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

Form 10-Q

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

For the quarterly period ended March 31, 2009

Commission file number: 1-33818

ENTEROMEDICS INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

As of April 30, 2009, 30,033,295 shares of the registrant's Common Stock were outstanding.

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Registered Trademarks and Trademark Applications: In the United States we have registered trademarks for VBLOC, ENTEROMEDICS and MAESTRO each registered with the United States Patent and Trademark Office, and have received a Notice of Allowance and first extension of time to file a Statement of Use on our application to register the mark EMPOWER. In addition, the marks VBLOC, MAESTRO and ENTEROMEDICS are the subject of either a trademark registration or application for registration in Australia, China, Mexico, the European Community, Saudi Arabia, the United Arab Emirates and Switzerland. We have also taken steps to seek registration of these three marks in Brazil. This Form 10-Q contains other trade names and trademarks and service marks of EnteroMedics and of other companies.

PART I – FINANCIAL INFORMATION

ITEM 1. ***CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)***

ENTEROMEDICS INC.
(A development stage company)

Condensed Consolidated Balance Sheets

(Unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,320,199	$ 21,055,108
Short-term investments available for sale	888,156	5,239,892
Interest receivable	4,326	57,965
Other receivables	19,869	19,308
Prepaid expenses and other current assets	570,411	421,817
Total current assets	35,802,961	26,794,090
Property and equipment, net	1,175,878	1,263,903
Other assets	202,239	220,907
Total assets	$ 37,181,078	$ 28,278,900
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Current portion of notes payable	$ 4,073,771	$ 2,674,597
Accounts payable	130,944	163,377
Accrued expenses	2,213,917	2,862,102
Accrued interest payable	229,259	177,869
Total current liabilities	6,647,891	5,877,945
Notes payable, less current portion (net discounts of $1,172,188 and $1,329,592 at March 31, 2009 and December 31, 2008, respectively)	9,754,041	10,995,811
Common stock warrant liability	1,871,723	—
Total liabilities	18,273,655	16,873,756
Stockholders’ equity:		
Common stock, $0.01 par value 50,000,000 shares authorized; 30,023,295 and 16,899,935 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	300,233	168,999
Additional paid-in capital	126,726,880	112,552,256
Deferred compensation	(16,667)	(21,667)
Accumulated other comprehensive income	4,830	12,988
Deficit accumulated during development stage	(108,107,853)	(101,307,432)
Total stockholders’ equity	18,907,423	11,405,144
Total liabilities and stockholders’ equity	$ 37,181,078	$ 28,278,900

See accompanying notes to condensed consolidated financial statements.

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ENTEROMEDICS INC.
(A development stage company)

Condensed Consolidated Statements of Operations

(Unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008	Period from December 19, 2002 (inception) to March 31, 2009
Operating expenses:			
Research and development	$ 3,791,050	$ 6,182,965	$ 79,819,783
Selling, general and administrative	1,905,955	2,332,509	25,181,722
Total operating expenses	5,697,005	8,515,474	105,001,505
Other income (expense):			
Interest income	48,285	495,906	3,987,355
Interest expense	(677,462)	(446,289)	(6,154,667)
Change in value of warrant liability	(342,053)	—	(696,960)
Other, net	(1,218)	(32,244)	(111,108)
Net loss	$ (6,669,453)	$ (8,498,101)	$(107,976,885)
Net loss per share – basic and diluted	$ (0.30)	$ (0.51)	
Shares used to compute basic and diluted net loss per share	22,150,571	16,798,962	

See accompanying notes to condensed consolidated financial statements.

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ENTEROMEDICS INC.
(A development stage company)

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008	Period from December 19, 2002 (inception) to March 31, 2009
Cash flows from operating activities:			
Net loss	$ (6,669,453)	$(8,498,101)	$(107,976,885)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	102,272	126,665	1,258,228
Loss on sale of equipment	885	—	16,470
Employee stock-based compensation	554,203	722,944	4,133,402
Nonemployee stock-based compensation	6,714	(112,103)	2,994,468
Amortization of commitment fees, debt issuance costs and original issue discount	176,072	98,793	1,949,154
Amortization of short-term investment premium and discount	578	(21,342)	(308,377)
Change in carrying value of warrant liability	342,053	—	696,960
Change in operating assets and liabilities:			
Interest receivable	53,639	28,327	(4,326)
Other receivables	(561)	29,622	(19,869)
Prepaid expenses and other current assets	(148,594)	(276,144)	(570,411)
Accounts payable	23,618	191,590	140,926
Accrued expenses	(648,185)	31,428	2,213,917
Accrued interest payable	51,390	—	395,081
Net cash used in operating activities	(6,155,369)	(7,678,321)	(95,081,262)
Cash flows from investing activities:			
Purchases of short-term investments available for sale	—	—	(14,882,233)
Maturities of short-term investments available for sale	4,343,000	90,000	13,971,414
Purchases of short-term investments held to maturity	—	(1,185,837)	(22,414,130)
Maturities of short-term investments held to maturity	—	3,000,000	22,750,000
Purchases of property and equipment	(71,183)	(85,506)	(2,460,558)
Net cash provided by (used in) investing activities	4,271,817	1,818,657	(3,035,507)
Cash flows from financing activities:			
Proceeds from stock options exercised	5,965	—	145,605
Proceeds from warrants issued	819,400	—	835,057
Proceeds from warrants exercised	—	—	187,652
Proceeds from sale of common stock, net of underwriting fees of $3,074,315	—	—	40,874,977
Proceeds from sale of common stock in private placement financing	15,076,952	—	15,076,952
Common stock financing costs	(753,674)	—	(2,506,337)
Payment to shareholders for fractional shares upon reverse stock split	—	—	(355)
Proceeds from sale of Series A convertible preferred stock	—	—	1,803,348
Proceeds from sale of Series B convertible preferred stock	—	—	15,300,002
Series B convertible preferred stock financing costs	—	—	(111,079)
Proceeds from sale of Series C convertible preferred stock	—	—	40,825,003
Series C convertible preferred stock financing costs	—	—	(1,486,904)
Proceeds from convertible notes payable	—	—	6,814,846
Proceeds from notes payable	—	—	30,831,121

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	Three months ended March 31, 2009	2008	Period from December 19, 2002 (inception) to March 31, 2009
Repayments on notes payable	—	(1,402,779)	(15,831,121)
Debt issuance costs	—	—	(321,799)
Net cash provided by (used in) financing activities	15,148,643	(1,402,779)	132,436,968
Net increase (decrease) in cash and cash equivalents	13,265,091	(7,262,443)	34,320,199
Cash and cash equivalents:			
Beginning of period	21,055,108	48,732,309	—
End of period	$34,320,199	$41,469,866	$ 34,320,199
Supplemental disclosure:			
Interest paid	$ 450,000	$ 341,928	$ 3,810,431
Noncash investing and financing activities:			
Cancellation of Alpha Medical, Inc. Series A convertible preferred stock and common stock	$ —	$ —	$ (661,674)
Issuance of Beta Medical, Inc. Series A convertible preferred stock in exchange for Alpha Medical, Inc. Series A convertible preferred stock and common stock	—	—	661,674
Value of warrants issued with debt	—	—	2,365,532
Value of warrants issued for debt commitment	—	—	636,250
Value of warrants issued with Series C financing	—	—	735,438
Value of warrants issued with private placement financing	154,525	—	154,525
Conversion of notes payable to Series B convertible preferred shares	—	—	1,564,843
Conversion of interest payable to Series B convertible preferred shares	—	—	34,809
Conversion of notes payable to Series C convertible preferred shares	—	—	5,250,003
Conversion of interest payable to Series C convertible preferred shares	—	—	131,013
Options issued for deferred compensation	—	—	10,898
Common stock issued to Mayo Foundation and for deferred compensation	—	—	1,770,904
Reclassifications of stock warrant liability	1,529,670	—	2,620,015
Conversion of convertible preferred stock to common stock	—	—	103,138

See accompanying notes to condensed consolidated financial statements.

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

(1) Summary of Significant Accounting Policies

Description of Business

EnteroMedics Inc. (formerly Beta Medical, Inc.) (the Company) is developing implantable systems to treat obesity and other gastrointestinal disorders. The Company was incorporated in the state of Minnesota on December 19, 2002 and was reincorporated in Delaware on July 22, 2004. The Company is in the development stage and since inception has devoted substantially all of its resources to recruiting personnel, developing its product technology, obtaining patents to protect its intellectual property and raising capital, and has not derived revenues from its primary business activity. The Company is headquartered in St. Paul, Minnesota. In January 2006, the Company established EnteroMedics Europe Sárl, a wholly-owned subsidiary located in Switzerland.

From inception through March 31, 2009, the Company has incurred losses totaling approximately $108.0 million and has not generated positive cash flows from operations. The Company expects such losses to continue into the foreseeable future as it continues to develop and commercialize its technologies. The Company may need to obtain additional financing and there can be no assurance that the Company will be successful in obtaining additional financing on favorable terms, or at all. If adequate funds are not available, the Company may have to delay development or commercialization of products or license to third parties the rights to commercialize products or technologies that the Company would otherwise seek to commercialize.

Basis of Presentation

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

The accompanying condensed consolidated financial statements and notes thereto are unaudited. In the opinion of the Company's management, these statements include all adjustments, which are of a normal recurring nature, necessary to present a fair presentation. Interim results are not necessarily indicative of results for a full year. The condensed consolidated balance sheet as of December 31, 2008 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Principles of Consolidation

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

Use of Estimates

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

Comprehensive Loss

Comprehensive loss is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investment owners and distributions to owners. The difference from reported net loss for the quarter ended March 31, 2009 related entirely to net unrealized gains on short-term investments.

Fair Value of Financial Instruments

Carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, prepaid expenses and other current assets, accounts payable and accrued liabilities approximate fair value due to their short maturities. The fair values of investments in debt and equity securities are disclosed in Note 2. The fair value of the Company's long-term debt is approximately $14,741,000 as of March 31, 2009 based on the present value of estimated future cash flows using a discount rate commensurate with borrowing rates available to the Company.

Net Loss Per Share

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

The following table sets forth the computation of basic and diluted net loss per share for the three months ended March 31, 2009 and 2008:

	Three months ended March 31,	
	2009	**2008**
Numerator:		
Net loss	$ (6,669,453)	$ (8,498,101)
Denominator for historical and basic and diluted net loss per share:		
Weighted-average common shares outstanding	22,150,571	16,798,962
Weighted-average unvested common shares subject to repurchase	—	—
Denominator for net loss per common share—basic and diluted	22,150,571	16,798,962
Net loss per share—basic and diluted	$ (0.30)	$ (0.51)

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

	Three months ended March 31,	
	2009	**2008**
Stock options outstanding	3,303,735	3,230,734
Warrants to purchase common stock	8,939,283	683,235

Recently Issued Accounting Standards

In June 2008, the Financial Accounting Standards Board (FASB) issued Emerging Issues Task Force No. 07-5 (EITF 07-5), *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock.* EITF 07-5 requires entities to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock by assessing the instrument's contingent exercise provisions and settlement provisions. Instruments not indexed to their own stock fail to meet the scope exception of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, paragraph 11(a), and should be classified as a liability and marked-to-market. The statement is effective for fiscal years beginning after December 15, 2008 and is to be applied to outstanding instruments upon adoption with the cumulative effect of the change in accounting principle recognized as an adjustment to the opening balance of retained earnings. The Company adopted EITF 07-5 on January 1, 2009 and assessed any outstanding equity-linked financial instruments. The Company concluded that effective January 1, 2009 warrants issued November 2008 with a recorded value of $1.4 million on December 31, 2008 were to be reclassified from equity to a liability. The cumulative effect of the change in accounting principle on January 1, 2009 was a $130,968 increase to the deficit accumulated during development stage.

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 was effective for the Company starting in fiscal 2008 with respect to financial assets and liabilities. In February 2008, the FASB released FASB Staff Position FAS 157-2—*Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. The adoption of SFAS 157 on January 1, 2008 did not have a material impact on the Company's consolidated financial statements (see Note 2).

In October 2008, FASB issued FASB Staff Position FAS 157-3 (FSP 157-3), *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, which amended SFAS 157 to illustrate key considerations in determining the fair value of a financial asset in an inactive market. FSP 157-3 was effective upon issuance. Its additional guidance was incorporated into the measurements of fair value of applicable financial assets disclosed in Note 2, and did not have a material impact on the preparation of the consolidated financial statements.

In April 2009, FASB issued FASB Staff Position FAS 157-4 (FSP 157-4), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which amended SFAS 157 to define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. The Company does not expect FSP 157-4 to have a material impact on the preparation of the consolidated financial statements.

In May 2008, FASB issued Statement of Financial Accounting Standards No. 162 (SFAS 162), *The Hierarchy of Generally Accepted Accounting Principles*. This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS 162 is effective 60 days following approval by the Securities and Exchange Commission (SEC) of the Public Company Accounting Oversight Board's amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company does not expect SFAS 162 to have a material impact on the preparation of the consolidated financial statements.

There have been no other significant changes in recent accounting pronouncements during the three months ended March 31, 2009 as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

(2) Fair Value Measurement

Effective January 1, 2008, the Company adopted the fair value measurement and disclosure provisions of SFAS 157 for its financial assets as described below.

SFAS 157 defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. It also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are described below:

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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

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

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The following table sets forth by level, within the fair value hierarchy, the Company's financial assets accounted for at fair value under SFAS 157 as of March 31, 2009. As required by SFAS 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

All short-term investments at March 31, 2009 are classified as Level 2 in connection with our adoption of SFAS 157 and are as follows:

	Significant Other Observable Inputs Level 2
U.S. agency securities	$ 637,521
U.S. corporate bonds	250,635
Total	$ 888,156

The short-term investments available for sale at March 31, 2009 had contractual maturities of less than one year. The amortized cost and fair value of short-term investments available for sale, and the related gross unrealized gains and losses, were as follows at March 31, 2009:

		Gross Unrealized		
	Cost	Gains	Losses	Fair value
U.S. agency securities	$632,790	$ 4,731	$ —	$637,521
U.S. corporate bonds	250,536	99	—	250,635
Total	$883,326	$ 4,830	$ —	$888,156

(3) Commitments

Operating Lease

The Company rents its office, warehouse and laboratory facilities under an operating lease, which expires on September 30, 2015. At March 31, 2009, future minimum payments under the lease are as follows:

Years ending December 31:	
Remaining nine months in 2009	$ 177,303
2010	247,951
2011	274,564
2012	280,055
2013	285,656
2014	291,369
2015	221,788
	$1,778,686

(4) Notes Payable

On November 18, 2008 the Company entered into a Loan and Security Agreement (the Loan Agreement) with Silicon Valley Bank (SVB), Western Technology Investment (WTI) and Horizon Technology Management LLC (Horizon and, collectively with SVB and WTI, the Lenders), in an aggregate principal amount of up to $20.0 million. On November 21, 2008, SVB and WTI each funded a Term Loan in the aggregate principal amount of $10.0 million and $5.0 million, respectively. The additional $5.0 million Term Loan is to be funded by Horizon on or before June 30, 2009 at such time as the trading price of the Company’s common stock on the NASDAQ Global Market meets or exceeds a target amount specified in the Loan Agreement. See subsequent event Note 7.

