you are an Eligible Optionholder, you may tender your Eligible Options at any time before the Expiration Date. If we extend this Exchange Offer beyond that time, you may tender your Eligible Options at any time until the extended Expiration Date.

Proper Tender of Eligible Options

To validly tender your Eligible Options pursuant to this Exchange Offer you must remain an Eligible Optionholder through the Expiration Date and your properly completed Election to Participate must be sent to us and received on or before 6:00 p.m. Central Time on October 29, 2010. You do not need to return your stock option agreements relating to your tendered Eligible Options. They will be automatically canceled if we accept your Eligible Options for exchange.

Your Eligible Options will not be considered tendered until your properly completed and duly executed Election to Participate is received by EnteroMedics on or before the Expiration Date. This is a one-time offer, and we will strictly enforce the offering period. **If you miss this deadline, you will not be permitted to participate in this Exchange Offer.**

We will only accept your Election to Participate in the Exchange Offer if you properly complete, duly execute and deliver it to us either by email to Jody Dahlman (jdahlman@enteromedics.com) or by registered mail or courier to: EnteroMedics Inc., Attn: Jody Dahlman, 2800 Patton Road, St. Paul, Minnesota 55113. You are responsible for keeping your evidence of the date and time of emailing, mailing or shipment. We will not accept requests for participation in the Exchange Offer delivered by any other means. You are responsible for making sure that if you wish to participate in the Exchange Offer that you follow the appropriate steps as described above.

We have filed the form of Election to Participate with the SEC as an exhibit to the Schedule TO.

Determination of Validity; Rejection of Eligible Options; Waiver of Defects; No Obligation to Give Notice of Defects

We will, in our sole discretion, determine the number of shares subject to Eligible Options and all questions as to the form of documents and the validity, form, eligibility, time of receipt, and acceptance of any tender of Eligible Options. Neither EnteroMedics nor any other person is obligated to give notice of any defects or irregularities in tenders. No tender of Eligible Options will be deemed to have been properly made until all defects or irregularities have been cured by the tendering Eligible Optionholder or waived by us. Subject to any order or decision by a court or arbitrator of competent jurisdiction, our determination of these matters will be final and binding on all parties. This is a one-time offer.

We will strictly enforce this offer period, subject only to any extension of the Expiration Date of the Exchange Offer that we may grant in our sole discretion. Subject to Rule 13e-4 under the Exchange Act, we reserve the right, in our sole discretion, to waive any of the conditions of this Exchange Offer, any defect or irregularity in any tender with respect to any particular Eligible Option, or any particular Eligible Optionholder.

Our Acceptance Constitutes an Agreement

Your tender of Eligible Options pursuant to the procedures described above constitutes your acceptance of the terms and conditions of this Exchange Offer and will be controlling, absolute and final, subject to your withdrawal rights (as described below) and our acceptance of your tendered Eligible Options in accordance with "Acceptance of Eligible Options for Exchange; Issuance of New Options." Our acceptance for exchange of Eligible Options tendered by you pursuant to this Exchange Offer will constitute a binding agreement between EnteroMedics and you on the terms and subject to the conditions of this Exchange Offer.

Subject to our rights to extend, amend, withdraw and terminate this Exchange Offer in accordance with "Conditions of This Exchange Offer," we expect to accept and cancel, promptly following the Expiration Date of the Exchange Offer, all properly tendered Eligible Options that have not been validly withdrawn. You will be required to enter into a new stock option agreement governing the terms of each New Option issued to you in exchange for your Eligible Options pursuant to this Exchange Offer.

Withdrawal Rights

If you elect to accept this Exchange Offer as to your Eligible Options and later change your mind, you may withdraw your tendered Eligible Options, and reject this Exchange Offer, by following the procedure described in this section.

You may withdraw your tendered Eligible Options at any time before the Expiration Date. If we extend this Exchange Offer beyond that time, you may withdraw your tendered Eligible Options at any time until the extended Expiration Date. We intend to accept and cancel properly tendered Eligible Options promptly after the scheduled Expiration Date.

To validly withdraw tendered Eligible Options, you must properly complete and submit the Notice of Withdrawal while you still have the right to withdraw the tendered Eligible Options. Your Eligible Options will not be considered withdrawn until we receive your Notice of Withdrawal. If you miss the deadline but remain an

Eligible Optionholder of EnteroMedics, your previously tendered Eligible Options will be canceled and exchanged pursuant to this Exchange Offer. You are responsible for making sure that the Notice of Withdrawal is properly completed and delivered to us. To deliver the Notice of Withdrawal, you should send your form to us either by email to Jody Dahlman (jdahlman@enteromedics.com) or by registered mail or courier to: EnteroMedics Inc., Attn: Jody Dahlman, 2800 Patton Road, St. Paul, Minnesota 55113. You are responsible for keeping your evidence of the date and time of emailing, mailing or shipment.

We have filed the form of the Notice of Withdrawal with the SEC as an exhibit to the Schedule TO.

You may not rescind any withdrawal, and your withdrawn Eligible Options will thereafter be deemed not properly tendered for purposes of this Exchange Offer, unless you properly re-tender those Eligible Options before the Expiration Date by following the procedures described in “Procedures For Tendering Eligible Options” above.

Neither we, nor any other person, are obligated to give notice of any defects or irregularities in any Notice of Withdrawal, nor will anyone incur any liability for failing to give notice of any defects or irregularities. We, in our sole discretion, will determine all questions as to the form and validity, including time of receipt, of the Notices of Withdrawal. Subject to any order or decision by a court or arbitrator of competent jurisdiction, our determinations of these matters will be final and binding.

