

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE TO
(RULE 13e-4)

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

ENTEROMEDICS INC.

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

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

29365M 208

(CUSIP Number of Common Stock Underlying Class of Securities)

Greg S. Lea

Senior Vice President and Chief Financial Officer

EnteroMedics Inc.

2800 Patton Road

St. Paul, Minnesota 55113

(651) 634-3003

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

Copy to:

Kenneth L. Cutler

Michael W. Clausman

Dorsey & Whitney LLP

50 South Sixth Street, Suite 1500

Minneapolis, Minnesota 55402

(612) 340-2600

CALCULATION OF FILING FEE

Transaction Valuation*: \$579,300

Amount of Filing Fee**: \$42.00

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

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

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

Amount Previously Paid:	Not applicable	Filing Party:	Not applicable
Form or Registration No.:	Not applicable	Date Filed:	Not applicable

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

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

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

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

issuer tender offer subject to Rule 13e-4.

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

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

Item 1. Summary Term Sheet.

The information set forth under “Summary Term Sheet—Questions and Answers” in the Offer to Exchange Certain Outstanding Stock Options for New Stock Options, dated September 23, 2010 (the “Offer to Exchange”), attached hereto as Exhibit (a)(1)(A), is incorporated herein by reference.

Item 2. Subject Company Information.

(a) Name and Address.

EnteroMedics Inc., a Delaware corporation (the “Company” or “EnteroMedics”) is the issuer of the securities that are subject to the Offer to Exchange. The Company’s principal executive offices are located at 2800 Patton Road, St. Paul, Minnesota 55113, and the telephone number at that address is (651) 634-3003.

(b) Securities.

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

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

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

The Offer is conditioned on obtaining the approval of the Company’s stockholders at the Special Meeting of Stockholders to be held on Friday, October 22, 2010. The Company is making the Offer upon the terms and subject to the conditions set forth in the Offer to Exchange and in the related accompanying Election to Participate, attached hereto as Exhibit (a)(1)(B).

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

(c) Trading Market and Price.

The information set forth in the Offer to Exchange under “The Exchange Offer—Price Range of Our Common Stock” is incorporated herein by reference.

Item 3. Identity and Background of Filing Person.

(a) Name and Address.

The Company is both the filing person and the issuer. The information set forth under Item 2(a) above and in “This Exchange Offer—Interests of Directors and Executive Officers; Transactions and Arrangements Concerning Our Options” is incorporated herein by reference.

Item 4. Terms of the Transaction.

(a) Material Terms.

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

(b) Purchases.

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

Item 5. Past Contacts, Transactions, Negotiations and Arrangements.

(e) Agreements Involving the Subject Company’s Securities.

The information set forth in the Offer to Exchange under “This Exchange Offer—Interests of Directors and Executive Officers; Transactions and Arrangements Concerning Our Options” is incorporated herein by reference.

Item 6. Purposes of the Transaction and Plans or Proposals.

(a) Purposes.

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

(b) Use of Securities Acquired.

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

(c) Plans.

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

Item 7. Source and Amount of Funds or Other Consideration.

(a) Source of Funds.

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

(b) Conditions.

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

(d) Borrowed Funds.

Not applicable.

Item 8. Interest in Securities of the Subject Company.

(a) Securities Ownership.

The information set forth in the Offer to Exchange under “This Exchange Offer—Interests of Directors and Executive Officers; Transactions and Arrangements Concerning Our Options” is incorporated herein by reference.

(b) Securities Transactions.

The information set forth in the Offer to Exchange under “This Exchange Offer—Interests of Directors and Executive Officers; Transactions and Arrangements Concerning Our Options” is incorporated herein by reference.

Item 9. Person/Assets, Retained, Employed, Compensated or Used.

(a) Solicitations or Recommendations.

Not applicable.

Item 10. Financial Statements.

(a) Financial Information.

The financial information set forth in the Offer to Exchange under “This Exchange Offer—Information Concerning Us; Financial Information” and referenced in “This Exchange Offer—Additional Information” is incorporated herein by reference. The Company’s Annual Report on Form 10-K and the Quarterly Reports on Form 10-Q can also be accessed electronically on the Securities and Exchange Commission’s website at <http://www.sec.gov>.

(b) Pro Forma Information.