Scheduled debt principal payments are as follows as of March 31, 2009:

Years Ending December 31:	
Remaining nine months in 2009	$ 2,674,597
2010	5,820,985
2011	6,504,418
	15,000,000
Less: Original issue discount	(1,172,188)
Notes payable, net	$13,827,812

(5) Stock-based Compensation

As of March 31, 2009, the Company has adopted the EnteroMedics Inc. 2003 Stock Incentive Plan (the Plan) that includes both incentive stock options and nonqualified stock options to be granted to employees, officers, consultants, independent contractors, directors and affiliates of the Company. Prior to January 1, 2006, the Company accounted for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*, and related interpretations, and followed the minimum value disclosure provisions of Statement of Financial Accounting Standards No. 123 (SFAS 123), *Accounting for Stock-Based Compensation*. Under APB 25, compensation expense is based on the difference, if any, on the date of the grant, between the fair value of the Company’s stock and the exercise price. Employee stock-based compensation determined under APB 25 is recognized over the option vesting period. Accordingly, for those grants made through December 31, 2005, we recognized compensation expense pursuant to APB 25 for stock options granted to employees with an exercise price below the estimated fair value of our common stock on the date of grant. For disclosure purposes pursuant to SFAS 123, we estimated the date of grant fair value using the minimum value option-pricing model.

Effective January 1, 2006, the Company adopted the fair value provisions of Statement of Financial Accounting Standards No. 123R (SFAS 123R), *Share-Based Payment*, which supersedes its previous accounting under APB 25. SFAS 123R requires the recognition of compensation expense, using a fair-value-based method, for costs related to all share-based payments including stock options. SFAS 123R requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The Company adopted SFAS 123R using the prospective transition method, which requires that for nonpublic entities that used the minimum value method for either pro forma or financial statement recognition purposes, SFAS 123R shall be applied to option grants or modifications to existing options after the required effective date. For options granted prior to the new SFAS 123R effective date and for which the requisite service period has not been performed as of January 1, 2006, the Company continues to apply the intrinsic value provisions of APB 25 on the remaining unvested awards. All option grants valued after January 1, 2006 are expensed on a straight-line basis over the vesting period.

The provisions of SFAS 123R are applied to all share-based payment awards issued to employees and where appropriate, nonemployees, unless another source of literature applies. When determining the measurement date of a nonemployee’s share-based payment award, the Company follows Emerging Issues Task Force Abstract No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services*, which requires measuring the stock options at fair value and remeasuring such stock options to the current fair value until the performance date has been reached.

Based on the application of these standards, stock-based compensation expense for stock-based awards under the Company's 2003 Stock Incentive Plan for the three months ended March 31, 2009 and 2008 was allocated to operating expenses as follows:

	Three months ended March 31,	
	2009	2008
Research and development	$ 155,330	$ 245,388
Selling, general and administrative	405,587	365,453
Total	$ 560,917	$ 610,841

As of March 31, 2009 there was $4,332,693 of total unrecognized compensation costs, net of estimated forfeitures, related to employee unvested stock option awards granted after January 1, 2006, which are expected to be recognized over a weighted-average period of 2.31 years.

The estimated grant-date fair values of the stock options were calculated using the Black-Scholes valuation model, based on the following assumptions for the three months ended March 31, 2009 and 2008:

	Employees Three months ended March 31,		Nonemployees Three months ended March 31,	
	2009	2008	2009	2008
Risk-free interest rates	1.90%-2.17%	3.49%-3.61%	2.68%	3.43%
Expected life	6-6.25 years	5-6.25 years	10 years	10 years
Expected dividends	0%	0%	0%	0%
Expected volatility	88.10%-88.70%	67.63%-69.25%	99.70%	75.25%

Option activity under the Company's 2003 Stock Incentive Plan for the three months ended March 31, 2009 was as follows:

	Shares Available For Grant	Outstanding Options: Number of Shares	Outstanding Options: Weighted-Average Exercise Price
Balance, December 31, 2008	851,236	2,797,178	$ 4.80
Shares reserved	—	—	—
Options granted	(569,000)	569,000	1.11
Options exercised	—	(12,967)	0.46
Options cancelled	49,476	(49,476)	—
Balance, March 31, 2009	331,712	3,303,735	$ 4.19

(6) Stock Purchase

On February 19, 2009, the Company entered into several securities purchase agreements for the sale of 13,110,393 shares of its common stock, together with warrants to purchase an aggregate of 6,555,197 shares of its common stock, in a private placement transaction with several accredited investors (the Private Placement). The purchase price per share was $1.15, which equaled the consolidated closing bid price of the Company's common stock as reported by the NASDAQ Stock Market on February 19, 2009. The warrants will be exercisable at any time and from time to time beginning on the date that is six months and one day after the closing of the Private Placement and ending four years after the closing of the Private Placement. The warrants have an exercise price of $1.38 per share, which equals 120% of the consolidated closing bid price of the Company's common stock as reported by the NASDAQ Stock Market on February 19, 2009. On February 24, 2009, the Company completed the final closing of the Private Placement receiving gross proceeds of $15.9 million, less a placement agent fee of $617,443 and certain other expenses. In addition, the placement agent received a warrant to purchase 218,242 shares of common stock in the same form as that issued to participants in the Private Placement.

(7) Subsequent Event

On November 18, 2008 the Company entered into a $20.0 million debt facility. The initial commitment under the debt facility was for $15.0 million and was funded on November 21, 2008, of which the Company received net proceeds of $7.1

million after transaction expenses, facility charges and existing debt pay off. The debt facility provided that the additional $5.0 million draw was to be available and automatically fund under the terms of the loan agreement if and when the trading price of our common stock on the NASDAQ Global Market met or exceeded a target amount on or before June 30, 2009. The Company's trading price recently achieved this target amount and therefore, on April 28, 2009, the automatic funding of the additional $5.0 million was made to the Company under the debt facility. The $5.0 million loan requires monthly interest-only payments through June 30, 2009 at an annual percentage rate of 12.0% followed by 30 equal principal and interest installments beginning July 1, 2009 at an annual percentage rate of 11.0%. A final payment fee of $250,000 is due December 1, 2011, the maturity date. In conjunction with the funding, the Company issued 296,763 common stock warrants with an exercise price of $1.668 per share and a ten year life. The warrants give the Lender the option to purchase either (i) shares of the Company's common stock with a per share exercise price equal to $1.668, or (ii) shares of the Company's stock (including common stock) issued in an equity financing that occurs after the warrant issue date and on or before May 18, 2010 at the per share price of the stock sold in the financing.

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

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

Except for the historical information contained herein, the matters discussed in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," are forward-looking statements that involve risks and uncertainties. In some cases, these statements may be identified by terminology such as "may," "will," "should," "expects," "could," "intends," "might," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue," or the negative of such terms and other comparable terminology. These statements involve known and unknown risks and uncertainties that may cause our results, level of activity, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to such differences include, among others, those discussed in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2008. Except as may be required by law, we undertake no obligation to update any forward-looking statement to reflect events after the date of this report.

Overview

We are a development stage medical device company 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. We have a limited operating history and we currently have no products approved for sale. 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. We were formerly known as Beta Medical, Inc. and were incorporated in Minnesota on December 19, 2002. We later changed our state of incorporation to Delaware on July 22, 2004. Since inception, we have devoted substantially all of our resources to the development and commercialization of our Maestro System.

Based on our understanding of vagal nerve function and nerve blocking from our preclinical studies and the results of our 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. We believe that our Maestro System will allow bariatric surgeons to help obese patients who are concerned about the risks and complications associated with gastric banding and gastric bypass surgery. We are continuing to evaluate the Maestro System in human clinical trials conducted internationally and to date the Maestro System has demonstrated a favorable safety profile. Preliminary results from a feasibility study conducted outside the U.S., indicate that the Maestro System may provide durable and ongoing weight-loss for people with obesity. As of January 12, 2009, the most recent follow-up of nine RF2 patients, among the earliest patients implanted in the VBLOC-RF2 trial, showed an excess weight loss (EWL) of 37.6% at 18 months of VBLOC therapy. At that time, the most recent results for the prior follow-up periods demonstrated an EWL of 28.1% in 17 RF2 patients at 12 months and an EWL of 17.9% in 35 RF2 patients at six months of VBLOC therapy. We have completed enrollment and implantation of subjects in our first U.S. pivotal trial, the EMPOWER trial. We plan to review the data from our EMPOWER trial to support our premarket approval (PMA) application in late 2009 and submit the application for the Maestro System shortly thereafter. We anticipate commercialization in the United States beginning in early 2011 if and when the FDA grants us approval. In addition, data from sub-group analyses demonstrate that VBLOC therapy may hold promise in improving the 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 obtained CE marking approval for sale of the Maestro System in the European Union on March 4, 2009. 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.

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 following commercialization.

To date, we have generated no revenue from the sale of products, and we have incurred net losses in each year since our inception. As of March 31, 2009, we had a deficit accumulated during the development stage of $108.0 million. We expect our losses to continue and to increase as we continue our development activities and expand our commercialization activities. We have financed our operations primarily through public and private placement of our equity securities and issuance of debt.

Financial Overview

Revenue

To date, we have not commercialized any products and we have not generated any revenue. We do not expect to generate revenue from sales in the United States until early 2011 and then, only if we receive FDA approval of our Maestro System. Any revenue from initial sales of a new product is difficult to predict and in any event will only modestly reduce our continued and increasing losses resulting from our research and development and other activities.

Research and Development Expenses

Our research and development expenses primarily consist of engineering, product development and clinical and regulatory expenses, incurred in the development of our Maestro System. Research and development expenses also include employee compensation, including stock-based compensation, consulting services, outside services, materials, supplies, depreciation and travel. We expense research and development costs as they are incurred. From inception through March 31, 2009, we have incurred a total of $79.8 million in research and development expenses.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses consist primarily of compensation for executive, finance, market development and administrative personnel, including stock-based compensation. Other significant expenses include costs associated with attending medical conferences, professional fees for legal, including legal services associated with our efforts to obtain and maintain broad protection for the intellectual property related to our products, and accounting services, cash management fees, consulting fees and travel expenses. From inception through March 31, 2009, we have incurred $25.2 million in selling, general and administrative expenses.

Results of Operations

Comparison of the Three Months Ended March 31, 2009 and 2008

Research and Development Expenses. Research and development expenses were $3.8 million for the three months ended March 31, 2009, compared to $6.2 million for the three months ended March 31, 2008. The decrease of $2.4 million, or 38.7%, is primarily due to decreases of $1.3 million, $710,000 and $157,000 in professional services, device costs and compensation expense, respectively. Professional services and device cost decreases are driven by the completion of enrollment and implants in our EMPOWER clinical study during 2008. We are currently incurring costs related to follow up visits, which are less expensive than the cost of the implantation procedure, and do not require us to incur new device costs. The reduction in compensation expense is the result of a reduction-in-force completed December 1, 2008. The reduction-in-force also resulted in a decrease of $153,000 in employee stock-based compensation expense compared to the three months ended March 31, 2008.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $1.9 million for the three months ended March 31, 2009, compared to $2.3 million for the three months ended March 31, 2008. The decrease of $427,000, or 18.3%, is primarily due to a $389,000 decrease in professional services expense. The decrease in professional services expense is made up of decreases of $130,000 in audit, tax and legal fees, $125,000 in marketing and public relations activity and $143,000 related to other general consulting services, including the conversion of consultants to employees.

Interest Income. Interest income was $48,000 for the three months ended March 31, 2009, compared to $496,000 for the three months ended March 31, 2008. The decrease of $448,000, or 90.3%, is primarily due to a decrease in the short-term interest rate environment and a decrease in the average cash, cash equivalents and short-term investment balance from $52.4 million during the three months ended March 31, 2008 to $30.8 million during the three months ended March 31, 2009. The decreased average cash, cash equivalents and short-term investments balance is the result of $32.7 million in net cash used in operating and investing activities from January 1, 2008 through March 31, 2009, offset by $15.0 million of debt funding received in November 2008, of which we received net proceeds of $7.1 million after transaction expenses, facility charges and existing debt pay off and $15.1 million of net private placement proceeds received February 24, 2009.

Interest Expense. Interest expense was $677,000 for the three months ended March 31, 2009, compared to $446,000 for the three months ended March 31, 2008. The increase of $231,000, or 51.8%, was primarily the result of entering into a $20.0 million debt facility, of which $15.0 million was funded in November 2008 that resulted in net proceeds of $7.1 million after transaction expenses, facility charges and existing debt pay off. The effective rate of the new debt facility is approximately 19% compared to the old debt facility containing several outstanding loans with effective interest rates primarily ranging from approximately 15% to 17%.

Change in Value of Warrant Liability. The change in value of warrant liability was $342,000 for the three months ended March 31, 2009, compared to zero for the three months ended March 31, 2008. This is the result of adopting EITF 07-5 on January 1, 2009, which resulted in warrants issued November 2008 with a recorded value of $1.4 million on December 31, 2008 being reclassified from equity to a liability. The fair market value of the warrants as of March 31, 2009 was $1.9 million.

Liquidity and Capital Resources

We have incurred losses since our inception in December 2002 and, as of March 31, 2009 we had a deficit accumulated during the development stage of $108.0 million. We have financed our operations to date principally through the sale of capital stock, debt financing and interest earned on investments. Prior to our IPO in November 2007, we had received net proceeds of $63.2 million from the sale of common stock and preferred stock and $30.8 million in debt financing, $746,000 to finance equipment purchases and $30.0 million to finance working capital. Through our IPO we received net proceeds of $39.1 million after expenses and underwriters' discounts and commissions and including the partial exercise of the underwriters' over-allotment option. In November 2008, we entered into a $20.0 million working capital debt facility, replacing the existing debt financing. We received net proceeds of $7.1 million from the first draw of $15.0 million after transaction expenses, facility charges and existing debt pay off. On February 24, 2009, we completed the sale of 13,110,393 shares of our common stock, together with warrants to purchase an aggregate of 6,555,197 shares of our common stock, in a private placement transaction with several accredited investors. We received gross proceeds of $15.9 million less a placement agent fee of $617,000 and certain other expenses.

As of March 31, 2009, we had $35.2 million in cash, cash equivalents and short-term investments. Of this amount $34.0 million was invested in short-term money market funds that are not considered to be bank deposits and are not insured or guaranteed by the federal deposit insurance company or other government agency. These money market funds seek to preserve the value of the investment at $1.00 per share; however, it is possible to lose money investing in these funds. Our cash and investment balances are held in a variety of interest bearing instruments, including obligations of U.S. government agencies, U.S. corporate bonds and money market funds. Cash in excess of immediate requirements is invested in accordance with our investment policy, primarily with a view to liquidity and capital preservation. At times, such deposits may be in excess of insured limits. We have not experienced any losses on our deposits of cash and cash equivalents.

The fair value of our short-term investment holdings are based on security prices from one or multiple industry established pricing sources. Examples of these pricing sources are Bloomberg, Interactive Data Corporation, Reuters, JJ Kenny, and Merrill Lynch. Each pricing source uses a different confidential method for pricing securities using various inputs, such as interest rates, known historical trades, yield curve information, benchmark data, prepayment speeds, credit quality, or broker/dealer quotes. Management regularly reviews the pricing methodology used by our third party asset managers to ensure consistency of the fair-value determination with Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*, and proper classification of the underlying assets and liabilities within that standard's fair-value hierarchy. We also review each of our short-term investment positions and assess whether there is any other-than temporary impairment as well as the reasonableness of the fair market values being reported. Based on our review of short-term investments held at March 31, 2009, there were no indicators of other-than temporary impairment present.