Acceptance of Eligible Options For Exchange; Issuance of New Options

Subject to, and conditioned upon the terms and conditions of this Exchange Offer, we expect to accept for exchange all Eligible Options properly tendered and not validly withdrawn promptly after the scheduled Expiration Date. Once we have accepted Eligible Options tendered by you, your Eligible Options will be canceled and you will no longer have any rights under your Eligible Options. We will issue new stock option agreements for the New Options as soon as administratively practicable after we accept the tendered Eligible Options, assuming you are still an active employee of EnteroMedics on the New Option Grant Date. If this Exchange Offer is extended, then the New Option Grant Date will also be extended.

Promptly after we cancel the Eligible Options tendered for exchange, we will send each tendering Eligible Optionholder a “confirmation email” indicating the Eligible Options that we have accepted for exchange, the date of acceptance, and the number of shares underlying such New Options that will be issued to each tendering Eligible Optionholder. We filed a form of this email with the SEC as an exhibit to the Schedule TO.

If you have tendered your Eligible Options under this Exchange Offer and your employment or service with EnteroMedics terminates for any reason before the Expiration Date, you will no longer be eligible to participate in the Exchange Offer and we will not accept your Eligible Options for cancellation. In that case, generally you may exercise your existing stock options for a limited time after your resignation or termination date to the extent they are vested and in accordance with their terms.

Extension of Exchange Offer; Termination; Amendment

We may, from time to time, extend the period of time during which the Exchange Offer is open and delay accepting any Eligible Options tendered to us by providing notice of the extension to Eligible Optionholders by public announcement, oral or written notice, or otherwise as permitted by Rule 13e-4(e)(3) under the Exchange Act. If the Exchange Offer is extended or amended, we will provide appropriate notice of the extension or amendment, as applicable, and the new Expiration Date, if any, no later than 9:00 a.m. Central Time on the next business day following the previously scheduled Expiration Date. For purposes of this Exchange Offer, a “business day” means any day other than a Saturday, Sunday, or United States federal holiday and consists of the time period from 12:01 a.m. through 12:00 midnight, Central Time.

If we materially change the terms of this Exchange Offer or the information concerning this Exchange Offer, or if we waive a material condition of this Exchange Offer, we will extend the Exchange Offer to the extent required by Rules 13e-4(d)(2) and 13e-4(e)(3) under the Exchange Act. Under these rules, the minimum period during which a tender or exchange offer must remain open following material changes in the terms of or information concerning an exchange offer, other than a change in price or a change in percentage of securities sought, will depend on the facts and circumstances, including the relative materiality of such terms or information.

In addition, if we decide to take any of the following actions, we will publish notice or otherwise inform you in writing of such action and keep the Exchange Offer open for at least 10 business days after the date of such notification:

- If we increase or decrease the amount of consideration offered for the Eligible Options; or
- If we increase or decrease the number of Eligible Options that may be tendered in the Exchange Offer.

Fees and Expenses

We will not pay any fees or commissions to any broker, dealer, or other person for soliciting tenders of Eligible Options pursuant to this Exchange Offer. You will be responsible for any expenses incurred by you in connection with your election to participate in this Exchange Offer, including, any expenses associated with any tax, legal or other advisor consulted or retained by you in connection with this Exchange Offer.

2003 Plan

The purpose of the 2003 Plan is to aid in attracting and retaining employees, management personnel, other personnel and non-employee directors capable of assuring the future success of EnteroMedics and to incentivize such personnel and non-employee directors to put forth maximum efforts for the success of EnteroMedics' business by affording such personnel and non-employee directors an opportunity to acquire a proprietary interest in EnteroMedics.

Under the current terms of the 2003 Plan, a total of 1,150,183 shares of our common stock are reserved for issuance pursuant to awards granted under the 2003 Plan. As of September 15, 2010, a total of 184,839 shares of common stock were available under the 2003 Plan for the future issuance of various types of equity-based awards, including stock options, stock appreciation rights, restricted stock, restricted stock units, performance units and/or performance shares.

Summary of the 2003 Plan

The following is a summary of the 2003 Plan. This summary does not purport to be complete, and is qualified in its entirety by reference to the full text of the 2003 Plan, a copy of which has been filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on May 11, 2009.

Administration

The Board of Directors has appointed the Compensation Committee to administer the 2003 Plan. As a result, the Compensation Committee has the authority to determine when and to whom awards will be granted, and the type, amount, form of payment and other terms and conditions of each award, consistent with the provisions of the 2003 Plan. In addition, the Compensation Committee can specify whether, and under what circumstances, awards to be received under the 2003 Plan or amounts payable under such awards may be deferred automatically or at the election of either the holder of the award or the Compensation Committee. Subject to the provisions of the 2003 Plan, the Compensation Committee may amend or waive the terms and conditions, or accelerate the exercisability, of an outstanding award. The Compensation Committee has the authority to interpret the 2003 Plan and establish rules and regulations for the administration of the 2003 Plan.

The Compensation Committee may delegate its powers under the 2003 Plan to one or more officers of EnteroMedics or a committee of such officers, except that the Compensation Committee may not delegate its powers to grant awards to officers who are subject to Section 16 of the Exchange Act, or in a way that would violate Section 162(m) of the U.S. Internal Revenue Code (the "Code").