Not applicable.

Item 11. Additional Information.

(a) Agreements, Regulatory Requirements and Legal Proceedings.

The information set forth in the Offer to Exchange under “Risk Factors,” “This Exchange Offer—Interests of Directors and Executive Officers; Transactions and Arrangements Concerning Our Options,” and “This Exchange Offer—Legal Matters; Regulatory Approvals” is incorporated herein by reference.

(b) Other Material Information.

Not applicable.

Item 12. Exhibits.

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

† Management contract or compensatory plan or arrangement

Item 13. Information Required by Schedule 13E-3.

Not applicable.

SIGNATURE

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

ENTEROMEDICS INC.

By: _____ /s/ GREG S. LEA

Name: **Greg S. Lea**

Title: **Senior Vice President
and Chief Financial Officer**

Dated: September 23, 2010

EXHIBIT INDEX

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- (g) Not applicable
- (h) Not applicable

† Management contract or compensatory plan or arrangement

ENTEROMEDICS INC.

OFFER TO EXCHANGE CERTAIN OUTSTANDING STOCK OPTIONS
FOR NEW STOCK OPTIONS**This Offer to Exchange Certain Outstanding Stock Options for New Stock Options (the “Exchange Offer”)
and your withdrawal rights will expire at 6:00 p.m. Central Time
on October 22, 2010, unless extended (the “Expiration Date”).**

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

- Each Eligible Option that you elect to tender will be exchanged for the grant of a new option to purchase shares of EnteroMedics common stock (“*New Options*”).
- Each New Option will be issued under the 2003 Plan and will have an exercise price equal to the closing price per share of EnteroMedics common stock on the NASDAQ Capital Market on October 22, 2010.
- Each New Option will be exercisable for fewer shares of our common stock than the Eligible Option it replaces. The number of shares underlying New Options will be based on an exchange ratio designed to result in the fair value of the New Options being approximately equal in the aggregate to the fair value of the Eligible Options that are tendered for cancellation in the Exchange Offer. The model used to calculate fair value is based on a number of assumptions. For additional information, see “The Exchange Offer—Exchange Ratios.”
- Each New Option will have a new vesting schedule and vest such that one-third of the shares underlying the option will be immediately vested on the date of grant and the remaining shares will vest monthly for 24 months. Vesting is conditioned on your continued employment with us through each applicable vesting date.
- Upon the occurrence of a “Change in Control” (as defined in the stock option agreement), 50% of the unvested portion of the New Options would become fully vested. In addition, in the event of a Change in Control in which the employment of the employee is terminated, 100% of the remaining unvested portion of the New Option would immediately vest and would be exercisable for five years following termination of employment.
- Each New Option will be a non-qualified stock option for U.S. federal income tax purposes and will have a term of seven years from the date of grant.

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

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

If you participate in this Exchange Offer, you will receive one New Option under the 2003 Plan for every Eligible Option you tender for cancellation and exchange pursuant to this Exchange Offer using the applicable exchange ratio. You may elect to participate in this Exchange Offer with respect to any of your Eligible Options, and you will not be required to exchange all of your Eligible Options. However, you may not tender less than all of a particular Eligible Option in the Exchange Offer. We intend to grant New Options to Eligible Optionholders (as defined below) on the same day we cancel the Eligible Options that are exchanged pursuant to this Exchange Offer (the “*New Option Grant Date*”), which we expect to be October 22, 2010.

This Exchange Offer is not conditioned on a minimum number of Eligible Options being submitted for exchange or a minimum number of Eligible Optionholders participating. This Exchange Offer is conditioned on obtaining the approval of our stockholders at the Special Meeting of Stockholders to be held on Friday, October 22, 2010. In the event that the approval of our stockholders is not obtained at the Special Meeting, the Exchange Offer will be terminated and we will not accept any Eligible Options for cancellation and exchange pursuant to the Exchange Offer.

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

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

GLOSSARY OF TERMS USED IN EXCHANGE OFFER

Cancellation Date

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

Eligible Optionholders

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

Eligible Options

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

Exchange Offer

We refer to this document as the Exchange Offer.

Expiration Date

We expect that the Expiration Date of the Offering Period will be October 22, 2010 at 6:00 p.m. Central Time. We may extend the Expiration Date at our discretion. If we extend the offer, the term “Expiration Date” will refer to the time and date at which the extended offer expires.