The remaining unpaid balance of the $15.0 million in debt financing as of March 31, 2009 is collateralized by a first security priority lien on all of our assets, excluding intellectual property. We have entered into account control agreements in order to perfect the lender's first security interest in our cash and investment accounts. In the event we have less than five remaining months of liquidity, we are required to grant a temporary lien on our intellectual property. The number of remaining months of liquidity is calculated by dividing cash and cash equivalents as of the end of any particular month by the sum of our total operating expenses for each of the immediately preceding five months. The debt financing agreement also requires us to (1) maintain a cash and cash equivalents balance that exceeds the outstanding principal balance until we receive CE Mark approval and raise aggregate net proceeds of at least $12.0 million from new capital transactions and (2) secure aggregate net proceeds of at least $20.0 million by January 9, 2010 from new capital transactions, of which $10.0 million is required by June 30, 2009. On February 24, 2009, we completed a private placement transaction with several accredited investors, receiving gross proceeds of $15.9 million less a placement agent fee of $617,000 and certain other expenses. Under the terms of our debt financing agreement, as a result of completing the private placement transaction on February 24, 2009

and obtaining CE Mark approval on March 4, 2009 our liquidity covenant has changed requiring us to maintain a cash and cash equivalents balance that exceeds our aggregate operating expenses for the most recent five calendar month period ending prior to the determination date. The date by which we are required to secure the remaining aggregate net proceeds under the capital covenant may be extended upon the achievement of certain milestones defined in the debt financing agreement. There are no additional liquidity covenants that we are required to maintain under the terms of our debt financing agreements.

Net Cash Used in Operating Activities

Net cash used in operating activities was $6.2 million and $7.7 million for the three months ended March 31, 2009 and 2008, respectively. Net cash used in operating activities primarily reflects the net loss for those periods, which was partially offset by depreciation and amortization, stock-based compensation and changes in operating assets and liabilities.

Net Cash Provided by Investing Activities

Net cash provided by investing activities was $4.3 million and $1.8 million for the three months ended March 31, 2009 and 2008, respectively. Net cash provided by investing activities is primarily related to the proceeds from the maturity of short-term investments partially offset by the purchase of short-term investments and, to a lesser extent, the purchase of property and equipment.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities was $15.1 million for the three months ended March 31, 2009 compared to net cash used in financing activities of $1.4 million for the three months ended March 31, 2008. Net cash provided by financing activities for the three months ended March 31, 2009 is primarily attributable to the completion of a private placement transaction that resulted in gross proceeds of $15.9 million for the issuance of common stock and common stock warrants, offset by $754,000 in financing costs incurred through March 31, 2009. Net cash used in financing activities for the three months ended March 31, 2008 is primarily attributable to the repayments of long-term debt.

On November 18, 2008 we entered into a $20.0 million debt facility. The initial commitment under the debt facility was for $15.0 million and was funded on November 21, 2008, of which we received net proceeds of $7.1 million after transaction expenses, facility charges and existing debt pay off. The debt facility provided that the additional $5.0 million draw was to be available and automatically fund under the terms of the loan agreement if and when the trading price of our common stock on the NASDAQ Global Market met or exceeded a target amount on or before June 30, 2009. The Company’s trading price recently achieved this target amount and therefore, on April 28, 2009, the automatic funding of the additional $5.0 million was made to the Company under the debt facility. The $5.0 million loan requires monthly interest-only payments through June 30, 2009 at an annual percentage rate of 12.0% followed by 30 equal principal and interest installments beginning July 1, 2009 at an annual percentage rate of 11.0%. A final payment fee of $250,000 is due December 1, 2011, the maturity date.

Operating Capital and Capital Expenditure Requirements

To date, we have not commercialized any products and we have not earned any operating revenues. We anticipate that we will continue to incur substantial net losses for the next several years as we develop our products, prepare for the potential commercial launch of our Maestro System, develop the corporate infrastructure required to sell our products, operate as a publicly-traded company and pursue additional applications for our technology platform.

We do not expect to generate any product revenue from sales in the United States until early 2011. We do not anticipate generating any product revenue in the United States unless and until we successfully obtain FDA approval for our Maestro System. We believe the net proceeds from our IPO in November 2007, the credit facility entered into November 2008 and the private placement closed February 24, 2009, together with our pre-existing cash, cash equivalents and short-term investment balances and interest income we earn on these balances will be sufficient to meet our anticipated cash requirements into 2010. If our available cash, cash equivalents and investment balances are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities or enter into an additional credit facility. The sale of additional equity and debt securities may result in dilution to our stockholders. If we raise additional funds through the issuance of debt securities, these securities could have rights senior to those of our common stock and could contain covenants that would restrict our operations. We may require additional capital beyond our currently forecasted amounts. Any such required additional capital may not be available on reasonable terms, if at all. If we are unable to obtain additional financing, we may be required to reduce the scope of, delay, or eliminate some or all of, our planned research, development and commercialization activities, which could materially harm our business.

Our forecast of the period of time through which our financial resources will be adequate to support our operations, the costs to complete development of products and the cost to commercialize our products are forward-looking statements and involve risks and uncertainties, and actual results could vary materially and negatively as a result of a number of factors, including the factors discussed in Part I, Item 1A, *Risk Factors*, of our Annual Report on Form 10-K for the year ended December 31, 2008. We have based these estimates on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect.

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

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

Critical Accounting Policies and Estimates

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

Our significant accounting policies are fully described in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the U.S. Securities and Exchange Commission (SEC).

Contractual Obligations

During the three months ended March 31, 2009, there were no material changes to our contractual obligation disclosures as set forth under the caption, “Contractual Obligations” in Part II, Item 7, *Management’s Discussion and Analysis of Financial Condition and Results of Operations*, of our Annual Report on Form 10-K for the year ended December 31, 2008.

The following table summarizes our contractual obligations as of March 31, 2009 and the effect those obligations are expected to have on our financial condition and liquidity position in future periods:

	Payments Due By Period				
Contractual Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Operating lease	$ 1,778,686	$ 237,187	$ 532,296	$ 568,525	$ 440,678
Long-term debt, including interest	18,468,953	5,637,686	12,831,267	—	—
Other long-term liabilities	50,000	50,000	—	—	—
Total contractual cash obligations	$ 20,297,639	$ 5,924,873	$ 13,363,563	$ 568,525	$ 440,678

The table above reflects only payment obligations that are fixed and determinable. Our operating lease commitments relate to our corporate headquarters in St. Paul, Minnesota. Other long-term liabilities consist of obligations required under the terms of our license agreements with the Mayo Foundation for Medical Education and Research (Mayo Foundation).

Off-Balance Sheet Arrangements

As of March 31, 2009, we did not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board (FASB) issued Emerging Issues Task Force No. 07-5 (EITF 07-5), *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock.* EITF 07-5 requires entities to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock by assessing the instrument's contingent exercise provisions and settlement provisions. Instruments not indexed to their own stock fail to meet the scope exception of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, paragraph 11(a), and should be classified as a liability and marked-to-market. The statement is effective for fiscal years beginning after December 15, 2008 and is to be applied to outstanding instruments upon adoption with the cumulative effect of the change in accounting principle recognized as an adjustment to the opening balance of retained earnings. We adopted EITF 07-5 on January 1, 2009 and assessed any outstanding equity-linked financial instruments. We concluded that effective January 1, 2009 warrants issued November 2008 with a recorded value of $1.4 million on December 31, 2008 were to be reclassified from equity to a liability. The cumulative effect of the change in accounting principle on January 1, 2009 was a $130,968 increase to the deficit accumulated during development stage.

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 was effective for us starting in fiscal 2008 with respect to financial assets and liabilities. In February 2008, the FASB released FASB Staff Position FAS 157-2—*Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. The adoption of SFAS 157 on January 1, 2008 did not have a material impact on our consolidated financial statements (see Note 2 to our condensed consolidated financial statements).

In October 2008, FASB issued FASB Staff Position FAS 157-3 (FSP 157-3), *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, which amended SFAS 157 to illustrate key considerations in determining the fair value of a financial asset in an inactive market. FSP 157-3 was effective upon issuance. Its additional guidance was incorporated into the measurements of fair value of applicable financial assets disclosed in Note 2 to our condensed consolidated financial statements, and did not have a material impact on the preparation of our consolidated financial statements.

In April 2009, FASB issued FASB Staff Position FAS 157-4 (FSP 157-4), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which amended SFAS 157 to define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. We do not expect FSP 157-4 to have a material impact on the preparation of our consolidated financial statements.

In May 2008, FASB issued Statement of Financial Accounting Standards No. 162 (SFAS 162), *The Hierarchy of Generally Accepted Accounting Principles*. This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS 162 is effective 60 days following approval by the SEC of the Public Company Accounting Oversight Board's amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We do not expect SFAS 162 to have a material impact on the preparation of our consolidated financial statements.

There have been no other significant changes in recent accounting pronouncements during the three months ended March 31, 2009 as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

ITEM 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Our exposure to market risk is confined to our cash, cash equivalents and short-term investments. As of March 31, 2009, we had $35.2 million in cash, cash equivalents and short-term investments. The goals of our investment policy are preservation of capital, fulfillment of liquidity needs and fiduciary control of cash and investments. We also seek to maximize income from our investments without assuming significant risk. To achieve our goals, we maintain a portfolio of cash equivalents and investments in a variety of securities of high credit quality. The securities in our investment portfolio are not leveraged, are classified as either available for sale or held-to-maturity and are, due to their very short-term nature, subject to minimal interest rate risk. We currently do not hedge interest rate exposure. Because of the short-term maturities of our cash equivalents and investments, we do not believe that an increase in market rates would have any material negative impact on the value of our investment portfolio. We have no investments denominated in foreign currencies and therefore our investments are not subject to foreign currency exchange risk.

ITEM 4T. *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), defines the term “disclosure controls and procedures” as those controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation as of March 31, 2009 our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS*

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

ITEM 1A. *RISK FACTORS*

There have been no material changes during the three months ended March 31, 2009 to the risk factors set forth in Part I, Item 1A, *Risk Factors*, of our Annual Report on Form 10-K for the year ended December 31, 2008.

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

Unregistered Sales of Equity Securities

As previously described in our Current Report on Form 8-K filed February 25, 2009, on February 19, 2009, we entered into several securities purchase agreements for the sale of 13,110,393 shares of our common stock, together with warrants to purchase an aggregate of 6,555,197 shares of our common stock, in a private placement transaction with several accredited

investors (the Private Placement). The purchase price per share was $1.15, which equaled the consolidated closing bid price of our common stock as reported by the NASDAQ Stock Market on February 19, 2009. The warrants will be exercisable at any time and from time to time beginning on the date that is six months and one day after the closing of the Private Placement and ending four years after the closing of the Private Placement. The warrants have an exercise price of $1.38 per share, which equals 120% of the consolidated closing bid price of our common stock as reported by the NASDAQ Stock Market on February 19, 2009. On February 24, 2009, we completed the final closing of the Private Placement receiving gross proceeds of $15,896,351, less a placement agent fee of $617,443 and certain other expenses. In addition, the placement agent received a warrant to purchase 218,242 shares of common stock in the same form as that issued to participants in the Private Placement.

As previously described in our Current Report on Form 8-K filed April 29, 2009, on April 28, 2009, we received an additional $5.0 million in debt funding from Horizon Technology Management LLC (Horizon) under the terms of the loan agreement entered into November 18, 2008. As part of the term loan draw, on April 28, 2009 the Company issued a warrant (the Warrant) to Horizon to purchase an aggregate number of shares equal to $495,000 divided by the exercise price of the Warrant. The Warrant gives Horizon the option to purchase either (i) shares of our common stock with a per share exercise price equal to $1.668, or (ii) shares of our stock (including common stock) issued in an equity financing that occurs after the Warrant issue date and on or before May 18, 2010 at the per share price of the stock sold in the financing. A total of 296,763 common stock warrants with an exercise price of $1.668 per share and a ten year life were issued to Horizon on April 28, 2009.

The sales and issuances of securities described in the paragraphs above were deemed to be exempt from registration under the Securities Act by virtue of Section 4(2) of the Securities Act, as transactions by an issuer not involving any public offering.

Uses of Proceeds from Sale of Registered Securities

Our initial public offering of common stock was effected through a Registration Statement on Form S-1 (File No. 333-143265), that was declared effective by the SEC on November 14, 2007. We registered 5,750,000 shares of our common stock with a proposed maximum aggregate offering price of $46.0 million, of which we sold 5,489,849 shares with gross proceeds to the Company of approximately $43.9 million. The offering was completed after the sale of the 5,489,849 shares. J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated acted as joint book-running managers of the offering and, together with Cowen and Company, LLC and Leerink Swann LLC, who acted as the managing underwriters of the offering. Of this amount, $3.1 million was paid in underwriting discounts and commissions, and an additional $1.7 million of expenses were incurred, all of which was incurred during the fiscal year ended December 31, 2007. None of the expenses were paid, directly or indirectly, to directors, officers or persons owning 10% or more of our common stock, or to our affiliates.

We currently intend to use the aggregate net proceeds of $39.1 million from our initial public offering as follows:

- approximately $20.0 million for achieving regulatory approval of our product;
- approximately $10.0 million for research and product development activities;
- approximately $5.0 million for initiating sales and marketing efforts; and
- the remainder for working capital and other general corporate purposes.

Management has broad discretion over the uses of the proceeds of the initial public offering. As of March 31, 2009, approximately $13.0 million of the aggregate net proceeds from our initial public offering remained invested in a variety of interest bearing instruments, including obligations of U.S. government agencies, corporate bonds, and money market funds or in operating cash accounts.

Purchases of Equity Securities

None.

ITEM 3. ***DEFAULTS UPON SENIOR SECURITIES***

None.

ITEM 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

None.

ITEM 5. ***OTHER INFORMATION***

On May 4, 2009, we entered into an Amended and Restated Executive Employment Agreement (the Amended Agreement) with Mark B. Knudson, Ph.D., which replaced Dr. Knudson’s Employment

Agreement with the Company dated June 22, 2005 (the Prior Agreement). The Amended Agreement has a two-year term with an automatic renewal provision for successive one-year terms and provides for a base salary of not less than $300,000 per year or such higher rate as may be approved by our board of directors. It also provides that the target amount of any cash incentive compensation under our management incentive plan in any calendar year cannot be less than 30% of Dr. Knudson’s base salary in effect from time to time. The Amended Agreement may be terminated prior to the expiration of the term by mutual written agreement of the parties, in the event of death or disability, by the Company for “Cause” (as defined in the agreement) or by Dr. Knudson for “Good Reason” (as defined in the agreement). In addition, either party may terminate Dr. Knudson’s employment at any time for any reason or no reason, including after a “Change in Control” (as defined in the agreement) with 30 days written notice.

Pursuant to the Amended Agreement if Dr. Knudson’s employment is terminated at the conclusion of the Amended Agreement’s initial term or any additional term thereof, Dr. Knudson will be entitled to (i) payment of his base salary through the date of such termination (the Separation Date) and for the 12–month period following the Separation Date, (ii) exercise all options vested as of the Separation Date for a period of five years following the Separation Date and (iii) continuing coverage to be paid by us under the Company’s medical, dental and life insurance programs for a period of up to 18 months following the Separation Date. Dr. Knudson is also entitled to severance payments for a period of 18 months and may exercise any options vested as of the Separation Date for a period of five years following the Separation Date if his employment is terminated by us “without Cause” (as defined in the agreement) or by Dr. Knudson for “Good Reason.” Further, the Amended Agreement provides for continuing coverage paid by us under the Company’s medical, dental and life insurance programs for a period of up to 18 months in the event Dr. Knudson’s employment is terminated by his death or disability, by us “without Cause” or by Executive for “Good Reason.” Such coverage may earlier terminate in the latter circumstances upon Dr. Knudson’s commencement of new employment that offers him health care coverage.

The Amended Agreement modifies the “Change in Control” provision such that upon the occurrence of a “Change in Control” and the satisfaction of certain other conditions, 100% of Dr. Knudson’s then–unvested options will immediately vest, regardless of whether Dr. Knudson’s employment is terminated in connection therewith. In addition, if Dr. Knudson’s employment is terminated by us “without Cause” or by Dr. Knudson for “Good Reason” during any two year period after a “Change in Control” and certain conditions are satisfied, we will pay Dr. Knudson the applicable 18-month severance described above and any amounts to which he is entitled as of the Separation Date as a pro rata portion of any unpaid cash incentive compensation for the calendar year in which the Separation Date occurs, and the vesting schedule of any options issued to Dr. Knudson after the Change of Control will accelerate such that on the Separation Date 100% of any unvested shares under the options will immediately vest.