Eligible Participants

Any employee, officer, consultant, independent contractor or non-employee director providing services to us or any of our affiliates, who is selected by the Compensation Committee, is eligible to receive an award under the 2003 Plan. However, only employees of EnteroMedics or our subsidiary are eligible for grants of incentive stock options. As of September 15, 2010, approximately 29 employees and officers, 25 consultants and independent contractors and eight non-employee directors were eligible to participate in the 2003 Plan.

Shares Available for Awards

The 2003 Plan currently authorizes an aggregate of 1,150,183 shares of our common stock for issuance under all stock-based awards. If the proposed amendment to the 2003 Plan is approved by our stockholders at the Special Meeting, the maximum number of shares authorized under the 2003 Plan will be increased by 1,149,817 shares to 2,300,000 shares. The closing price per share of our stock on the NASDAQ Capital Market on September 22, 2010 was \$1.81 per share. Certain awards under the 2003 Plan are subject to limitations as follows:

- In any calendar year, no person may be granted awards, the value of which is based solely on an increase in the value of our common stock after the date of grant of the award, of more than 100,000 shares in the aggregate.
- In any calendar year, the maximum amount payable pursuant to all performance awards to any participant will be \$5,000,000 in aggregate value, whether payable in cash, shares or other property.

The Compensation Committee may adjust the 2003 Plan or outstanding awards in a manner it deems equitable or appropriate in order to prevent the dilution or enlargement of such benefits or potential benefits in the case of a stock dividend or other distribution, recapitalization, stock split, merger, repurchase or exchange of shares of our common stock or other securities, issuance of warrants or other rights or other similar corporate transaction or event. As a result of such changes, and provided that the number of shares covered by any award or to which any award relates will always be a whole number, the Compensation Committee may adjust the number and type of shares (or other securities or property) subject to outstanding awards or that may be made the subject of future awards and/or the purchase or exercise price of any award.

If an award is terminated, forfeited or canceled without the issuance of any shares or if shares covered by an award are not issued for any other reason, then the shares previously set aside for such award will be available for future awards under the 2003 Plan. The shares available for award under the 2003 Plan may also include shares previously reacquired by EnteroMedics and designated as treasury shares.

Types of Awards and Terms and Conditions

The 2003 Plan permits the granting of: stock options (including both incentive and non-qualified stock options), stock appreciation rights (“SARs”), restricted stock and restricted stock units, performance awards, dividend equivalents, other stock grants and other stock-based awards. The Compensation Committee, in its discretion, may grant awards alone or in addition to, in tandem with or in substitution for any other award. Awards granted in addition to or in tandem with other awards may be granted either at the same time as or at a different time from the grant of another award. The specific terms of each award are provided in separate award agreements.

Stock Options. Stock options awarded under the 2003 Plan may be either “incentive” stock options or “non-qualified” stock options under the Code. Stock options allow the option holder to purchase shares of our stock for a set per-share exercise price determined by the Compensation Committee on the date of grant, and may not be less than the fair market value of our common stock on the date the option is granted, except for those who own more than 10% of the total voting power of our capital stock, who must be granted stock options with an exercise price of at least 110% of the fair market value of our stock. The Compensation Committee sets the terms and vesting provisions of stock options, provided that no incentive stock option may have a term of greater than ten years and no incentive stock option granted to an employee owning more than 10% of the voting power of all classes of our stock may be exercisable by its terms after the expiration of five years from the date of grant. No incentive stock option is transferable by the holder, other than by the laws of descent and distribution. An incentive stock option may only be exercised by its holder during his or her lifetime. A nonqualified stock option will be transferable by the holder to a family member, by will, or pursuant to the laws of descent and distribution, or as otherwise permitted pursuant to rules and regulations adopted by the SEC. The exercise price of outstanding stock options may not be lowered through re-pricing, or by canceling any previously granted stock option and replacing that option with a re-grant of the same award without prior approval of our stockholders.

Stock Appreciation Rights. SARs granted under the 2003 Plan entitle the holder, upon exercise, to receive an amount equal to the excess of the fair market value of the shares of stock underlying the SAR at the time of exercise over the exercise price for such shares without tendering any consideration. The exercise or strike price for SARs is determined by the Compensation Committee on the date of grant, and may not be less than the fair market value on the date the SAR is granted. The Compensation Committee sets the terms and vesting provisions of SARs, provided

that no SAR may have a term greater than 10 years. The Compensation Committee may, at its discretion, settle SARs in either cash or stock. A SAR may only be exercised by its holder during his or her lifetime. Except as otherwise provided by the Compensation Committee, a holder of an SAR may not sell, transfer, pledge or assign such any rights with respect to the SAR.

Restricted Stock and Restricted Stock Units. The holders of restricted stock own shares of our common stock subject to restrictions imposed by the Compensation Committee (including, for example, restrictions on the right to vote the restricted shares or to receive any dividends with respect to the shares) for a specified time period determined by the Compensation Committee. The holder of restricted stock units will have the right, subject to any restrictions imposed by the Compensation Committee, to receive shares of our common stock, or a cash payment equal to the fair market value of those shares, at some future date determined by the Compensation Committee. The restriction period begins on the date of grant and the restrictions may lapse separately or in combination at a time or times in such installments or otherwise as determined by the Compensation Committee and set forth in the award agreement. After the restrictions have lapsed, the holder has all of the rights of a stockholder of our common stock. If the holder's employment or service to EnteroMedics terminates during the restriction period, the restricted stock and restricted stock units will be forfeited, unless the Compensation Committee determines that it would be in our best interest to waive the remaining restrictions. The holders of restricted stock awards may not sell, transfer, pledge or assign shares of restricted stock during the restriction period.