October 22 Price

The closing price per share of EnteroMedics common stock on the NASDAQ Capital Market on the last trading day before the expiration of the Exchange Offer, which is currently expected to be October 22, 2010.

New Options

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

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

- The exercise price per share for each New Option will be equal to the October 22 Price;
- Each New Option will be exercisable for fewer shares of our common stock than the Eligible Option it replaces. The number of shares underlying New Options will be based on an exchange ratio designed to result in the fair value of the New Options being approximately equal in the aggregate to the fair value of the Eligible Options that are tendered for cancellation in the Exchange Offer. The model used to calculate fair value is based on a number of assumptions. For additional information, see “The Exchange Offer—Exchange Ratios;”
- Each New Option will have a new vesting schedule and vest such that one-third of the shares underlying the option will be immediately vested on the date of grant and the remaining shares will vest monthly for 24 months. Vesting is conditioned on your continued employment with us through each applicable vesting date;
- Upon the occurrence of a “Change in Control” (as defined in the stock option agreement), 50% of the unvested portion of the New Options would become fully vested. In addition, in the event of a Change in Control in which the employment of the employee is terminated, 100% of the remaining unvested portion of the New Option would immediately vest and would be exercisable for five years following termination of employment; and
- Each New Option will be a non-qualified stock option for U.S. federal income tax purposes and will have a term of seven years from the New Option Grant Date.

New Option Grant Date

We expect the New Option Grant Date will be October 22, 2010. If the Expiration Date is extended, the Cancellation Date and the New Option Grant Date will be similarly extended.

Offering Period

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

Schedule TO

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

Vesting Schedule

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

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

IMPORTANT

If you choose to participate in this Exchange Offer, your properly completed and duly executed Election to Participate must be received by EnteroMedics on or before 6:00 p.m. Central Time on October 22, 2010. If you choose not to participate in this Exchange Offer, you do not need to do anything, and your Eligible Options will continue to remain subject to their existing terms and conditions.

You should direct questions about this Exchange Offer or requests for assistance (including requests for additional copies any documents relating to this Exchange Offer) to _____ at _____ or _____@enteromedics.com.

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

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

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

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SUMMARY TERM SHEET

Questions and Answers

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

A. GENERAL OPTION EXCHANGE QUESTIONS

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

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

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

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

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

Q3: Who can participate in the Exchange Offer?

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

- You are a full or part-time employee (including executive officer) of EnteroMedics on the date this Exchange Offer starts.
- You hold one or more Eligible Options.
- You continue to be a full or part-time employee of EnteroMedics as of the end of the Exchange Offer (expected to be at 6:00 p.m. Central Time on October 22, 2010).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- The exercise price per share for each New Option will be equal to the October 22 Price;
- Each New Option will be exercisable for fewer shares of our common stock than the Eligible Option it replaces. The number of shares underlying New Options will be based on an exchange ratio designed to result in the fair value of the New Options being approximately equal in the aggregate to the fair value of the Eligible Options that are tendered for cancellation in the Exchange Offer. The model used to calculate fair value is based on a number of assumptions. For additional information, see “The Exchange Offer—Exchange Ratios;”
- Each New Option will have a new vesting schedule and vest such that one-third of the shares underlying the option will be immediately vested on the date of grant and the remaining shares will vest monthly for 24 months. Vesting is conditioned on your continued employment with us through each applicable vesting date;
- Upon the occurrence of a “Change in Control” (as defined in the stock option agreement), 50% of the unvested portion of the New Options would become fully vested. In addition, in the event of a Change in Control in which the employment of the employee is terminated, 100% of the remaining unvested portion of the New Option would immediately vest and would be exercisable for five years following termination of employment; and
- Each New Option will be a non-qualified stock option for U.S. federal income tax purposes and will have a term of seven years from the New Option Grant Date.

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

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

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

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

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

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

A: We will issue new stock option agreements as soon as we can following the date that your Eligible Options are accepted for exchange and canceled. We expect the New Option Grant Date will be October 22, 2010. We expect your stock records to be updated in our stock administration system and that of Morgan Stanley Smith Barney as soon as administratively possible after the New Option Grant Date.