In addition, the Amended Agreement includes a non-disclosure and assignment provision and non-competition, non-solicitation and no recruitment commitments each lasting for a period of one year following termination.

The foregoing summary of the Amendment is qualified in its entirety by reference to the Amended and Restated Executive Employment Agreement, which is filed as Exhibit 10.3 to this Form 10-Q and incorporated under this Item 5 by reference.

ITEM 6. ***EXHIBITS***

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

SIGNATURES

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

ENTEROMEDICS INC.

By: /s/ Mark B. Knudson, Ph.D.
Mark B. Knudson, Ph.D.
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Greg S. Lea
Greg S. Lea
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: May 7, 2009

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EXHIBIT INDEX

Exhibit Number	Description of Document
3.1	Amended and Restated Certificate of Incorporation of the Company, as currently in effect. (Incorporated herein by reference to Exhibit 3.2 to Amendment No. 6 to the Company's Registration Statement on Form S-1 filed on November 9, 2007 (File No. 333-143265)).
3.2	Amended and Restated Bylaws of the Company, as currently in effect. (Incorporated herein by reference to Exhibit 3.4 to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed on July 6, 2007 (File No. 333-143265)).
4.1	Specimen certificate for shares of common stock (Incorporated herein by reference to Exhibit 4.1 to Amendment No. 2 to the Company's Registration Statement on Form S-1 filed on August 14, 2007 (File No. 333-143265)).
4.2	Amended and Restated Investors' Rights Agreement, dated as of July 6, 2006, by and between the Company and the parties named therein. (Incorporated herein by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-1 filed on May 25, 2007 (File No. 333-143265)).
10.1	Form of Securities Purchase Agreement, dated February 19, 2009, by and between the Company and several accredited investors. (Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 25, 2009 (File No. 1-33818)).
10.2	Form of Warrant, dated February 24, 2009, by and between the Company and several accredited investors. (Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 25, 2009 (File No. 1-33818)).
10.3*†	Amended and Restated Executive Employment Agreement, dated May 4, 2009, by and between the Company and Mark B. Knudson.
10.4*†	Executive Employment Agreement, dated August 5, 2008, by and between the Company and Katherine S. Tweden.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

† Indicates management contract or compensation plan or agreement.

Exhibit 10.3

Execution Copy

AMENDED AND RESTATED
ENTEROMEDICS INC.
EXECUTIVE EMPLOYMENT AGREEMENT

THIS AGREEMENT (the “Agreement”) is made and entered on May 4, 2009 (the “Amended Agreement Date”), between ENTEROMEDICS INC. (“Company”), a Delaware corporation with its principal place of business at 2800 Patton Road, St. Paul, Minnesota 55113; and MARK B. KNUDSON (“Employee”), a Minnesota resident whose address is 1309 West Royal Oaks Drive, Shoreview, Minnesota 55126, for the purpose of setting forth the terms and conditions of Employee’s employment by Company.

BACKGROUND

A. Employment. Employee is currently employed by Company as its Chief Executive Officer and President, and Employee possesses certain skills, talents, contacts, judgment and knowledge of the business of Company. Company desires to have the continued benefit of Employee’s employment in such capacities, and Employee desires to continue to serve in such capacities, pursuant to the terms and conditions set forth in this Agreement. Employee understands that his continued employment by Company is expressly conditioned on execution of this Agreement.

B. Prior Agreement. The parties entered into a written Executive Employment Agreement dated June 22, 2005 (the “Prior Agreement”), which has remained in effect from that date until the Amended Agreement Date and is intended to be entirely superseded by this Agreement as of the Amended Agreement Date.

C. Purposes of Amendment and Restatement. Based on Employee’s successful performance of his duties for Company through the Amended Agreement Date the parties desire that the terms and conditions of his employment be improved from those set forth in the Prior Agreement.

The parties also desire to minimize Employee's risk of premature income taxation and penalties under Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), by amending certain compensation and severance provisions of the Prior Agreement in a manner set forth in this Agreement, to the extent necessary to comply with Code Section 409A and the Treasury Regulations and other applicable guidance issued under Code Section 409A.

AGREEMENT

NOW, THEREFORE, in consideration of Employee’s continued employment with Company and the facts recited above, the mutual covenants set forth below and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Company and Employee agree as follows:

ARTICLE I: EMPLOYMENT, TERM AND DUTIES

1.1 **Employment.** Company hereby employs Employee as its Chief Executive Officer and President, and Employee accepts such employment and agrees to perform services for Company pursuant to the terms and conditions set forth in this Agreement.

1.2 **Term.** The term (the "Term") of this Agreement shall commence on the Amended Agreement Date and, unless earlier terminated in accordance with Article III of this Agreement, shall terminate two years from the Amended Agreement Date; provided, however, that the Term of this Agreement shall automatically renew for successive one-year terms thereafter unless, at least 90 days before the expiration of the initial Term or any additional Term, either party provides written notice to the other of its or his desire to terminate this Agreement.

1.3 **Position and Duties**.

1.3.1 **Service with Company.** During the Term, Employee agrees to perform such duties and responsibilities as are assigned to him from time to time by Company's Board of Directors (the "Board").

1.3.2 **Performance of Duties.** During the Term, Employee agrees to serve Company in an executive capacity as its President and Chief Executive Officer, and shall perform such duties as are required by Company's Board of Directors.

ARTICLE II. COMPENSATION, BENEFITS AND EXPENSES

2.1 **Base Salary.** Subject to the provisions of Article III of this Agreement, during the Term, Company shall pay Employee a "Base Salary" not less than $300,000 per year or such higher annual rate as may from time to time be approved by the Board. Such Base Salary shall be paid in substantially equal regular periodic payments, less deductions and withholdings, in accordance with Company's regular payroll procedures, policies and practices for executive officers, as such may be modified from time to time. The Base Salary shall be reviewed by the Board annually for potential adjustment on the basis of performance; and Employee shall be eligible, at Company's sole discretion, for annual salary increases consistent with Company's procedures, policies and practices. If Employee's Base Salary is increased from time to time during the Term, the increased amount shall become the Base Salary for the remainder of the Term and any extensions of the Term and for as long thereafter as required pursuant to Article III as applicable, subject to any subsequent increases.

2.2 **Incentive Compensation.** In addition to Base Salary, Company shall make Employee eligible for such cash and equity awards pursuant to Company's Incentive Compensation Plan, if any, as may be applicable and adopted by Company. Except to the extent as otherwise provided in Article III in connection with a termination of Employee's employment, payment of incentive compensation will be subject to Employee achieving certain objectives set annually by Employee and the Compensation Committee of the Board, with the target amount of any cash incentive compensation for any calendar year to be approved by the Compensation Committee of the Board, which target in no event shall be less than 30% (subject to performance of the specified objectives) of Employee's Base Salary in effect from time to time. Employee and the Compensation Committee will meet and review the objectives set by the Compensation

Committee for each upcoming calendar year before March 31 of such year. Company shall pay any such incentive compensation earned by Employee for a calendar year on or before March 15 of the following year.

2.3 **Participation in Benefits.** During the Term of Employee's employment by Company, Employee shall be entitled to participate in the employee benefits offered generally by Company to its employees, to the extent that Employee's position, tenure, salary, health and other qualifications make Employee eligible to participate. Without limiting the foregoing, Employee shall be eligible to participate in any pension plan, or group life, health or accident insurance or any other plan or policy that may presently be in effect or that may hereafter be adopted by Company for the benefit of its employees and/or corporate officers generally. Employee is eligible to receive six weeks of vacation on an annual basis, subject to Company's "Paid Time Off" policy. Employee's participation in such benefits shall be subject to the terms of the applicable plans, as the same may be amended from time to time. Company does not guarantee the adoption or continuance of any particular employee benefit during Employee's employment; and nothing in this Agreement is intended to, or shall in any way restrict the right of Company to amend, modify or terminate any of its benefit plans during the Term of this Agreement.

ARTICLE III: TERMINATION AND COMPENSATION FOLLOWING TERMINATION

3.1 **Termination**. Subject to the respective continuing obligations of the parties under this Agreement, this Agreement and Employee's employment hereunder may be terminated as of the applicable date, whether before or at the end of the Term (the "Separation Date") under any of the following circumstances:

3.1.1 **Termination by Mutual Agreement**. By mutual written agreement of the parties at any time, which may specify a Separation Date.

3.1.2 **Termination by Employee's Death**. If Employee dies during the Term, the date of his death shall be his Separation Date.

3.1.3 **Termination Due to Employee's Disability**. If Employee becomes Disabled, the Separation Date shall be the effective date of his resignation or his discharge by the Company because of the Disability, whichever occurs first. For purposes of this Agreement, "Disabled" or "Disability" means the incapacity or inability of Employee, whether due to accident, sickness or otherwise (with the exception of the illegal use of drugs), to perform the essential functions of Employee's position under this Agreement, with or without reasonable accommodation (provided that no accommodation that imposes undue hardship on Company will be required) for an aggregate of 90 days during any period of 180 consecutive days, or such longer period as may be required under applicable law.

If Employee (or his legal representative, if applicable) does not agree with the Company's decision to terminate his employment hereunder because of Disability, the question of Employee's Disability shall be subject to the certification of a qualified medical doctor mutually agreed to by Company and Employee (or, in the event of Employee's incapacity to designate a doctor, Employee's legal representative). In the absence of such agreement, each

such party shall nominate a qualified medical doctor and the two doctors shall select a third doctor, who shall make the determination as to Employee's Disability. The decision of the designated physician shall be binding upon the parties in the same manner a the decision of an arbitrator under Section 7.5.

3.1.4 **Termination by Company for Cause**. Company may terminate this Agreement and Employee's employment for Cause at any time after providing written notice to Employee. For purposes of this Agreement, "Cause" means: (a) willful breach of Employee's duties to Company or willful breach of this Agreement; (b) Employee's conviction of any felony or any crime involving fraud, dishonesty, or moral turpitude; (c) Employee's willful participation in any fraud against or affecting Company or any subsidiary, affiliate, customer, supplier, client, agent, or employee thereof; or (d) any other act that Company reasonably determines constitutes gross or willful misconduct materially detrimental to Company including, but not limited to, unethical practices, dishonesty, disloyalty, or any other acts harmful to Company; provided, however that a for Cause termination pursuant to clause (a), if susceptible of cure, shall not become effective unless Employee fails to cure such failure to perform or breach within 30 days after his receipt of written notice from Company, such notice to describe such failure to perform or breach and identify what reasonable actions shall be required to cure such failure to perform or breach.

For purposes of this Section 3.1.4, no act, or failure to act, on Employee's part shall be considered "dishonest" or "willful" unless done, or omitted to be done, by Employee in bad faith and without reasonable belief that his action or omission was in or not opposed to, the best interest of Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or based upon the advice of counsel for Company shall be conclusively presumed to be done, or omitted to be done, by Employee in good faith and in the best interests of Company. Furthermore, the term "Cause" shall not include ordinary negligence or failure to act, whether due to an error in judgment or otherwise, if Employee has exercised substantial efforts in good faith to perform the duties reasonably assigned or appropriate to his position.

3.1.5 **Termination by Employee without Good Reason**. Employee may at any time voluntarily terminate his employment under this Agreement, for any reason or no reason, with 30 days written notice.

3.1.6 **Termination by Company without Cause**. Company may terminate Employee's employment under this Agreement at any time for any reason or no reason with 30 days written notice, except that no notice shall be required for a termination without Cause following a "Change in Control" as defined in Employee's Incentive Stock Option Agreement(s) or Non-Incentive Stock Option Agreement(s), as the case may be, with Company (collectively, the "Stock Option Agreements").

3.1.7 **Termination by Employee for Good Reason**. Employee may at any time voluntarily terminate his employment pursuant to this Agreement for Good Reason (as defined below); provided, however, that any resignation by Employee for Good Reason shall not be effective unless and until the following two conditions have been satisfied: (a) he has notified Company in writing of the facts that he believes constitute Good Reason, within 90 days after such facts first becomes known to him; and (b) Company fail to cure such Good Reason within

30 days after its receipt of that notice. Employee's resignation shall be effective before the end of that 30-day period as of any earlier date on which Company refuses to cure or denies the existence of such Good Reason. The effective date of any resignation for Good Reason shall be a Separation Date. If Company timely cures such Good Reason, or it is determined that the reason for Employee's resignation was not a Good Reason, he shall be deemed not to have resigned unless he elects to resign under Section 3.1.5.

For purposes of this Agreement, "Good Reason" means, at any time: (a) the assignment by Company to Employee of employment duties, functions or responsibilities that are significantly different from, and result in a substantial diminution of, Employee's duties, functions or responsibilities, including without limitation any requirement that Employee report to another officer of Company, rather than directly to the Board; (b) a material reduction in Employee's Base Salary or the minimum target amount provided under Section 2.2 for his cash incentive compensation for any calendar year; (c) a Company requirement that Employee be based at any office or location more than 25 miles from Employee's primary work location before the date of this Agreement; or (d) any other action or inaction that constitutes a material breach of this Agreement by Company.

3.1.8 **Termination at End of Term**. The termination of this Agreement and Employee's employment, as of the end of the initial Term or any additional Term, pursuant to the operation of the provisions of Section 1.2, shall entitle Employee only to the payments provided in Sections 3.2.1, 3.2.3 and 3.3.

3.2 **Compensation following Termination of Employment**. If Employee's employment pursuant to this Agreement is terminated before the end of the Term, or by Company as of the end of the Term, Employee shall be entitled to the following compensation and benefits upon such termination:

3.2.1 **Payment of Base of Salary**. If Employee's employment is terminated pursuant to any subsection of Section 3.1, Company shall, within 14 calendar days following the Separation Date, pay to Employee, Employee's surviving spouse (or, if none, Employee's estate), as the case may be, any amounts due to Employee for Base Salary through the Separation Date.

If a termination occurs pursuant to Section 3.1.5 (by Employee without Good Reason), when Company receives Employee's notice Company shall have the option, at its discretion (a) to continue to engage Employee's services through the 30-day notice period until the Separation Date, or (b) terminate the use of Employee's services during the 30 day notice period before the Separation Date but treat Employee as if he were providing services through the 30 day notice period until the Separation Date for purposes of determining Employee's compensation due him pursuant to this Section 3.2.1.

3.2.2 **Payment of Severance for Termination by Company without Cause or by Employee for Good Reason**. If (a) Employee's employment is terminated pursuant to either of Sections 3.1.6 (by Company without Cause) or 3.1.7 (by Employee for Good Reason), (b) Employee has executed and delivered to Company, within 60 days after the effective date of that termination, a written release in substantially the same form attached hereto as Exhibit A, and (c)

the rescission period specified therein has expired, Company shall, subject to any payment delay required by Section 3.2.6, continue to pay, as severance pay, Employee's Base Salary at the rate in effect on the Separation Date, for a period of 18 months following the Separation Date, and Employee shall be permitted to exercise all shares that are vested as of the Separation Date under his Options immediately or at any time during the five-year period (but not after the end of each Option's original term) following the Separation Date. Such payments of Base Salary will be at the usual and customary pay intervals of Company and will be subject to all appropriate deductions and withholdings. For purposes of Employee's qualification for severance pay, his right to any series of such payments due under this Agreement is treated as the right to a series of separate payments, each of which is subject to all of the requirements of this Section 3.2.2.