Performance Awards. Performance awards are exercisable upon the achievement of performance goals set forth in the agreements covering the performance awards. A performance award granted under the 2003 Plan may be payable in cash or in shares of common stock (including restricted stock), other securities, other awards or other property. Subject to the terms of the 2003 Plan and any award agreement, the length of the performance period, the performance goals to be achieved during the performance period, the amount of any performance award, the payment amount to be made pursuant to any performance award and any other terms and conditions of any performance award will be determined by the Compensation Committee.

Dividend Equivalents. Dividend equivalents entitle the holder to receive payments equivalent to the amount of any cash dividends paid on shares of our common stock. A dividend equivalent may be denominated or payable in cash, shares of stock or other securities, or other awards or property determined in the discretion of the Compensation Committee. The Compensation Committee will also determine any other terms and conditions applicable to the dividend equivalents.

Other Stock Grants and Stock-Based Awards. The Compensation Committee also has the authority to grant common stock under the 2003 Plan without restrictions as it deems consistent with the purpose of the 2003 Plan, as well as the authority to grant other stock-based awards, with methods of payment and other relevant terms as determined by the Compensation Committee.

Amendment and Termination

Our Board of Directors may amend, alter, or terminate the 2003 Plan at any time provided, however, that any 2003 Plan amendment will be submitted to our stockholders for approval if (i) required by law or by the securities exchange on which our stock is listed, (ii) the failure to obtain such consent causes Rule 16b-3 or Section 162(m) of the Code to be unavailable with respect to the 2003 Plan or (iii) the failure to obtain such consent causes us to be unable, under the Code, to grant incentive stock options under the 2003 Plan. No termination or amendment of the 2003 Plan will in any manner adversely affect an award previously granted under the 2003 Plan without the consent of the applicable award holder. While our Board of Directors retains the right to terminate the 2003 Plan as described above, the 2003 Plan will automatically terminate on October 1, 2013, the tenth anniversary of the effective date of the 2003 Plan.

Change in Control

The Compensation Committee has discretion to provide in any award agreement under the 2003 Plan that the restrictions on the award may lapse, mature or the award may become exercisable on an accelerated basis upon a change in control of EnteroMedics.

Price Range of Our Common Stock

The Eligible Options give Eligible Optionholders the right to acquire shares of our common stock. None of the Eligible Options are traded on any trading market. Our common stock is listed on the NASDAQ Capital Market under the symbol “ETRM.”

Our common stock has been traded on the NASDAQ Stock Market under the symbol “ETRM” since our initial public offering (“IPO”) on November 15, 2007. Prior to that date, there was no public market for our common stock. Our common stock was traded on the NASDAQ Global Market from its initial listing at the time of our IPO until January 21, 2010. Subsequently, in anticipation of not curing our deficiencies with the continued listing requirements of the NASDAQ Global Market, we requested and were approved to transfer to the NASDAQ Capital Market, effective January 22, 2010.

The following table sets forth on a per share basis the high and low sale prices of our common stock on the NASDAQ Stock Market during the periods indicated. These prices have been adjusted to reflect the 1-for-6 reverse split of our common stock that was effected on July 9, 2010.

	<u>High</u>	<u>Low</u>
Fiscal Year 2010		
First Quarter	\$ 8.64	\$ 3.06
Second Quarter	\$ 4.86	\$ 1.62
Third Quarter (through September 22, 2010)	\$ 2.94	\$ 1.52
Fiscal Year 2009		
First Quarter	\$32.28	\$ 6.60
Second Quarter	\$26.22	\$ 7.50
Third Quarter	\$33.48	\$16.08
Fourth Quarter	\$29.40	\$ 2.40
Fiscal Year 2008		
First Quarter	\$61.56	\$20.70
Second Quarter	\$34.50	\$22.50
Third Quarter	\$31.44	\$18.12
Fourth Quarter	\$19.44	\$ 4.98
Fiscal Year 2007		
Fourth Quarter (beginning November 15, 2007)	\$64.62	\$46.86

On September 22, 2010, the closing price per share of our common stock on the NASDAQ Capital Market was \$1.81. We recommend that you obtain current market quotations for our common stock, among other factors, before deciding whether or not to tender your Eligible Options. As of September 22, 2010, there were approximately 44 stockholders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Information Concerning Us; Financial Information

Information Concerning Us

We are a development stage medical device company focused on the design and development of devices that use neuroblocking technology to treat obesity, its associated co-morbidities, 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. The vagus nerve controls much of the activity of the stomach, intestines and pancreas and plays a role in food processing. Our initial product under development is the Maestro System, which uses VBLOC therapy to 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. Based on our understanding of vagal nerve function and nerve blocking from our preclinical studies and the results of our initial clinical trials, we believe the Maestro System may offer obese patients a minimally-invasive treatment alternative that has the potential to result in significant and sustained weight loss. In addition, data from sub-group analyses demonstrate that VBLOC therapy may hold promise in improving the obesity-related co-morbidities of diabetes and hypertension, independent of, and prior to, substantial weight loss. We are conducting, or plan to conduct, feasibility studies in each of these co-morbidities to assess VBLOC therapy's potential in addressing multiple indications.

We are currently evaluating the Maestro System in human clinical trials conducted in the United States, Australia, Mexico, Norway and Switzerland. To date, we have not observed any mortality 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.