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

A: If you participate in the Exchange Offer and your employment ends before the end of the Exchange Offer (which is expected to be at 6:00 p.m. Central Time on October 22, 2010), your participation in the Exchange Offer will be canceled and you will not be able to exchange your Eligible Options.

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

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

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

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

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

Q18: Are there any conditions to this Exchange Offer?

A: This Exchange Offer is not conditioned on a minimum number of Eligible Options being submitted for exchange or a minimum number of Eligible Optionholders participating. However, this Exchange Offer is conditioned on obtaining the approval of our stockholders at the Special Meeting of Stockholders to be held on Friday, October 22, 2010. In the event that the approval of our stockholders is not obtained at the Special Meeting, the Exchange Offer will be terminated and we will not accept any Eligible Options for cancellation and exchange pursuant to the Exchange Offer. See “This Exchange Offer—Conditions of This Exchange Offer” for more information.

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

Q19: Can I exercise the New Options immediately?

A: We intend to grant New Options on October 22, 2010, which is during our quarterly trading blackout period. Subject to your compliance with the terms of our Insider Trading Policy, you may exercise the vested portion of your New Options through Morgan Stanley Smith Barney’s website immediately after they are granted, however, until the end of the quarterly trading blackout period and any other blackout period that may be imposed by EnteroMedics, you will not be able to complete a cashless exercise of the New Options or sell the exercised shares from any New Option. Please see our Insider Trading Policy posted on our website at www.enteromedics.com.

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

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

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

- September 23, 2010: Offering Period begins
- October 22, 2010: Exercise price of New Options is determined based on the closing price per share of EnteroMedics common stock on the NASDAQ Capital Market (this date may change as a result of regulatory review or at EnteroMedics' discretion)
- October 22, 2010: Offering Period ends at 6:00 p.m. Central Time (this date may change as a result of regulatory review or at EnteroMedics' discretion)

Q2: How will this Exchange Offer work?

A: At any time before the Exchange Offer closes, Eligible Optionholders may exchange, or tender, all or a portion of their Eligible Options for New Options. If you choose to participate in the Exchange Offer, your properly completed election to participate must be sent to us either by email to _____ (_____.@enteromedics.com) or by registered mail or courier and received on or before 6:00 p.m. Central Time on October 22, 2010. To make this election, you will need to agree to all of the terms and conditions of the offer as set forth in the offer documents.

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

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

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

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

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

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

A: Currently, this Exchange Offer expires at 6:00 p.m. Central Time on October 22, 2010. Although we do not currently intend to do so, we may, in our sole discretion, extend the Offering Period of this Exchange Offer at any time. If we extend this Exchange Offer, we will publicly announce the extension and the new Expiration Date no later than 9:00 a.m. Central Time on the next business day after the last previously scheduled or announced Expiration Date. Once we confirm the Expiration Date, no exceptions will be made. See "This Exchange Offer—Extension of Exchange Offer; Termination; Amendment" for more information.

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

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

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

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

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

A: Yes. Up until 6:00 p.m. Central Time on October 22, 2010, you may change your mind after you have submitted an election to participate in or a withdrawal from the Exchange Offer. To do this your new election form or withdrawal form must be sent to us either by email to _____ (_____@enteromedics.com) or by registered mail or courier and received on or before 6:00 p.m. Central Time on October 22, 2010. You are responsible for keeping your evidence of the date and time of emailing, mailing or shipment.

You may change your mind as many times as you wish, but you will be bound by the last properly completed and submitted election form or withdrawal form we receive before the end of the Offering Period, which is scheduled for October 22, 2010, at 6:00 p.m. Central Time. If we extend the Offering Period, you may submit an election form or withdrawal form at any time until the extended offer expires.

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

A: Yes. Up until 6:00 p.m. Central Time on October 22, 2010, you may change your mind about how many Eligible Options you want to exchange after you have submitted an election to participate in the Exchange Offer. You may change the number of Eligible Options you elect to exchange at any time during the Offering Period by completing and submitting a new election form to us either by email to _____ (_____@enteromedics.com) or by registered mail or courier to: EnteroMedics Inc., Attn: _____, 2800 Patton Road, St. Paul, Minnesota 55113. You are responsible for keeping your evidence of the date and time of emailing, mailing or shipment.