3.2.3 **Payment of Severance at End of Term**. If (a) Employee's employment terminates pursuant to Section 3.1.8, (b) Employee has executed and delivered to Company, within 60 days after the effective date of that termination, a written release in substantially the same form attached hereto as Exhibit A, and (c) the rescission period specified therein has expired, Company shall, subject to any payment delay required by Section 3.2.6, continue to pay, as severance pay, Employee's Base Salary at the rate in effect on the Separation Date, for a period of 12 months following the Separation Date, and Employee shall be permitted to exercise all shares vested as of the Separation Date under his Options immediately or at any time during the five-year period (but not after the end of each Option's original term) following the Separation Date.

3.2.4 **Effects of Change in Control**. Upon the occurrence of a Change in Control (as defined in Section 3.1.6), Company agrees that, notwithstanding any contrary provisions of the Stock Option Agreements or Company's Stock Incentive Plan, the vesting schedule of Employee's stock options granted in the Stock Option Agreements (the "Options") shall accelerate such that on the date the Change in Control is completed, 100% of any then-unvested shares subject to the Options held by Employee shall immediately vest; *provided*, *however*, that if, in connection with the consummation of the transaction resulting in the Change in Control, Employee receives a cash payment with respect to each Option (after they become fully vested) equal to the difference or "spread" between (a) the per share amount paid to holders of Company's common stock in such transaction and (b) the per share exercise price under the applicable Stock Option Agreement, his Options shall be cancelled upon the consummation of the Change in Control in exchange for such cash payment; *provided, further*, that if in connection with or within the first two years after the Change in Control (as defined in Section 3.1.6), Employee's employment is terminated pursuant to either of Sections 3.1.6 (by Company without Cause) or 3.1.7 (by Employee for Good Reason), and (a) Employee has executed and delivered to Company, within 60 days after the effective date of that termination, a written release in substantially the same form attached hereto as Exhibit A, and (b) the rescission period specified therein has expired, then, in addition to the payments under Section 3.2.2:

(A) within 14 calendar days following the Separation Date, the Company shall also pay to Employee, or Employee's surviving spouse (or, if none, Employee's estate), as the case may be) any amounts to which Employee is entitled as of the Separation Date, as a pro rata portion of any unpaid cash incentive compensation determined under Section 2.2 for the calendar year in which the Separation Date occurs. That pro rated cash incentive compensation shall be based on whether Employee's objectives were achieved (also pro rated to the extent possible) during the portion of the year before the Separation Date; and the pro rated amount shall be based on the number of days in that portion, as compared with the entire year; and

(B) the vesting schedule of Options held by Employee shall accelerate such that on the Separation Date connected with or after a Change in Control, 100% of any unvested shares under the Options shall immediately vest and shall be exercisable immediately or at any time during the five-year period (but not after the end of each Option's original term) following the Separation Date, notwithstanding any contrary provisions of the Stock Option Agreements or Company's Stock Incentive Plan; provided, however, that if, in connection with the consummation of the transaction resulting in the Change in Control, Employee receives a cash payment with respect to each Option (after they become fully vested under this paragraph) equal to the difference or "spread" between (a) the per share amount paid to holders of Company's common stock in such transaction and (b) the per share exercise price under the applicable Stock Option Agreement, his Options shall be cancelled upon the consummation of the Change in Control in exchange for such cash payment. The parties hereto agree and acknowledge that, with respect to any Options previously granted to Employee that were intended by the parties to be treated as "incentive stock options" within the meaning of Code Section 422, such Options, to the extent they may be exercised by Employee more than 90 days following the Separation Date, shall be treated as non-qualified Options, notwithstanding any contrary provisions of the Stock Option Agreements.

3.2.5 **General Provision Regarding Treatment of Options**. Except as otherwise specified in Sections 3.2.2 and 3.2.4 of this Agreement, the terms of the Stock Incentive Plan and the Stock Option Agreements, as applicable, shall govern the treatment of the Options following the Separation Date.

3.2.6 **Potential Delay of Severance Payments**. If, as of the Separation Date, (a) Company's common stock is publicly traded (as determined under Code Section 409A), (b) Employee is a "specified employee" (as determined under Code Section 409A), and (c) any portion of the severance pay due Employee under Sections 3.2.2, 3.2.3 (and, if applicable, paragraph (A) of Section 3.2.4) would exceed the sum of the applicable limited separation pay exclusions as determined pursuant to Code Section 409A, then payment of the excess amount shall be delayed until the first regular payroll date of Company following the six month anniversary of Employee's Separation Date (or the date of his death, if earlier than that anniversary), and shall include a lump sum equal to the aggregate amounts that Employee would have received had payment of this excess amount commenced as provided in Sections 3.2.2, 3.2.3 (and, if applicable, paragraph (A) of Section 3.2.4) after the Separation Date. If Employee continues to perform any services for Company (as an employee or otherwise) after the Separation Date, such six month period shall be measured from the date of Employee's "separation from service" as defined pursuant to Code Section 409A.

3.3 **Benefits Following Certain Employment Terminations**. If Employee's employment is terminated pursuant to any of Sections 3.1.2, 3.1.3, 3.1.6, 3.1.7 or 3.1.8, Company shall provide, at the sole cost of Company (except for any share of the cost for benefits of his spouse and eligible dependents that Employee was required to pay immediately before the Separation Date), continuing coverage under any of its medical, dental and life insurance programs for Employee (if he survives) and his spouse and any eligible dependents, to the extent any such coverage was

in effect for any of those individuals immediately before the Separation Date, during the greater of the following periods: (a) if applicable, the period during which he is entitled to receive his Base Salary as severance pay under Section 3.2.2 or 3.2.3; or (b) the first 18 months after the Separation Date, irrespective of any then pre-existing health conditions of Employee, his spouse or any eligible dependents; provided, however, that Company may discontinue any such coverage for which it does not receive timely payment of Employee's share of the cost due after the Separation Date; and provided further that, in each case, such continued participation is not prohibited by any applicable laws or would not otherwise jeopardize the tax qualified status of any such programs. All reimbursement under this Section 3.3 shall terminate upon commencement of new employment by Employee with an employer that offers health care coverage to its employees. If any such continuing participation is prohibited by applicable law or would otherwise jeopardize the tax qualified status of any medical, dental or life insurance plan and, as a result, Company terminates any such coverage, it shall promptly reimburse Employee (or Employee's spouse and eligible dependents, as the case may be) for the cost of obtaining comparable third party coverage irrespective of any then preexisting health conditions of any of them who was covered immediately before the Separation Date. Any period of continuing coverage under this Section 3.3 shall run at the same time as the applicable continuing coverage required to be offered to Employee, his spouse or eligible dependents under applicable laws; and each of them who has a right to continuing coverage under any such law shall be deemed to have timely elected continuing coverage under such law, to the extent that Company is required to provide continuing coverage under this paragraph.

Except as otherwise provided in this Section 3.3, the benefits to which Employee (or, as applicable, Employee's spouse, eligible dependents or estate) may be entitled upon termination of his employment, pursuant to the plans and policies of Company described in Article II of this Agreement, shall be determined and paid in accordance with such plans, policies and applicable laws.

3.4 **Surrender of Records and Property**. Upon termination of Employee's employment with Company, Employee shall deliver promptly to Company all Confidential Information as defined in Section 4.1 and all Company property including, but not necessarily limited to records, manuals, books, blank forms, documents, letters, memoranda, business plans, minutes, notes, notebooks, reports, computer disks, computer software, computer programs (including source code, object code, on-line files, documentation, testing materials and plans and reports), computer print-outs, member or customer lists, credit cards, keys, identification, products, access cards, designs, drawings, sketches, devices, specifications, formulae, data, tables or calculations or copies thereof, and all other tangible or intangible property relating in any way to the business of Company that are the property of Company or any subsidiary or affiliate, if any, or which relate in any way to the business, products, practices or techniques of Company or any subsidiary or affiliate.

ARTICLE IV. CONFIDENTIAL INFORMATION

4.1 **Definition**. For purposes of this Agreement, "Confidential Information" means any information that is not generally known to the public or to other persons who can obtain economic value from its disclosure or use; information which derives independent economic benefit from not being known to such persons; and information about the activities or business of

Company that is not generally known to others engaged in similar business or activities, its products, services, finances, trade secrets, contracts, patents filed or pending, the techniques used in completing customer projects, research and development, data and information, processes, designs, engineering, marketing plans or techniques, organization or operation. The foregoing list is intended to be illustrative rather than comprehensive. Additionally, the term “confidential information” shall mean any confidential information as that term is defined in any agreement Company may have with its customers or other third parties from time to time.

4.2 **Nondisclosure**. During the term of this Agreement or at any time thereafter, Employee agrees not to disclose Confidential information to any other third party or company, other than in connection with Employee’s employment with Company, or use such information, directly or indirectly, for any purpose whatsoever, without the prior written consent of Company.

ARTICLE V. INVENTIONS

5.1 **Disclosure and Assignment of Inventions and Other Works**. During the term of this Agreement and for one year following the Separation Date, Employee shall promptly disclose to Company in writing all ideas, improvements and discoveries, whether or not such are patentable or copyrightable, and whether or not in writing or reduced to practice (“Inventions”) and any writings, drawings, diagrams, charts, tables, databases, software (in object or source code and recorded on any medium), and any other works of authorship, whether or not such are copyrightable (“Works of Authorship”) that are conceived, made, discovered, written or created by Employee alone or jointly with any person, group or entity, whether during the normal hours of his employment at Company or on Employee’s own time. Employee hereby assigns all rights to all such Inventions and Works of Authorship to Company. Employee shall give Company all the assistance it reasonably requires for Company to perfect, protect, and use its rights to such Inventions and Works of Authorship. Employee shall sign all such documents, take all such actions and supply all such information that Company considers necessary or desirable to transfer or record the transfer of Company’s entire right, title and interest in such Inventions and Works of Authorship and to enable Company to obtain exclusive patent, copyright, or other legal protection for Inventions and Works of Authorship anywhere in the world, provided Company shall bear all reasonable expenses of Employee in rendering such cooperation.

5.2 **Notice and Acknowledgement**. In accordance with Minnesota Statute § 181.78, the foregoing Section 5.1 does not require Employee to assign or offer to assign to Company any of Employee’s rights in an Invention that Employee developed entirely on Employee’s own time without using Company’s equipment, supplies, facilities or trade secret information, and (a) that does not relate directly to Company’s business or to Company’s actual or demonstrably anticipated research or development, or (b) that does not result from any work performed by Employee for Company. For the purpose of this Section, “Company’s business” shall be defined as development pertaining to implantable medical devices to treat obesity or devices to apply signals to a vagus nerve to treat a gastrointestinal disorder (e.g., obesity, pancreatitis or irritable bowel syndrome).

To the extent a provision in this Agreement purports to require Employee to assign Inventions otherwise excluded by this paragraph, the provision is against the public policy of the State of Minnesota and is unenforceable. By signing this Agreement, Employee acknowledges receipt of the notification required by Minnesota Statute § 181.78.

ARTICLE VI. NONCOMPETITION AND NONSOLICITATION

6.1 **Agreement Not to Compete**. During the Term of Employee's employment by Company, and for a period of 12 consecutive months from the date of termination of such employment for whatever reason (whether occasioned by Employee or Company), Employee shall not, directly or indirectly, in any place in the world, render services to any conflicting organization, or engage in competition with Company, in any manner or capacity, nor direct any other individual or business enterprise to engage in competition with Company in any manner or capacity, (*e.g.*, as an advisor, principal, agent, partner, officer, director, stockholder of more than 1% of the outstanding shares of the capital stock of a publicly traded company, employee, member of any association or limited liability company or otherwise) on any products competitive with Company's existing products, any products competitive with Company's announced products or any products competitive with Company's pending products that have not yet been announced but which Employee has, or should have, actual or constructive knowledge. For the purposes of this Section, "conflicting organization" shall be defined as any person, corporation or entity that competes with any product, process or service, in existence or under development, of Company pertaining to implantable medical devices to treat obesity or devices to apply signals to a vagus nerve to treat a gastrointestinal disorder (*e.g.*, obesity, pancreatitis or irritable bowel syndrome).

6.2 **Agreement Not to Solicit**. Employee hereby acknowledges that Company's customers constitute vital and valuable aspects of its business on a worldwide basis. In recognition of that fact, for a period of one year following the termination of this Agreement for any reason whatsoever, Employee shall not solicit, or assist anyone else in the solicitation of, any of Company's then-current customers to terminate their respective relationships with Company and to become customers of any enterprise with which Employee may then be associated, affiliated or connected.

6.3 **Agreement Not to Recruit**. Employee hereby acknowledges that Company's employees, consultants and other contractors constitute vital and valuable aspects of its business and missions on a worldwide basis. In recognition of that fact, for a period of one year following the termination of this Agreement for any reason whatsoever, Employee shall not solicit, or assist anyone else in the solicitation of, any of Company's then-current employees, consultants and other contractors to terminate their respective relationships with Company and to become employees, consultants and other contractors of any enterprise with which Employee may then be associated, affiliated or connected.

ARTICLE VII: MISCELLANEOUS PROVISIONS

7.1 **Company Remedies**. Employee acknowledges and agrees that the restrictions and agreements contained in this Agreement are reasonable and necessary to protect the legitimate interests of Company, that the services to be rendered by Employee are of a special, unique and extraordinary character, that it would be difficult to replace such services and that any violation of Articles IV, V or VI of this Agreement would be highly injurious to Company, that

Employee's violation of any of Articles IV, V or VI of this Agreement would cause Company irreparable harm that would not be adequately compensated by monetary damages and that the remedy at law for any breach of any of the provisions of Articles IV, V and VI will be inadequate. Accordingly, Employee specifically agrees that Company shall be entitled, in addition to any remedy at law, to preliminary and permanent injunctive relief and specific performance for any actual or threatened violation of this Agreement and to enforce the provisions of Articles IV, V and VI of this Agreement.

7.2 **Assignment**. This Agreement shall not be assignable, in whole or in part, by Employee without the written consent of Company and any purported or attempted assignment or transfer of this Agreement or any of Employee's duties, responsibilities or obligations hereunder shall be void. This Agreement shall inure to the benefit of and be binding upon Employee, Employee's heirs and personal representatives. This Agreement shall inure to the benefit of and be binding upon Company and its successors and assigns. Notwithstanding the foregoing, Company may not, without the written consent of Employee, assign its rights and obligations under this Agreement to any business entity that has become the successor to Company in the event of a sale, merger, liquidation or similar transaction. After any such assignment by Company to which Employee has given such consent, Company shall be discharged from all further liability hereunder and such successor assignee shall thereafter be deemed to be Company for the purposes of all provisions of this Agreement.

7.3 **Notices**. All notices, requests, demands and other communications under this Agreement shall be in writing, shall be deemed to have been duly given on the date of service if personally served on the parties to whom notice is to be given, or on the third day after mailing if mailed to the parties to whom notice is given, whether by first class, registered, or certified mail, and properly addressed as follows:

If to Company, at: EnteroMedics Inc.
2800 Patton Road
St. Paul, MN 55113

If to Employee, at: Mark Knudson
1309 West Royal Oaks Drive
Shoreview, Minnesota 55126

Any party may change the address for the purpose of this Section by giving the other written notice of the new address in the manner set forth above.

7.4 **Governing Law**. The validity, interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Minnesota, without regard to conflicts of laws principles thereof.

7.5 **Arbitration**. The parties irrevocably consent that, except to the extent provided in the following sentence, any litigation or other dispute arising between the parties, in connection with the interpretation or enforcement of this Agreement, that has not been settled through negotiation within a period of 30 days after the date on which either party shall first have notified the other party in writing of the existence of the dispute, shall be settled by final and binding arbitration

under the then-applicable Commercial Arbitration Rules of the American Arbitration Association ("AAA"); and a court judgment on the award may be entered in any court having competent jurisdiction. Notwithstanding the foregoing, neither party shall be entitled or required to seek arbitration regarding any cause of action that would entitle such party to injunctive relief.