On October 2, 2009, we announced preliminary 12 month results from our pivotal clinical study, the EMPOWER trial; indicating that based on an initial analysis, the study did not meet its primary and secondary efficacy endpoints. We also announced that there were no therapy-related serious adverse events reported during the study. The EMPOWER trial is a multi-center, randomized, double-blind, prospective, placebo-controlled pivotal study being conducted in the United States and selected international centers. We further announced on November 12, 2009, the ongoing detailed review suggests that vagal blocking therapy may promote safe and effective weight loss as an adjunct to behavioral support, diet and exercise in morbidly obese patients. The review further suggests that these effects were evident in both the treatment and control arms. We are continuing a comprehensive analysis of all clinical, statistical, and engineering data to understand this finding. Based on the analysis to date, the control arm of the trial, which was intended to be inactive, apparently provided a low-intensity blocking signal that introduced VBLOC therapy in human subjects.

In January 2010, we met with the U.S. Food and Drug Administration ("FDA") to discuss the EMPOWER trial results and the regulatory process going forward. Based on this discussion, in March we submitted an investigational device exemption ("IDE") application for a clinical trial using the second-generation Maestro RC System in the treatment of morbid obesity and received conditional approval from the FDA on July 29, 2010. Assuming that we successfully enroll and implant the trial and achieve favorable results, we plan to use data from that trial to support a pre-market approval ("PMA") application for the Maestro System, which we expect to submit no earlier than the second half of 2012. If the FDA grants us approval, we anticipate we will be able to commercialize the Maestro System in the United States no earlier than the second half of 2013.

If and when we obtain FDA approval of our Maestro 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 RF System on March 4, 2009 and are currently pursuing CE Mark certification for our Maestro RC System. We plan on commercializing the Maestro RC System in Australia and intend to file an application for approval and listing with the Australian Therapeutic Goods Administration ("TGA") upon receiving CE Mark certification for the Maestro RC System. We also are exploring commercialization opportunities in other markets outside of the United States and Australia. The method of assessing conformity with applicable regulatory requirements varies depending on the class of the device, but for our Maestro System (which falls into Class III), the method involved 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 used KEMA in the Netherlands as the Notified Body for our CE marking approval process.

We were incorporated in Minnesota in December 2002 under the name Beta Medical, Inc. In 2003, we changed our name to EnteroMedics Inc. and in 2004 we reincorporated in Delaware. As of December 31, 2009, we had 34 employees, all of which are located in the United States. Our principal executive offices are located at 2800 Patton Road, St. Paul, Minnesota 55113, and our telephone number is (651) 634-3003.

Financial Information

Summary Consolidated Financial Data

The following tables set forth certain summary consolidated financial data derived from our unaudited interim consolidated financial statements for the six months ended June 30, 2009 and 2010 and from our audited consolidated financial statements for the years ended December 31, 2008 and 2009. The unaudited interim consolidated financial statements include, in the opinion of our management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our financial position and results of operations for the interim periods presented. This summary consolidated financial data is qualified in its entirety and should be read together with our historical consolidated financial statements and the related notes in the documents incorporated by reference herein.

Summary Consolidated Financial Data

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Year Ended December 31, 2009	Year Ended December 31, 2008
	(In thousands, except per share data)			
Operations:				
Loss from operations	\$ (8,463)	\$ (11,931)	\$ (24,212)	\$ (36,270)
Net loss	(9,007)	(17,031)	(31,929)	(37,874)
Basic and diluted net loss per share	(1.23)	(3.91)	(6.42)	(13.50)
Shares used to compute basic and diluted net loss per share	7,347	4,352	4,974	2,806
Financial Position:				
Cash, cash equivalents and short-term investments	10,078	34,849	14,618	26,295
Working capital (current assets less current liabilities)	6,761	24,848	8,821	20,916
Total assets	11,770	36,619	16,214	28,279
Long-term debt, net of current portion and discounts	4,921	11,169	3,881	10,996
Deficit accumulated during development stage	(142,375)	(118,470)	(133,368)	(101,307)
Total stockholders' equity	2,899	9,294	5,581	11,405

Book Value

We had a book value per share of \$0.39 on June 30, 2010 (calculated using the book value as of June 30, 2010, divided by the number of outstanding shares of our common stock as of June 30, 2010).

Ratio of Earnings to Fixed Charges

The following table sets forth our ratio of earnings to fixed charges for the periods specified:

	Fiscal Year Ended		Six Months Ended June 30, 2010
	December 31, 2008	December 31, 2009	
Ratio of earnings to fixed charges	—	—	—
Deficiency of earnings available to cover fixed charges	(37,874)	(31,929)	\$ (9,007)

For purposes of computing these ratios, earnings represent loss before income taxes plus fixed charges and fixed charges represent interest expense, amortization of commitment fees, debt issuance costs and original issue discount and the estimated interest component of rent expense.

In each of the periods presented, there were insufficient earnings available to cover fixed charges. As a result, the ratio of earnings to fixed charges was less than 1.0 for these years. The deficiencies of earnings to fixed charges for these years are presented in the table above.

Additional Information

For more information about us, please refer to our Annual Report on Form 10-K for the year ended December 31, 2009 and our other filings made with the SEC. We recommend that you review materials that we have filed with the SEC before deciding whether or not to tender your Eligible Options. We will also provide you without charge, upon your written or oral request, a copy of any or all of the documents to which we have referred you. See "This Exchange Offer—Additional Information" for more information regarding reports we file with the SEC and how to obtain copies of or otherwise review these reports.