You may change your mind as many times as you wish, but you will be bound by the last properly completed and submitted election form we receive before the end of the Offering Period, which is scheduled for October 22, 2010 at 6:00 p.m. Central Time. If we extend the Offering Period, you may change your election at any time until the extended offer expires.

Q9: How do I withdraw my election to participate?

A: To withdraw your election with respect to some or all of your Eligible Options, your properly completed notice of withdrawal must be sent to us either by email to _____ (_____@enteromedics.com) or by registered mail or courier to: EnteroMedics Inc., Attn: _____, 2800 Patton Road, St. Paul, Minnesota 55113 and received on or before 6:00 p.m. Central Time on October 22, 2010. You are responsible for keeping your evidence of the date and time of emailing, mailing or shipment.

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

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

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

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

Q12: What happens if I do nothing?

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

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

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

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

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

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

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

Q16: Will this Exchange Offer affect future equity grants?

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

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

A: You should direct questions about this Exchange Offer (including requests for additional copies of any Exchange Offer documents) to _____ at _____ or _____@enteromedics.com.

C. TAX QUESTIONS

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

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

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

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

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

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

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

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

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

RISK FACTORS

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

Risks Related to The Exchange Offer

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

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

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

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

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

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

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

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

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

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

The exercise price per share of all New Options will be equal to the closing price per share of our common stock on the NASDAQ Capital Market on the last full trading date before the Expiration Date, which is currently expected to be October 22, 2010, subject to any extension of the Exchange Offer. If the trading price of our common stock decreases after the New Option Grant Date, the exercise price of your New Options will be greater than the trading price of our common stock and you will not be able to realize any gain from the exercise of your New Options. The trading price of our common stock has been volatile and there can be no assurance that the price of our common stock will increase after the New Option Grant Date.

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

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

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

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

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

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

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

Risks Related to Our Business and Ownership of Our Common Stock

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

THIS EXCHANGE OFFER

Purpose of This Exchange Offer

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

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

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

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

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

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

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

Cancellation Date

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

Eligible Optionholders

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

Eligible Options

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

Exchange Offer

We refer to this document as the Exchange Offer.

Expiration Date

We expect that the Expiration Date of the Offering Period will be October 22, 2010 at 6:00 p.m. Central Time. We may extend the Expiration Date at our discretion. If we extend the offer, the term “Expiration Date” will refer to the time and date at which the extended offer expires.

New Options

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

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

- The exercise price per share for each New Option will be equal to the October 22 Price;
- Each New Option will be exercisable for fewer shares of our common stock than the Eligible Option it replaces. The number of shares underlying New Options will be based on an exchange ratio designed to result in the fair value of the New Options being approximately equal in the aggregate to the fair value of the Eligible Options that are tendered for cancellation in the Exchange Offer. The model used to calculate fair value is based on a number of assumptions. For additional information, see “The Exchange Offer—Exchange Ratios;”
- Each New Option will have a new vesting schedule and vest such that one-third of the shares underlying the option will be immediately vested on the date of grant and the remaining shares will vest monthly for 24 months. Vesting is conditioned on your continued employment with us through each applicable vesting date;
- Upon the occurrence of a “Change in Control” (as defined in the stock option agreement), 50% of the unvested portion of the New Options would become fully vested. In addition, in the event of a Change in Control in which the employment of the employee is terminated, 100% of the remaining unvested portion of the New Option would immediately vest and would be exercisable for five years following termination of employment; and
- Each New Option will be a non-qualified stock option for U.S. federal income tax purposes and will have a term of seven years from the New Option Grant Date.

New Option Grant Date

We expect the New Option Grant Date will be October 22, 2010. If the Expiration Date is extended, the Cancellation Date and the New Option Grant Date will be similarly extended.

Offering Period

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

Vesting Schedule

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

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

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

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

Exchange Ratios

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

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

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

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

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

Milestone Options

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

Source and Amount of Consideration; Terms of New Options

Consideration

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

Terms of New Options

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

The exercise price of all New Options granted in exchange for the tender of existing Eligible Options will be equal to the closing price per share of our common stock on the NASDAQ Capital Market on the last full trading day prior to the Expiration Date, which is currently expected to be October 22, 2010, subject to any extension of the Offering Period.