Any such arbitration shall be conducted by one neutral arbitrator appointed by mutual agreement of the parties or, failing such agreement, in accordance with the AAA Rules. The arbitrator shall be an experienced attorney with a background in employment law. Any arbitration shall be conducted in Minneapolis, Minnesota. An arbitration award may be enforced in any court of competent jurisdiction. Notwithstanding any contrary provision in the AAA Rules, the following additional procedures and rules shall apply to any such arbitration:

(a) Each party shall have the right to request from the arbitrator, and the arbitrator shall order upon good cause shown, reasonable and limited pre-hearing discovery, including (i) exchange of witness lists, (ii) depositions under oath of named witnesses at a mutually convenient location, (iii) written interrogatories, and (iv) document requests;

(b) Upon conclusion of the pre-hearing discovery, the arbitrator shall promptly hold a hearing upon the evidence to be adduced by the parties and shall promptly render a written opinion and award;

(c) The arbitrator may award damages consistent with the terms of this Agreement but may not award or assess punitive damages against either party; and

(d) Each party shall bear 50% of the fees and costs of the arbitrator, subject to the power of the arbitrator, in his or her sole discretion, to award all such fees and costs to the prevailing party.

7.6 **Construction**. Notwithstanding the general rules of construction, both Company and Employee acknowledge that both parties were given an equal opportunity to negotiate the terms and conditions contained in this Agreement, and agree that the identity of the drafter of this Agreement is not relevant to any interpretation of the terms and conditions of this Agreement.

To the extent any provision of this Agreement may be deemed to provide a benefit to Employee that is treated as non-qualified deferred compensation pursuant to Code Section 409A, such provision shall be interpreted in a manner that qualifies for any applicable exemption from compliance with Code Section 409 or, if such interpretation would cause any reduction of benefit(s), such provision shall be interpreted (if reasonably possible) in a manner that complies with Code Section 409A and does not cause any such reduction.

7.7 **Severability**. In the event any provision of this Agreement (or portion thereof) shall be held illegal or invalid for any reason, said illegality or invalidity shall not in any way affect the legality or validity of any other provision of this Agreement. To the extent any provision (or portion thereof) of this Agreement shall be determined to be invalid or unenforceable in any jurisdiction, such provision (or portion thereof) shall be deemed to be deleted from this Agreement as to such jurisdiction only, and the validity and enforceability of the remainder of such provision and of this Agreement shall be unaffected.

7.8 **Entire Agreement**. Except for Employee’s Stock Option Agreements, this Agreement is the final, complete and exclusive agreement of the parties and sets forth the entire agreement between Company and Employee with respect to Employee’s employment by Company, and there are no undertakings, covenants or commitments other than as set forth herein. The Agreement may not be altered or amended, except by a writing executed by Employee and a member of the Board. This Agreement supersedes, terminates, replaces and supplants the Prior Agreement any and all other prior understandings or agreements between the parties relating in any way to the hiring or employment of Employee by Company.

7.9 **Survival**. The parties expressly acknowledge and agree that the provisions of this Agreement that by their express or implied terms extend beyond the expiration of this Agreement or the termination of Employee’s employment under this Agreement, shall continue in full force and effect, notwithstanding Employee’s termination of employment under this Agreement or the expiration of this Agreement.

7.10 **Waivers**. No failure on the part of either party to exercise, and no delay in exercising, any right or remedy under this Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any right or remedy under this Agreement preclude any other or further exercise thereof or the exercise of any other right or remedy granted hereby or by any related document or by law.

7.11 **Attorneys’ Fees for Negotiating Agreement**. Upon receipt by Company of a statement for legal services from the attorneys representing Employee, Company shall reimburse Employee or pay on behalf of Employee the reasonable and necessary attorneys’ fees and associated expenses incurred by Employee in connection with the negotiation of this Agreement, provided, that such fees and expenses shall not exceed $5,000.00.

7.12 **Attorneys’ Fees for Resolving Disputes**. If any party to this Agreement is made or shall become a party to any litigation (including arbitration) commenced by or against the other party involving the enforcement of any of the rights or remedies of such party, or arising on account of a default of the other party in its performance of any of the other party's obligations hereunder, then the prevailing party in such litigation shall be entitled to receive from the other party all costs incurred by the prevailing party in such litigation, plus reasonable attorneys' fees to be fixed by the court or arbitrator (as applicable), with interest thereon from the date of judgment or arbitrator's decision at the rate of 8% or, if less, the maximum rate permitted by law.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

ENTEROMEDICS INC.

By /s/ Greg S. Lea
Its: Chief Financial Officer

/s/ Mark B. Knudson
Mark B. Knudson

The undersigned member of the Compensation Committee of the Board hereby certifies that this Agreement has been duly approved by resolutions of that Committee.

/s/ Nicholas Teti, Jr.

Printed Name: Nicholas Teti, Jr.

EXHIBIT A

GENERAL RELEASE

This General Release is made and entered into as of the day of , by Employee (“Employee”).

WHEREAS, EnteroMedics Inc. (“Company”) and Employee are parties to an Amended and Restated Employment Agreement dated __________, 2009;

WHEREAS, Employee intends to settle any and all claims that Employee has or may have against Company as a result of Employee’s employment with Company and the cessation of Employee’s employment with Company; and

WHEREAS, Under the terms of the Employment Agreement, which Employee agrees are fair and reasonable, Employee agreed to enter into this General Release as a condition precedent to the severance arrangements described in Article III of the Employment Agreement.

NOW, THEREFORE, in consideration of the provisions and the mutual covenants herein contained, the parties agree as follows:

1. **Release**. For the consideration expressed in the Employment Agreement, Employee does hereby fully and completely release and waive any and all claims, complaints, causes of action, demands, suits and damages, of any kind or character, which Employee has or may have against the Released Parties, as hereinafter defined, arising out of any acts, omissions, conduct, decisions, behavior or events occurring up through the date of Employee’s signature on this General Release, including Employee’s employment with Company and the cessation of that employment. For purposes of this General Release, “Released Parties” means collectively Company, its predecessors, successors, assigns, parents, affiliates, subsidiaries, related companies, officers, directors, shareholders, agents, servants, employees and insurers, and each and all thereof.

Employee understands and accepts that Employee’s release of claims includes any and all possible discrimination claims, including, but not limited to, claims based upon: Title VII of the Federal Civil Rights Act of 1964, as amended; the Age Discrimination in Employment Act; the Americans with Disabilities Act; the Equal Pay Act; the Fair Labor Standards Act; the Employee Retirement Income Security Act; the Minnesota Human Rights Act; Minn. Stat. §181.81; or any other federal, state or local statute, ordinance or law. Employee also understands that Employee is giving up all other claims, including those grounded in contract or tort theories, including, but not limited to: wrongful discharge; violation of Minn. Stat. §176.82; breach of contract; tortious interference with contractual relations; promissory estoppel; breach of the implied covenant of good faith and fair dealing; breach of express or implied promise; breach of manuals or other policies; assault; battery; fraud; false imprisonment; invasion of privacy; intentional or negligent misrepresentation; defamation, including libel, slander, discharge defamation and self-publication defamation; discharge in violation of public policy; whistleblower; intentional or negligent infliction of emotional distress; or any other theory, whether legal or equitable.

Employee further understands that Employee is releasing, and does hereby release, any claims for damages, by charge or otherwise, whether brought by Employee or on Employee's behalf by any other party, governmental or otherwise, and agrees not to institute any claims for damages via administrative or legal proceedings against any of the Released Parties. Employee also waives and releases any and all rights to money damages or other legal relief awarded by any governmental agency related to any charge or other claim against any of the Released Parties.

This General Release does not apply to any post-termination claim that Employee may have for benefits under the provisions of any employee benefit plan maintained by Company.

Employee's release of claims shall not apply to any claims Employee might have to indemnification under Minnesota Statute §302A.521, any other applicable statute or regulation or Company's by-laws.

2. **Rescission**. Employee has been informed of Employee's right to rescind this General Release by written notice to Company within 15 calendar days after the execution of this General Release. Employee has been informed and understands that any such rescission must be in writing and delivered to Company by hand or sent by mail within the 15-day time period. If delivered by mail, the rescission must be: (1) postmarked within the applicable period and (2) sent by certified mail, return receipt requested.

Employee understands that Company will have no obligations under the Employment Agreement in the event a notice of rescission by Employee is timely delivered, and, in the event Employee rescinds this General Release, Employee agrees to repay to Company any payments made to Employee or benefits conferred upon him pursuant to Article III of the Employment Agreement before the date of rescission.

3. **Acceptance Period; Advice of Counsel**. The terms of this General Release will be open for acceptance by Employee for a period of 21 days during which time Employee may consider whether or not to accept this General Release. Employee agrees that changes to this General Release, whether material or immaterial, will not restart this acceptance period. Employee is hereby advised to seek the advice of an attorney regarding this General Release.

4. **Binding Agreement**. This General Release shall be binding upon, and inure to the benefit of, Employee and Company and their respective successors and permitted assigns.

5. **Representation**. Employee hereby acknowledges and states that Employee has read this General Release. Employee further represents that this General Release is written in language that is understandable to Employee, that Employee fully appreciates the meaning of its terms, and that Employee enters into this General Release freely and voluntarily.

IN WITNESS WHEREOF, Employee, after due consideration, has authorized, executed and delivered this General Release all as of the date first written.

____
Employee

ENTEROMEDICS INC.
EXECUTIVE EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is made and entered on August 5, 2008 ("Agreement Date") between EnteroMedics Inc. (the "Company"), a Delaware corporation with its principal place of business at 2800 Patton Road, St. Paul, Minnesota 55113, and Katherine Tweden ("Employee"), a Minnesota resident, whose address is 1175 Ashley Lane, Mahtomedi, Minnesota 55115, for the purpose of setting forth the terms and conditions of Employee's employment by the Company.

RECITALS

WHEREAS, Employee is currently employed by the Company as its Vice President of Research;

WHEREAS, the Company desires to have the continued benefit of Employee's employment in such capacity, and Employee desires to continue to serve in such capacity, pursuant to the terms and conditions set forth in this Agreement; and

WHEREAS, Employee understands that such continued employment is expressly conditioned on execution of this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of Employee's continued employment with the Company and the facts recited above, the mutual covenants set forth below and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and Employee agree as follows:

ARTICLE I: EMPLOYMENT, TERM, AND DUTIES

1.1 **Employment**. The Company hereby employs Employee as Vice President of Research, and Employee accepts such employment and agrees to perform services for the Company pursuant to the terms and conditions set forth in this Agreement.

1.2 **Term**. The term (the "Term") of this Agreement shall commence on the Agreement Date and, unless earlier terminated in accordance with Article III of this Agreement, shall terminate one year from the Agreement Date; provided, however, the Term of this Agreement shall automatically renew for successive one year terms thereafter unless at least ninety (90) days before the expiration of the initial Term or any additional Term, either party provides written notice to the other of its or his desire to terminate this Agreement.

1.3 **Position and Duties**.

1.3.1 **Service with the Company**. During the Term, Employee agrees to serve as Vice President of Research, and to perform such duties and responsibilities as Employee's then immediate supervisor shall assign to Employee from time to time.

1.3.2 **Performance of Duties**. Employee agrees to serve the Company faithfully and to the best of Employee's ability and to devote Employee's full time, attention and efforts to the business and affairs of the Company during the term of Employee's employment. Employee hereby confirms that Employee is under no contractual commitments inconsistent with Employee's obligations set forth in this Agreement and that, during the term of this Agreement, Employee will not render or perform any services for any other corporation, firm, entity or person which are inconsistent with the provisions of this Agreement or which would otherwise impair Employee's ability to perform Employee's duties hereunder.

ARTICLE II. COMPENSATION, BENEFITS AND EXPENSES

2.1 **Base Salary**. Subject to the provisions of Article III of this Agreement, during the Term, the Company shall pay Employee a base salary not less than $218,000 per year or such higher annual rate as may from time to time be approved by the Compensation Committee (the "Compensation Committee") of the Board of Directors of the Company (the "Base Salary"). Such Base Salary shall be paid in substantially equal regular periodic payments, less deductions and withholdings, in accordance with the Company's regular payroll procedures, policies and practices, as such may be modified from time to time. The Base Salary shall be reviewed by the Compensation Committee annually for potential adjustment on the basis of performance and Employee shall be eligible, at the Compensation Committee's sole discretion, for annual salary increases consistent with the Company's procedures, policies and practices. If Employee's Base Salary is modified from time to time during the Term, the modified amount shall become the Base Salary for the remainder of the Term and any extensions of the Term and for as long thereafter as required pursuant to Article III as applicable, subject to any subsequent modifications.

2.2 **Incentive Compensation**. In addition to Base Salary, during the Term the Company shall make Employee eligible for such cash and equity awards pursuant to the Company's Management Incentive Compensation Plan, if any, as may be applicable and adopted by the Company. Payment of incentive compensation will be subject to Employee achieving certain objectives set annually by the CEO and the Compensation Committee, with the target amount of any cash incentive compensation for any calendar year to be approved by the Compensation Committee, which target shall not be less than 24% of Employee's Base Salary in effect from time to time; provided, the actual cash incentive compensation that is awarded, if any, will be less than such target amount if the applicable objectives are not fully achieved. The Compensation Committee will meet and review the objectives applicable to Employee for the upcoming calendar year prior to March 31st of each year.

2.3 **Participation in Benefits**. During the Term, Employee shall be entitled to participate in the employee benefits offered generally by the Company to its employees, to the extent that Employee's position, tenure, salary, health and other qualifications make Employee eligible to participate. Without limiting the foregoing, Employee shall be eligible to participate in any pension plan, or group life, health or accident insurance or any such other plan or policy that may presently be in effect or that may hereafter be adopted by the Company for the benefit of its employees and corporate officers generally. Employee is eligible to receive five (5) weeks of Paid Time Off ("PTO") on an annual basis subject to the Company's PTO policy. PTO includes all forms of personal leave including vacation and sick leave. Employee's participation in such

benefits shall be subject to the terms of the applicable plans, as the same may be amended from time to time. The Company does not guarantee the adoption or continuance of any particular employee benefit during Employee's employment, and nothing in this Agreement is intended to, or shall in any way restrict the right of the Company, to amend, modify or terminate any of its benefits during the Term of this Agreement.

ARTICLE III: TERMINATION AND COMPENSATION FOLLOWING TERMINATION

3.1 **Termination**. Subject to the respective continuing obligations of the parties under this Agreement, this Agreement and Employee's employment hereunder may be terminated prior to the end of the Term (the "Separation Date") under the following circumstances:

3.1.1 **Termination by Mutual Agreement**. This Agreement may be terminated by mutual written agreement of the parties at any time, in which case the parties may specify a Separation Date.

3.1.2 **Termination by Employee's Death**. This Agreement shall terminate automatically in the event of Employee's death, in which case the date of death shall constitute the Separation Date.

3.1.3 **Termination by Employee's Disability**. If Employee becomes Disabled, the Separation Date shall be the effective date of his resignation or his discharge by the Company because of the Disability, whichever occurs first. For purposes of this Agreement, "Disabled" or "Disability" means the incapacity or inability of Employee due to a physical or mental condition, whether due to accident, sickness or otherwise, to perform the essential functions of Employee's position under this Agreement, with or without reasonable accommodation (provided that no accommodation that imposes undue hardship on the Company will be required) for an aggregate of ninety (90) days during any period of one hundred eighty (180) consecutive days, or such longer period as may be required under applicable law.