Interests of Directors and Executive Officers; Transactions and Arrangements Concerning Our Options

The following table sets forth certain information as of September 15, 2010 about the outstanding options granted under our 2003 Plan held by each of our directors and executive officers. Our executive officers are eligible to participate in this Exchange Offer. As of September 15, 2010, our executive officers and directors (thirteen (13) persons) as a group held options unexercised and outstanding under the 2003 Plan to purchase a total of 653,827 shares of our common stock, which represented approximately 72.5% of the shares subject to all options outstanding under the 2003 Plan as of that date.

The percentages in the table below are based on the total number of outstanding options (i.e., whether or not eligible for exchange) to purchase our common stock under our 2003 Plan, which was 901,220 as of September 15, 2010.

<u>Name</u>	<u>Position</u>	<u>Aggregate Number of Options Awarded Under the 2003 Plan</u>	<u>Percentage of Total Outstanding Options Under the 2003 Plan</u>
Mark B. Knudson, Ph.D.	President, Chief Executive Officer, Chairman and Director	243,148	27.0%
Greg S. Lea	Senior Vice President and Chief Financial Officer	80,912	9.0%
Adrianus (Jos) Donders	Senior Vice President of Operations	75,871	8.4%
Daniel L. Cohen	Senior Vice President of Government Relations and Health Policy	62,498	6.9%
Katherine S. Tweden, Ph.D.	Vice President of Research and Clinical	60,619	6.7%
Luke Evnin, Ph.D.	Director	7,498	0.8%
Catherine Friedman	Director	11,243	1.2%
Carl Goldfischer, M.D.	Director	7,498	0.8%
Bobby I. Griffin	Director	34,970	3.9%
Donald C. Harrison, M.D.	Director	7,498	0.8%
Paul H. Klingenstein	Director	7,498	0.8%
Nicholas L. Teti, Jr.	Director	47,076	5.2%
Jon T. Tremmel	Director	7,498	0.8%

Neither we nor, to the best of our knowledge, any member of our Board of Directors or any of our executive officers, nor any affiliate of ours, engaged in transactions involving Eligible Options during the past 60 days.

Status of Eligible Options Acquired by Us in This Exchange Offer

Eligible Options that we accept for exchange pursuant to this Exchange Offer will be canceled on the Cancellation Date and the shares of common stock underlying such grants will be allocated to the New Options to be issued in exchange for such Eligible Options.

Accounting Consequences of This Exchange Offer

We have adopted the fair value method of accounting for share-based payments. Generally, when we grant new share-based awards, we recognize compensation expense for the fair value of such awards, which we recognize over the vesting schedule of the award. However, under these rules, the exchange of Eligible Options pursuant to the Exchange Offer will be characterized as a modification of the existing option awards and no incremental expense will be recognized if the modification is fair value neutral. To be fair value neutral, the fair value of the New Options, as determined based on our option pricing model, must be approximately equal to the fair value, in the aggregate, of the Eligible Options being tendered for exchange. As described above under "Risk Factors," we use the Black-Scholes option pricing model to determine the fair value of all options granted to employees. When we established the exchange ratios on September 15, 2010, we set the exchange ratios in a manner intended to avoid the incurrence by us of any material incremental share-based compensation expense. However, if there are fluctuations in the trading price of our common stock between the date the ratios were established and the date the New Options are granted, there is some risk of incremental compensation expense.

Any previous unrecognized compensation expense from the tendered Eligible Options and incremental compensation costs, if any, associated with the New Options granted in the exchange will be recognized by us over the appropriate vesting period. However, in the event that any of the New Options are forfeited prior to their vesting due to termination of service, we will stop recognizing expense on the tendered Eligible Options and the incremental cost, if any, for the New Options that are forfeited will not be recognized.

Since the trading price of our common stock on the New Option Grant Date and the forfeiture of any New Options prior to vesting cannot be predicted with any certainty at this time and will not be known until the Expiration Date and the vesting of all New Options, we cannot predict the exact amount of any incremental compensation expense that may result from the Exchange Offer.

Legal Matters; Regulatory Approvals

We are not aware of any material pending or threatened legal actions or proceedings relating to the Exchange Offer. We are not aware of any margin requirements or anti-trust laws applicable to this Exchange Offer. We are not aware of any license or regulatory permit that appears to be material to our business that might be adversely affected by our exchange of Eligible Options and issuance of New Options as contemplated by this Exchange Offer or of any approval or other action by any government or governmental, administrative, or regulatory authority or agency, domestic or foreign, that would be required for the acquisition or ownership of New Options as contemplated herein. Should any such approval or other action be required, we presently contemplate that we will use commercially reasonable efforts to seek such approval or take such other action. We cannot assure you that any such approval or other action, if needed, would be obtained or would be obtained without substantial conditions or that the failure to obtain any such approval or other action might not result in adverse consequences to our business. Our obligation under this Exchange Offer to accept tendered Eligible Options for exchange and to issue New Options for your Eligible Options would be subject to obtaining any such governmental approval.

Material United States Income Tax Consequences

CIRCULAR 230 DISCLAIMER. THE FOLLOWING DISCLAIMER IS PROVIDED IN ACCORDANCE WITH THE INTERNAL REVENUE SERVICE'S CIRCULAR 230 (21 C.F.R. PART 10). THIS ADVICE IS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED BY YOU, FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON YOU. YOU SHOULD SEEK ADVICE BASED ON YOUR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a discussion of the material United States federal income tax consequences of the exchange of Eligible Options and the grant of New Options pursuant to the Exchange Offer. This discussion is based on the Code, its legislative history, U.S. Treasury Department regulations, and administrative and judicial interpretations as of the date of this Exchange Offer, all of which may change, possibly on a retroactive basis. This discussion does not discuss all of the tax consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all Eligible Optionholders. If you are a citizen or resident of, or are otherwise subject to the tax laws of, another country, the information contained in this discussion may not be applicable to you.

Stock Option Taxation

We believe the exchange of Eligible Options for New Options pursuant to the Exchange Offer should be treated as a non-taxable exchange for U.S. federal income tax purposes, accordingly, you should not recognize income upon receipt of the New Options in exchange for Eligible Options. However, the tax consequences of the Exchange Offer are not entirely certain. The Internal Revenue Service is not precluded from adopting a contrary position, and the law and regulations themselves are subject to change.

Any incentive stock options that are Eligible Options subject to the Exchange Offer that you do not tender pursuant to this Exchange Offer will be treated as having been modified and regranted if the Exchange Offer extends for 30 or more calendar days. Because the U.S. tax rules limit the amount of options that can qualify as incentive stock options, this means that some of the Eligible Options that you hold may cease to qualify as incentive stock options, even though you do not tender those options pursuant to the Exchange Offer. Any Eligible Options that cease to qualify as incentive stock options will be treated as non-qualified stock options. In addition, any Eligible Options that are deemed to be regranted and that continue to qualify as incentive stock options will have a new grant date for incentive stock option purposes, including holding period requirements.

Because the New Options issued in the Exchange Offer will be non-qualified stock options, upon exercise of the New Options, the Eligible Optionholder who participates and receives the New Options will recognize ordinary income equal to the excess, if any, of the fair market value of the purchased common shares on the exercise date over the exercise price of the New Options. Any ordinary income recognized on the exercise of the New Options will be subject to applicable income and employment tax withholding. Upon disposition of the shares resulting from the exercise of the New Options, the Eligible Optionholder will recognize a capital gain or loss (which will be long- or short-term depending on whether the shares were held for more than one year) equal to the difference between the amount realized on disposition and the sum of the amount paid for the shares plus any amount recognized as ordinary income upon acquisition of the shares. All holders of Eligible Options are urged to consult their own tax advisors regarding the tax treatment of participating in the Exchange Offer under all applicable laws.

Our grant of New Options will not result in taxable income for us. However, we will be entitled to a federal income tax deduction in the same amount and at the same time as the Eligible Optionholder recognizes ordinary income, subject to any deduction limitation under Section 162(m) of the Code as discussed below and the general rules regarding deductibility of compensation.

Section 162(m)

Section 162(m) of the Code generally disallows a federal income tax deduction to any publicly held corporation for compensation paid in excess of \$1 million in any taxable year to the chief executive officer or any of the four other most highly compensated officers (other than our chief executive officer), but does allow a deduction for “performance-based compensation.” We expect that all of our New Options when granted should qualify as performance-based compensation and should be deductible under Section 162(m).

Section 280G

Under certain circumstances, the accelerated vesting or exercise of stock options in connection with a change of control might be deemed an “excess parachute payment” for purposes of the golden parachute tax provisions of Section 280G of the Code. To the extent it is so considered, the grantee may be subject to a 20% excise tax and we may be denied a federal income tax deduction.

Tax Withholding

We will have the right to deduct or withhold, or require a participant to remit to us, an amount sufficient to satisfy local, state, and federal taxes (including employment taxes) required by law to be withheld with respect to any exercise, of a New Option and/or an Eligible Option.

Tax Advice

The preceding discussion is based on U.S. tax laws and regulations currently in effect, which are subject to change, and the discussion does not purport to be a complete description of all U.S. income tax aspects of the New Options or Eligible Options. An Eligible Optionholder may also be subject to state and local taxes in connection with the exercise of New Options or Eligible Options. We urge participants to consult with their individual tax advisors to determine the applicability of the tax rules to their particular circumstances.

ALL ELIGIBLE OPTIONHOLDERS WHO ARE CONSIDERING EXCHANGING THEIR ELIGIBLE OPTIONS SHOULD CONSULT THEIR OWN TAX ADVISORS ABOUT THE LOCAL, STATE, FEDERAL AND FOREIGN TAX CONSEQUENCES OF PARTICIPATING IN THIS EXCHANGE OFFER.

Additional Information

With respect to this Exchange Offer, we have filed with the SEC a Tender Offer Statement on Schedule TO, as it may be amended, of which this Exchange Offer is a part. This Exchange Offer does not contain all of the information contained in the Schedule TO and the exhibits to the Schedule TO. We recommend that you review the Schedule TO, including its exhibits, and the following materials that we have filed with the SEC (other than information in a report on Form 8-K that is "furnished" and not "filed" pursuant to Form 8-K, and, except as may be noted in any such Form 8-K, exhibits filed on such form that are related to such information) before deciding whether to tender your Eligible Options:

- Annual Report on Form 10-K for the year ended December 31, 2009;
- Definitive Proxy Statement on Schedule 14A filed with the SEC on April 6, 2010;
- Quarterly Reports on Form 10-Q filed with the SEC on May 7, 2010 and August 6, 2010;
- Current Reports on Form 8-K filed with the SEC on January 15, 2010, January 20, 2010, January 21, 2010, February 10, 2010, February 12, 2010, February 23, 2010, March 15, 2010, March 17, 2010, April 19, 2010, May 11, 2010, May 19, 2010, June 29, 2010, July 13, 2010, August 2, 2010; October 5, 2010 and October 22, 2010; and
- the description of our common stock contained in any registration statement on Form 8-A that we have filed, and any amendment or report filed for the purpose of updating this description.