3.1.4 **Termination by the Company For Cause**. The Company may terminate this Agreement and Employee's employment for Cause at any time after providing written notice to Employee. For purposes of this Agreement, "Cause" means: (a) failure to perform or breach of Employee's duties to the Company or breach of this Agreement; (b) conviction of any felony or any crime involving fraud, dishonesty, or moral turpitude; (c) participation in any fraud against or affecting the Company or any subsidiary, affiliate, customer, supplier, client, agent, or employee thereof; or (d) any other act Company determines constitutes misconduct detrimental to the Company including, but not limited to, unethical practices, dishonesty, disloyalty, or any other acts harmful to the Company (including failure or refusal to comply with reasonable written policies, standards and regulations established by the Company from time to time which failure, if curable in the discretion of the Company's Board of Directors, is not cured to the reasonable satisfaction of the Company's Board of Directors during the ten (10) day period following written notice of such failure from the Company); provided, however that a for Cause termination pursuant to clause (a), if susceptible of cure, shall not become effective unless Employee fails to cure such failure to perform or breach within fifteen (15) days after his receipt of written notice from the Company, such notice to describe such failure to perform or breach and identify what reasonable actions shall be required to cure such failure to perform or breach

3.1.5 **Termination by Employee without Good Reason**. Employee may voluntarily terminate Employee's employment under this Agreement at any time for any reason or no reason with thirty (30) days written notice.

3.1.6 **Termination by the Company without Cause**. The Company may terminate Employee's employment under this Agreement at any time prior to the expiration of the Term for any reason, and without notice, including, without limitation, following a "Change in Control" as defined in Employee's Incentive Stock Option Agreement or Non-Qualified Stock Option Agreement, if any, as the case may be.

3.1.7 **Termination by Employee For Good Reason**. Employee may terminate Employee's employment pursuant to this Agreement for Good Reason; provided, however, that any resignation by Employee for Good Reason shall not be effective unless and until the following two conditions have been satisfied: (a) he has notified the Company in writing of the facts that he believes constitute Good Reason, within 90 days after such facts first become known to him; and (b) the Company fails to cure such Good Reason within 30 days after its receipt of that notice. If the Company timely cures such Good Reason, or it is determined that the reason for the Employee's resignation was not a Good Reason, he shall be deemed not to have resigned unless he elects to resign under Section 3.1.5. For purposes of this Agreement, "Good Reason" means: at any time, (i) the assignment by the Company to Employee of employment duties, functions or responsibilities that are significantly different from, and result in a substantial diminution of, Employee's duties, functions or responsibilities; or (ii) a requirement that Employee be based at any office or location more than 25 miles from Employee's primary work location prior to the date of this Agreement without Employee's written consent.

3.2 **Compensation Following Termination Prior to End of the Term**. In the event that Employee's employment pursuant to this Agreement is terminated prior to the end of the Term, Employee shall be entitled to the following compensation and benefits upon such termination:

3.2.1 **Payment of Base of Salary**. If Employee's employment is terminated pursuant to any subsection of Section 3.1 of this Agreement, the Company shall, within 14 calendar days following the Separation Date, pay to Employee, Employee's surviving spouse (or, if none, Employee's estate), as the case may be, any amounts due to Employee for Base Salary through the Separation Date.

In the event of a termination pursuant to Section 3.1.5 (by Employee without Good Reason), upon receiving Employee's notice, the Company shall have the option, at its discretion (a) to continue to engage Employee's services through the 30 day notice period until the Separation Date, or (b) terminate the use of Employee's services during the 30 day notice period prior to the Separation Date but treat Employee as if he were providing services through the 30 day notice period until the Separation Date for purposes of determining Employee's compensation due him pursuant to this Section 3.2.1.

3.2.2 **Payment of Incentive Compensation**. In the event that Employee's employment is terminated prior to the expiration of the Term pursuant to Sections 3.1.1; 3.1.2; 3.1.3; 3.1.6; or 3.1.7 of this Agreement, the Company shall, within 14 calendar days following the Separation Date, also pay to Employee or Employee's serving spouse (or, if none, Employee's estate) as the case may be, amounts to which Employee is entitled as of the Separation Date, as a pro rata portion of any unpaid cash incentive compensation determined under Section 2.2 for the calendar year in which the Separation Date occurs. That pro rated cash incentive compensation shall be based on the achievement of Employee's objectives (also pro rated, to the extent possible) during the portion of the year before the Separation Date; and the pro rated amount shall be based on the number of days in that portion, as compared with the entire year.

3.2.3 **Payment of Severance for Termination by the Company without Cause or by Employee for Good Reason**. In the event that Employee's employment is terminated prior to the expiration of the Term pursuant to subsection 3.1.6 (by the Company Without Cause) or 3.1.7 (by Employee for Good Reason) and provided (a) Employee continues to comply with the provisions of Article V and VI below, and (b) Employee has executed and delivered to the Company a written release in substantially the same form attached hereto as Exhibit A and the rescission periods specified therein have expired, the Company shall, subject to any payment delay required by Section 3.2.5, continue to pay, as severance pay, Employee's Base Salary at the rate in effect on the Separation Date, for a period of 6 months following the Separation Date. Such payments will be at usual and customary pay intervals of the Company and will be subject to all appropriate deductions and withholdings.

Additionally, pursuant to the terms and conditions set forth in Employee's applicable Stock Option Agreements with the Company, the Company agrees that, notwithstanding anything to the contrary set forth in such Stock Option Agreements or Company's 2003 Stock Incentive Plan, as may be amended from time to time, during the five-year period following the Separation Date, Employee shall be permitted to exercise immediately all Options granted to Employee that have vested as of the Separation Date and those Options that would have vested within one year of the Separation Date had Employee's employment with the Company not terminated. The parties hereto agree and acknowledge that, with respect to any Options previously granted to Employee that were intended by the parties to be treated as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, such Options, to the extent they may be exercised by Employee more than 90 days following the Separation Date shall be treated as non-qualified Options, notwithstanding any provision in Employee's Stock Option Agreements to the contrary.

In the event that a Change in Control occurs, and Employee is not terminated, the vesting schedule of Options held by Employee shall accelerate such that on the date the Change of Control is completed 50% of any unvested shares under the Options of Employee shall immediately vest and shall be exercisable during the five-year period (but not after the end of each Option's original term) following the Separation Date notwithstanding anything to the contrary set forth in Employee's applicable Stock Option Agreements with the Company or Company's Stock Incentive Plan; provided, however, that if, in connection with the consummation of the transaction resulting in the Change in Control, Employee receives a cash payment with respect to each Option equal to the difference or "spread" between (i) the per share amount paid to holders of the Company's Common Stock in such transaction and (ii) the per share exercise price under the applicable option agreement, his Options shall be cancelled upon the consummation of the Change in Control in exchange for such cash payment.

In the event that a Change in Control occurs, and Employee is terminated, the vesting schedule of Options held by Employee shall accelerate such that on the date the Change of Control is completed 100% of any unvested shares under the Options of Employee shall immediately vest and shall be exercisable during the five-year period following the Separation Date notwithstanding anything to the contrary set forth in Employee's applicable Stock Option Agreements with the Company or the Company's Stock Incentive Plan; provided, however, that if, in connection with the consummation of the transaction resulting in the Change in Control, Employee receives a cash payment with respect to each Option equal to the difference or "spread" between (i) the per share amount paid to holders of the Company's Common Stock in such transaction and (ii) the per share exercise price under the applicable Stock Option Agreement, his Options shall be cancelled upon the consummation of the Change in Control in exchange for such cash payment.

3.2.4 **General Provision Regarding Treatment of Options**. Except as otherwise specified in Sections 3.2.3 of this Agreement, the terms of the Company's 2003 Stock Incentive Plan, as amended from time to time, and Employee's Stock Option Agreements, as applicable, shall govern the treatment of Employee's Stock Options, if any, following the Separation Date.

3.2.5 **Potential Delay of Severance Payments**. If, as of the Separation Date, (a) the Company's common stock is publicly traded (as determined under Section 409A) of the Internal Revenue Code of 1986 ("Code Section 409A)"), (b) Employee is a "specified employee" (as determined under Code Section 409A), and (c) any portion of the severance pay due Employee under Section 3.2.3 would exceed the sum of the applicable limited separation pay exclusions as determined pursuant to Code Section 409A, then payment of the excess amount shall be delayed until the first regular payroll date of the Company following the six month anniversary of Employee's Separation Date (or the date of his death, if earlier than that anniversary), and shall include a lump sum equal to the aggregate amounts that Employee would have received had payment of this excess amount commenced as provided in Section 3.2.3 after the Separation Date. If Employee continues to perform any services for the Company (as an employee or otherwise) after the Separation Date, such six month period shall be measured from the date of Employee's "separation from service" as defined pursuant to Code Section 409A.

3.3 **Benefits Following Termination Prior to the End of the Term**. In the event that Employee's employment is terminated pursuant to Sections 3.1.2; 3.1.3; 3.1.6; or 3.1.7 of this Agreement, Employee and his spouse and any eligible dependents (to the extent such coverage was in effect for any of those individuals immediately before the Separation Date) shall, at no cost to Employee (except for any share of the cost for benefits of his spouse and eligible dependents that Employee was required to pay immediately before the Separation Date), be entitled to continuing coverage under the Company-provided medical, dental, and life insurance programs for a period of 6 months following the Separation Date irrespective of any then pre-existing health conditions of Employee or his spouse or eligible dependents; provided, that the Company may discontinue such coverage if it does not receive timely payment of Employee's share of the cost due after the Separation Date; and provided further that if this Agreement is terminated as a result of Employee's death, Employee's then current spouse shall be entitled to

continue to participate in the Company-provided medical and dental insurance programs for one year after Employee's death irrespective of any then pre-existing health conditions, unless, in each case, such continued participation is prohibited by any applicable laws or would otherwise jeopardize the tax qualified status of any such programs. If any such continuing participation is prohibited by applicable law or would otherwise jeopardize the tax qualified status of any medical, dental, or life insurance plan and as a result the Company terminates coverage, it shall promptly reimburse Employee (or Employee's spouse and eligible dependents, as the case may be) for the cost of obtaining comparable third party coverage irrespective of any then preexisting health conditions of any of them who was covered immediately before the Separation Date. Any period of continuing coverage under this Section 3.3 shall run at the same time as the applicable continuing coverage required to be offered to Employee, his spouse or eligible dependents under applicable laws; and each of them who has a right to continuing coverage under any such law shall be deemed to have timely elected continuing coverage under such law, to the extent that the Company is required to provide continuing coverage under this paragraph.

Except as otherwise provided in this Section 3.3, the benefits to which Employee (or, as applicable, Employee's spouse, eligible dependents or estate) may be entitled upon termination pursuant to the plans and policies of the Company specified Article II of this Agreement shall be determined and paid in accordance with such plans, policies and applicable laws.

3.4 **Compensation following Termination at expiration of Term**. In the event that Employee's employment terminates at the expiration of the Term in accordance with Section 1.2 hereof, Employee shall not be entitled to any severance pay; *provided*, that the Company shall pay any amounts due to Employee for Base Salary through the end of the Term.

3.5 **Surrender of Records and Property**. Upon termination of Employee's employment with the Company, Employee shall deliver promptly to the Company all Confidential Information as defined in Section 4.1 and all the Company property including, but not necessarily limited to records, manuals, books, blank forms, documents, letters, memoranda, business plans, minutes, notes, notebooks, reports, computer disks, computer software, computer programs (including source code, object code, on-line files, documentation, testing materials and plans and reports), computer print-outs, member or customer lists, credit cards, keys, identification, products, access cards, designs, drawings, sketches, devices, specifications, formulae, data, tables or calculations or copies thereof, and all other tangible or intangible property relating in any way to the business of the Company that are the property of the Company or any subsidiary or affiliate, if any, or which relate in any way to the business, products, practices or techniques of the Company or any subsidiary or affiliate.

ARTICLE IV. CONFIDENTIAL INFORMATION

4.1 **Definition**. For purposes of this Agreement, "Confidential Information" means any non-public information that relates to the actual or anticipated business, research or development of the Company, or to the Company's technical data, trade secrets or know-how, including, but not limited to, research, product plans or other information regarding the Company's products or services and markets therefor, customer lists and customers (including, but not limited to, customers of the Company on which Employee called or with which Employee may become acquainted during the term of my employment), software, developments, inventions, processes,

formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances and other business information, together with any other confidential or proprietary data and information which Employee encounters during employment, all of which are held, possessed and/or owned by the Company and all of which are continually used in the operations and business of Company. Confidential Information does not include information which is or becomes generally known within the Company's industry through no wrongful act or omission by Employee or others; provided, however, that the compilation, manipulation or other exploitation of generally known information may constitute Confidential Information. Additionally, the term "Confidential Information" shall mean any confidential information as that term is defined in any agreement the Company may have with its customers or other third parties from time to time.

4.2 **Nondisclosure**. During the Term of this Agreement or at any time thereafter, Employee agrees to hold in the strictest confidence and not to disclose Confidential information to any other third party or company, other than in connection with Employee's employment with the Company, or use such information, directly or indirectly, for any purpose whatsoever, without the prior written consent of the Company.

ARTICLE V. INVENTIONS

5.1 **Disclosure and Assignment of Inventions and Other Works**. During the term of this Agreement and for one year following the Separation Date, Employee shall promptly disclose to the Company in writing all Inventions and any writings, drawings, diagrams, charts, tables, databases, software (in object or source code and recorded on any medium), and any other works of authorship, whether or not such are copyrightable ("Works of Authorship") that are conceived, made, discovered, written or created by Employee alone or jointly with any person, group or entity, whether during the normal hours of his employment at the Company or on Employee's own time. Employee acknowledges that all drawings, memoranda, notes, records, files, correspondence, manuals, models, specifications, computer programs, maps and all other writings or materials of any type embodying information, ideas, concepts, improvements, discoveries relating to any Inventions shall be the sole and exclusive property of the Company. Employee further acknowledges that all original works of authorship which are made by Employee (solely or jointly with others) within the scope of and during the period of Employee's employment with the Company and which are protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act. Employee hereby assigns all rights to all such information, ideas, concepts, improvements, discoveries, Inventions and Works of Authorship to the Company, and any United States or foreign applications for patents, inventor's certificates or other industrial rights that may be filed in respect thereof, including divisions, continuations, continuations-in-part, reissues and/or extensions thereof, and applications for registration of such names and service marks, and acknowledges that the same are and shall be the sole and exclusive property of Company. Employee shall give the Company all the assistance it reasonably requires for the Company to perfect, protect, and use its rights to such Inventions and Works of Authorship. Employee shall sign all such documents, take all such actions and supply all such information that the Company considers necessary or desirable to transfer or record the transfer of the Company's entire right, title and interest in such Inventions and Works of Authorship and to enable Company to obtain exclusive patent, copyright, or other legal protection for Inventions and Works of Authorship anywhere in the world, provided the Company shall bear all reasonable expenses of Employee in rendering such cooperation.

For purposes of this Agreement, "Invention" means any idea, design, discovery, idea, trademark, trade secret, invention, software, technique, modification, process, development, design, know-how, data, formula, improvement or similar items, whether or not reduced to writing or stored electronically or otherwise, whether patentable or unpatentable and whether or not protectable by patent, trademark, copyright or other intellectual property law, which is created, conceived or developed by Employee or under Employee's direction, whether solely or with others, during or after his employment by Company, that relates in any way to, or is useful in any manner in, the business now or then conducted or proposed to be conducted by Company or which is based upon or otherwise derives from or makes use of the Company's equipment, supplies, facilities or Confidential Information.

5.2 **Notice and Acknowledgement**. In accordance with Minnesota Statute § 181.78, the foregoing Section 5.1 does not require Employee to assign or offer to assign to the Company any of Employee's rights in an Invention that Employee developed entirely on Employee's own time without using the Company's equipment, supplies, facilities or trade secret information, and (1) that does not relate directly to the Company's business or to the Company's actual or demonstrably anticipated research or development, or (2) that does not result from any work performed by Employee for the Company. For the purposes of this Section, the "Company's business" shall be defined as development pertaining to implantable medical devices to treat obesity or devices to apply signals to a vagus nerve to treat a gastrointestinal disorder (e.g., obesity, pancreatitis or irritable bowel syndrome).