These filings, our other annual, quarterly, and current reports, our proxy statements, and our other SEC filings may be examined, and copies may be obtained, at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at (800) SEC-0330. Our SEC filings are also available to the public on the SEC's website at www.sec.gov.

Our internet address is www.enteromedics.com and the investor relations section of our website is located at <http://ir.enteromedics.com>. We make available free of charge, on or through the investor relations section of our website, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information contained on our website is not part of this Exchange Offer.

EnteroMedics hereby undertakes to provide without charge to each person, including any beneficial owner, to whom a copy of this Exchange Offer is delivered, upon written or oral request of any such person, a copy of any and all of the information that has been or may be incorporated by reference in this Exchange Offer, other than exhibits to such documents. Requests for such copies should be sent to us at the following address:

EnteroMedics Inc.
2800 Patton Road
St. Paul, Minnesota 55113
Attention: Secretary
(651) 634-3003

The information about us contained in this Exchange Offer should be read together with the information contained in the documents to which we have referred you.

Miscellaneous

We cannot guarantee that, subsequent to the Expiration Date, the per share market price of our common stock will increase to a price that is greater than the exercise price of the New Options. We encourage you to review the section of this document entitled "Risk Factors" and the risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2009, before you decide whether to participate in this Exchange Offer.

WE HAVE NOT AUTHORIZED ANY PERSON TO MAKE ANY RECOMMENDATION ON OUR BEHALF AS TO WHETHER YOU SHOULD TENDER YOUR ELIGIBLE OPTIONS PURSUANT TO THIS EXCHANGE OFFER. YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT OR IN DOCUMENTS TO WHICH WE HAVE REFERRED YOU. WE HAVE NOT AUTHORIZED ANYONE TO GIVE YOU ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THIS EXCHANGE OFFER OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DOCUMENT OR IN THE RELATED DOCUMENTS. IF ANYONE MAKES ANY RECOMMENDATION OR REPRESENTATION TO YOU OR GIVES YOU ANY INFORMATION, YOU SHOULD NOT RELY UPON THAT RECOMMENDATION, REPRESENTATION OR INFORMATION AS HAVING BEEN AUTHORIZED BY US.

EnteroMedics Inc.
September 23, 2010, as amended October 25, 2010



Contact:
Enteromedics Inc.
Greg S. Lea
(651) 789-2860
ir@enteromedics.com

***Enteromedics Inc. Announces Adjournment of Special Stockholder Meeting until 10:00 a.m.
Central Time on October 29, 2010***

Announces Extension of the Exchange Offer to 6:00 p.m. Central Time on October 29, 2010

ST. PAUL, Minnesota, October 22, 2010 – Enteromedics Inc., (NASDAQ: ETRM), the developer of medical devices using neuroblocking technology to treat obesity and other gastrointestinal disorders, today announced that it did not reach a quorum for the special stockholder meeting on Friday, October 22, 2010 and will adjourn the meeting until 10:00 a.m. Central Time on October 29, 2010 at the Company's headquarters, 2800 Patton Road, St. Paul, Minnesota 55113. As of October 22, 2010, the quorum was at 49.33%. The Company also announced the extension of the stock option exchange offer being made to employees to 6:00 p.m. Central Time on October 29, 2010.

About Enteromedics Inc.

Enteromedics is a development stage medical device company focused on the design and development of devices that use neuroblocking technology to treat obesity and other gastrointestinal disorders. Enteromedics' proprietary neuroblocking technology, VBLOC® vagal blocking therapy, is designed to intermittently block the vagus nerves using high-frequency, low-energy, electrical impulses. These electrical impulses are delivered by a neuroregulator which is powered either by an external controller (Maestro RF System) or an integrated rechargeable battery (Enteromedics' next-generation Maestro RC System). Enteromedics is currently conducting a feasibility study examining VBLOC Therapy's effects on blood glucose levels in diabetic patients outside of the United States. For more information, [visit www.enteromedics.com](http://www.enteromedics.com).

Forward-Looking Safe Harbor Statement:

This press release contains forward-looking statements about Enteromedics Inc. Our actual results could differ materially from those discussed due to known and unknown risks, uncertainties and other factors including our limited history of operations; our losses since inception and for the foreseeable future; our lack of regulatory approval for our Maestro® System for the treatment of obesity; our preliminary findings from our EMPOWER™ pivotal trial; our ability to comply with the Nasdaq continued listing requirements; our ability to commercialize our Maestro System; our dependence on

third parties to initiate and perform our clinical trials; the need to obtain regulatory approval for any modifications to our Maestro System; physician adoption of our Maestro System and VBLOC® vagal blocking therapy; our ability to obtain third party coding, coverage or payment levels; ongoing regulatory compliance; our dependence on third party manufacturers and suppliers; the successful development of our sales and marketing capabilities; our ability to raise additional capital when needed; our ability to attract and retain management and other personnel and to manage our growth effectively; potential product liability claims; potential healthcare fraud and abuse claims; healthcare legislative reform and our ability to obtain and maintain intellectual property protection for our technology and products. These and additional risks and uncertainties are described more fully in the Company's filings with the Securities and Exchange Commission, particularly those factors identified as "risk factors" in the Company's Form 10-K dated March 29, 2010. We are providing this information as of the date of this press release and do not undertake any obligation to update any forward-looking statements contained in this document as a result of new information, future events or otherwise.

Caution-Investigational device. Limited by U.S. Federal law to investigational use.

The implantation procedure and usage of the Maestro® System carry some risks, such as the risk generally associated with laparoscopic procedures and those related to treatment as described in the EMPOWER clinical trial informed consent.

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