To the extent a provision in this Agreement purports to require Employee to assign Inventions otherwise excluded by this paragraph, the provision is against the public policy of the State of Minnesota and is unenforceable. By signing this Agreement, Employee acknowledges receipt of the notification required by Minnesota Statute § 181.78.

ARTICLE VI. NONCOMPETITION AND NONSOLICITATION

6.1 **Agreement Not to Compete**. During the Term of Employee's employment by the Company, and for a period of 12 consecutive months from the date of termination of such employment for whatever reason (whether occasioned by Employee or the Company), Employee shall not, directly or indirectly, in any place in the world, render services to any conflicting organization, or engage in competition with the Company, in any manner or capacity, nor direct any other individual or business enterprise to engage in competition with the Company in any manner or capacity, (*e.g.*, as an advisor, principal, agent, partner, officer, director, stockholder of more than 1% of the outstanding shares of the capital stock of a publicly traded company, employee, member of any association or limited liability company or otherwise) on any products competitive with the Company's existing products, any products competitive with the Company's announced products or any products competitive with the Company's pending products that have not yet been announced but which Employee has, or should have, actual or constructive knowledge. For the purposes of this Section, "conflicting organization" shall be defined as any person, corporation or entity that competes with, or is preparing to compete with, any product, process or service, in existence or under development, of the Company pertaining to implantable medical devices to treat obesity or devices to apply signals to a vagus nerve to treat a gastrointestinal disorder (*e.g.*, obesity, pancreatitis or irritable bowel syndrome).

6.2 **Agreement Not to Solicit**. Employee hereby acknowledges that the Company's customers constitute vital and valuable aspects of its business on a worldwide basis. In recognition of that fact, for a period of one (1) year following the termination of this Agreement for any reason whatsoever, Employee shall not solicit, or assist anyone else in the solicitation of, any of the Company's then-current customers to terminate their respective relationships with the Company and to become customers of any enterprise with which Employee may then be associated, affiliated or connected.

6.3 **Agreement Not to Recruit**. Employee hereby acknowledges that the Company's employees, consultants and other contractors constitute vital and valuable aspects of its business and missions on a worldwide basis. In recognition of that fact, for a period of one (1) year following the termination of this Agreement for any reason whatsoever, Employee shall not solicit, or assist anyone else in the solicitation of, any of the Company's then-current employees, consultants or other contractors to terminate their respective relationships with the Company and to become employees, consultants or contractors by any enterprise with which Employee may then be associated, affiliated or connected.

ARTICLE VII: MISCELLANEOUS PROVISIONS

7.1 **Company Remedies**. Employee acknowledges and agrees that the restrictions and agreements contained in this Agreement are reasonable and necessary to protect the legitimate interests of the Company, that the services to be rendered by Employee are of a special, unique and extraordinary character, that it would be difficult to replace such services and that any violation of Articles IV, V or VI of this Agreement would be highly injurious to the Company, that Employee's violation of any of Articles IV, V or VI of this Agreement would cause the Company irreparable harm that would not be adequately compensated by monetary damages and that the remedy at law for any breach of any of the provisions of Articles IV, V and VI will be inadequate. Accordingly, Employee specifically agrees that the Company shall be entitled, in addition to any remedy at law, to preliminary and permanent injunctive relief and specific performance for any actual or threatened violation of this Agreement and to enforce the provisions of Articles IV, V and VI of this Agreement.

7.2 **Assignment**. This Agreement shall not be assignable, in whole or in part, by Employee without the written consent of the Company and any purported or attempted assignment or transfer of this Agreement or any of Employee's duties, responsibilities or obligations hereunder shall be void. This Agreement is binding upon Employee, Employee's heirs and personal representatives. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. Notwithstanding the foregoing, the Company may, without the consent of Employee, assign its rights and obligations under this Agreement to any business entity that has become the successor to the Company in the event of a sale, merger, liquidation or similar transaction. After any such assignment by the Company, the Company shall be discharged from all further liability hereunder and such successor assignee shall thereafter be deemed to be the Company for the purposes of all provisions of this Agreement.

7.3 **Notices**. All notices, requests, demands and other communications under this Agreement shall be in writing, shall be deemed to have been duly given on the date of service if personally served on the parties to whom notice is to be given, or on the third day after mailing if mailed to the parties to whom notice is given, whether by first class, registered, or certified mail, and properly addressed as follows:

If to the Company, at:	EnteroMedics Inc. 2800 Patton Road St. Paul, MN 55113
If to Employee, at:	Katherine Tweden 1175 Ashley Lane Mahtomedi, MN 55115

Any party may change the address for the purpose of this Section by giving the other written notice of the new address in the manner set forth above.

7.4 **Governing Law**. The validity, interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of Minnesota, without regard to conflicts of laws principles thereof.

7.5 **Arbitration**. The parties irrevocably consent that any dispute arising between the parties in connection with the interpretation or enforcement of this Agreement that has not been settled through negotiation within a period of thirty (30) days after the date on which either party shall first have notified the other party in writing of the existence of a dispute shall be settled by final and binding arbitration under the then-applicable Commercial Arbitration Rules of the American Arbitration Association ("AAA"); and a court judgment on the award may be entered in any court having competent jurisdiction. Notwithstanding the foregoing, neither party shall be entitled or required to seek arbitration regarding any cause of action that would entitle such party to injunctive relief. Any such arbitration shall be conducted by one (1) neutral arbitrator appointed by mutual agreement of the parties or, failing such agreement, in accordance with the AAA Rules. The arbitrator shall be an experienced attorney with a background in employment law. Any arbitration shall be conducted in Minneapolis, Minnesota. An arbitration award may be enforced in any court of competent jurisdiction. Notwithstanding any contrary provision in the AAA Rules, the following additional procedures and rules shall apply to any such arbitration:

(A) Each party shall have the right to request from the arbitrator, and the arbitrator shall order upon good cause shown, reasonable and limited pre-hearing discovery, including (1) exchange of witness lists, (2) depositions under oath of named witnesses at a mutually convenient location, (3) written interrogatories, and (4) document requests;

(B) Upon conclusion of the pre-hearing discovery, the arbitrator shall promptly hold a hearing upon the evidence to be adduced by the parties and shall promptly render a written opinion and award;

(C) The arbitrator may award damages consistent with the terms of this Agreement but may not award or assess punitive damages against either party; and

(D) Each party shall bear his or its own costs and expenses of the arbitration and one- half ($^{1}/_{2}$) of the fees and costs of the arbitrator, subject to the power of the arbitrator, in his or her sole discretion, to award all such reasonable costs, expenses and attorneys' fees to the prevailing party.

7.6 **Construction**. Notwithstanding the general rules of construction, both the Company and Employee acknowledge that both parties were given an equal opportunity to negotiate the terms and conditions contained in this Agreement, and agree that the identity of the drafter of this Agreement is not relevant to any interpretation of the terms and conditions of this Agreement.

To the extent any provision of this Agreement may be deemed to provide a benefit to Employee that is treated as non-qualified deferred compensation pursuant to Code Section 409A, such provision shall be interpreted in a manner that qualifies for any applicable exemption from compliance with Code Section 409 or, if such interpretation would cause any reduction of benefit(s), such provision shall be interpreted (if reasonably possible) in a manner that complies with Code Section 409A and does not cause any such reduction.

7.7 **Severability**. In the event any provision of this Agreement (or portion thereof) shall be held illegal or invalid for any reason, said illegality or invalidity shall not in any way affect the legality or validity of any other provision of this Agreement. To the extent any provision (or portion thereof) of this Agreement shall be determined to be invalid or unenforceable in any jurisdiction, such provision (or portion thereof) shall be deemed to be deleted from this Agreement as to such jurisdiction only, and the validity and enforceability of the remainder of such provision and of this Agreement shall be unaffected.

7.8 **Entire Agreement**. Except for Employee's Stock Option Agreements, this Agreement is the final, complete and exclusive agreement of the parties and sets forth the entire agreement between the Company and Employee with respect to Employee's employment by the Company, and there are no undertakings, covenants or commitments other than as set forth herein. The Agreement may not be altered or amended, except by a writing executed by Employee and a member of the Board. This Agreement supersedes, terminates, replaces and supplants any and all prior understandings or agreements between the parties relating in any way to the hiring or employment of Employee by the Company.

7.9 **Survival**. The parties expressly acknowledge and agree that the provisions of this Agreement that by their express or implied terms extend beyond the expiration of this Agreement or the termination of Employee's employment under this Agreement, shall continue in full force and effect, notwithstanding Employee's termination of employment under this Agreement or the expiration of this Agreement.

7.10 **Waivers**. No failure on the part of either party to exercise, and no delay in exercising, any right or remedy under this Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any right or remedy under this Agreement preclude any other or further exercise thereof or the exercise of any other right or remedy granted hereby or by any related document or by law.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

ENTEROMEDICS INC.		**EMPLOYEE**	
By:	/s/ Mark B. Knudson	By:	/s/ Katherine Tweden
	Mark B. Knudson		
Its:	President and CEO		
Date:	November 6, 2008	Date:	November 18, 2008

EXHIBIT A

GENERAL RELEASE

This General Release is made and entered into as of the day of , by Employee ("Employee").

WHEREAS, EnteroMedics Inc. (the "Company") and Employee are parties to an Employment Agreement dated ;

WHEREAS, Employee intends to settle any and all claims that Employee has or may have against the Company as a result of Employee's employment with the Company and the cessation of Employee's employment with the Company; and

WHEREAS, Under the terms of the Employment Agreement, which Employee agrees are fair and reasonable, Employee agreed to enter into this General Release as a condition precedent to the severance arrangements described in Article III of the Employment Agreement.

NOW, THEREFORE, in consideration of the provisions and the mutual covenants herein contained, the parties agree as follows:

1. **Release**. For the consideration expressed in the Employment Agreement, Employee does hereby fully and completely release and waive any and all claims, complaints, causes of action, demands, suits and damages, of any kind or character, which Employee has or may have against the Released Parties, as hereinafter defined, arising out of any acts, omissions, conduct, decisions, behavior or events occurring up through the date of Employee's signature on this General Release, including Employee's employment with the Company and the cessation of that employment. For purposes of this General Release, "Released Parties" means collectively the Company, its predecessors, successors, assigns, parents, affiliates, subsidiaries, related companies, officers, directors, shareholders, agents, servants, employees and insurers, and each and all thereof.

Employee understands and accepts that Employee's release of claims includes any and all possible discrimination claims, including, but not limited to, claims based upon: Title VII of the Federal Civil Rights Act of 1964, as amended; the Age Discrimination in Employment Act; the Americans with Disabilities Act; the Equal Pay Act; the Fair Labor Standards Act; the Employee Retirement Income Security Act; the Minnesota Human Rights Act; Minn. Stat. §181.81; or any other federal, state or local statute, ordinance or law. Employee also understands that Employee is giving up all other claims, including those grounded in contract or tort theories, including, but not limited to: wrongful discharge; violation of Minn. Stat. §176.82; breach of contract; tortious interference with contractual relations; promissory estoppel; breach of the implied covenant of good faith and fair dealing; breach of express or implied promise; breach of manuals or other policies; assault; battery; fraud; false imprisonment; invasion of privacy; intentional or negligent misrepresentation; defamation, including libel, slander, discharge defamation and self-publication defamation; discharge in violation of public policy; whistleblower; intentional or negligent infliction of emotional distress; or any other theory, whether legal or equitable.

Nothing in this General Release shall be construed to prevent Employee from filing a charge or complaint with the Equal Employment Opportunity Commission or other administrative agency or from participating in or cooperating with any investigation conducted by the Equal Employment Opportunity Commission or other administrative agency.

This General Release does not apply to any post-termination claim that Employee may have for benefits under the provisions of any employee benefit plan maintained by the Company.

Employee's release of claims shall not apply to any claims Employee might have to indemnification under Minnesota Statute §302A.521, any other applicable statute or regulation or the Company's by-laws.

2. **Rescission**. Employee has been informed and understands that Employee has the right to revoke Employee's release of claims, insofar as it extends to potential claims arising under the Age Discrimination in Employment Act, 29 U.S.C. §§ 621 et seq., by informing the Company of such revocation within seven (7) calendar days following Employee's execution of this Agreement. Employee has also been informed and understands that Employee has the right to rescind his release of claims, insofar as it extends to potential claims arising under the Minnesota Human Rights Act, Minn. Stat. §§ 363A.01, et seq., by informing the Company of such rescission within fifteen (15) calendar days following Employee's execution of this Agreement. Employee further understands that these revocation and rescission periods shall run concurrently, and that this Agreement is not effective or enforceable until the fifteen (15) day rescission period has expired.

If Employee decides to rescind this Agreement within the fifteen (15) day rescission period, Employee must provide written notice to the Company's President and Chief Executive Officer, delivered in person or by mail. If his rescission is sent by mail, it must be postmarked within the fifteen (15) day period, properly addressed to the Company's President and Chief Executive Officer, and sent by certified mail, return receipt requested.

Employee understands and agrees that, if Employee timely exercises Employee's right of revocation and/or rescission, the Company may, at its option, either nullify this Agreement in its entirety or keep it in effect in all respects other than as to that portion of the Agreement which releases Employee's claims under the Age Discrimination in Employment Act and/or Minnesota Human Rights Act, as applicable. Employee further understands and agrees that, if the Company opts to nullify the entire Agreement, the Company will have no obligations under this Agreement to the Employee or others whose rights derive from Employee.

3. **Acceptance Period; Advice of Counsel**. The terms of this General Release will be open for acceptance by Employee for a period of 21 days during which time Employee may consider whether or not to accept this General Release. Employee agrees that changes to this General Release, whether material or immaterial, will not restart this acceptance period. Employee is hereby advised to seek the advice of an attorney regarding this General Release.

4. **Binding Agreement**. This General Release shall be binding upon, and inure to the benefit of, Employee and Company and their respective successors and permitted assigns.

5. **Representation**. Employee hereby acknowledges and states that Employee has read this General Release. Employee further represents that this General Release is written in language that is understandable to Employee, that Employee fully appreciates the meaning of its terms, and that Employee enters into this General Release freely and voluntarily.

IN WITNESS WHEREOF, Employee, after due consideration, has authorized, executed and delivered this General Release all as of the date first written.

____

____

Date

Exhibit 31.1

CERTIFICATION

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

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

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

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

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

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

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

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

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

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

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

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

/s/ Mark B. Knudson, Ph.D.

Mark B. Knudson, Ph.D.
President and Chief Executive Officer

Date: May 7, 2009

Exhibit 31.2

CERTIFICATION

I, Greg S. Lea, certify that:

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

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

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

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

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

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

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

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

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

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

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

/S/ GREG S. LEA

Greg S. Lea
Senior Vice President and Chief Financial Officer

Date: May 7, 2009

Exhibit 32.1

CERTIFICATION

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

1. The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 to which this Certification is attached as Exhibit 32.1 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act, and
2. That the information contained in the Report fairly presents, in all material respects, the financial condition and the results of operations of EnteroMedics Inc. as of, and for, the periods covered by the Report.

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

Date: May 7, 2009

Exhibit 32.2

CERTIFICATION

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

1. The Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 to which this Certification is attached as Exhibit 32.2 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act, and

2. That the information contained in the Report fairly presents, in all material respects, the financial condition and the results of operations of EnteroMedics Inc. as of, and for, the periods covered by the Report.

By: /s/ Greg S. Lea

Greg S. Lea

Senior Vice President and Chief Financial Officer

Date: May 7, 2009