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

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

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

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

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

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

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

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

Conditions of This Exchange Offer

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

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

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

Procedures For Tendering Eligible Options

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

Proper Tender of Eligible Options

To validly tender your Eligible Options pursuant to this Exchange Offer you must remain an Eligible Optionholder through the Expiration Date and your properly completed Election to Participate must be sent to us and received on or before 6:00 p.m. Central Time on October 22, 2010. You do not need to return your stock option agreements relating to your tendered Eligible Options. They will be automatically canceled if we accept your Eligible Options for exchange.

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

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

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

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

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

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

Our Acceptance Constitutes an Agreement

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

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

Withdrawal Rights

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

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

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

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

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

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

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

Acceptance of Eligible Options For Exchange; Issuance of New Options

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

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

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

Extension of Exchange Offer; Termination; Amendment

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

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

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

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

Fees and Expenses

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

2003 Plan

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

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

Summary of the 2003 Plan

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

Administration

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

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

Eligible Participants

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

Shares Available for Awards

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

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

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

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

Types of Awards and Terms and Conditions

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

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

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

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

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

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

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

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

Amendment and Termination

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

Change in Control

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

Price Range of Our Common Stock

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

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

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

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

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

Information Concerning Us; Financial Information

Information Concerning Us

We are a development stage medical device company focused on the design and development of devices that use neuroblocking technology to treat obesity, its associated co-morbidities, and other gastrointestinal disorders. Our proprietary neuroblocking technology, which we refer to as VBLOC therapy, is designed to intermittently block the vagus nerve using high-frequency, low-energy, electrical impulses. The vagus nerve controls much of the activity of the stomach, intestines and pancreas and plays a role in food processing. Our initial product under development is the Maestro System, which uses VBLOC therapy to limit the expansion of the stomach, help control hunger sensations between meals, reduce the frequency and intensity of stomach contractions and produce a feeling of early

and prolonged fullness. Based on our understanding of vagal nerve function and nerve blocking from our preclinical studies and the results of our initial clinical trials, we believe the Maestro System may offer obese patients a minimally-invasive treatment alternative that has the potential to result in significant and sustained weight loss. In addition, data from sub-group analyses demonstrate that VBLOC therapy may hold promise in improving the obesity-related co-morbidities of diabetes and hypertension, independent of, and prior to, substantial weight loss. We are conducting, or plan to conduct, feasibility studies in each of these co-morbidities to assess VBLOC therapy's potential in addressing multiple indications.

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

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

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

If and when we obtain FDA approval of our Maestro System we intend to market our products in the United States through a direct sales force supported by field technical and marketing managers who provide training, technical and other support services to our customers. Outside the United States we intend to use direct, dealer and distributor sales models as the targeted geography best dictates. To date, we have relied on third-party manufacturers and suppliers for the production of our Maestro System. We currently anticipate that we will continue to rely on third-party manufacturers and suppliers for the production of the Maestro System. We obtained European CE Mark approval for our Maestro RF System on March 4, 2009 and are currently pursuing CE Mark certification for our Maestro RC System. We plan on commercializing the Maestro RC System in Australia and intend to file an application for approval and listing with the Australian Therapeutic Goods Administration ("TGA") upon receiving CE Mark certification for the Maestro RC System. We also are exploring commercialization opportunities in other markets outside of the United States and Australia. The method of assessing conformity with applicable regulatory requirements varies depending on the class of the device, but for our Maestro System (which falls into Class III), the method involved a combination of self-assessment by the manufacturer of the safety and performance of the device, and a third-party assessment by a Notified Body, usually of the design of the device and of the manufacturer's quality system. We used KEMA in the Netherlands as the Notified Body for our CE marking approval process.

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

Financial Information

Summary Consolidated Financial Data

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

Summary Consolidated Financial Data

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

Book Value

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

Ratio of Earnings to Fixed Charges

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

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

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

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

Additional Information

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

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

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

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

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

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

Status of Eligible Options Acquired by Us in This Exchange Offer

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

Accounting Consequences of This Exchange Offer

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

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

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

Legal Matters; Regulatory Approvals

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

Material United States Income Tax Consequences

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

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

Stock Option Taxation

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

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

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

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

Section 162(m)

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

Section 280G

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

Tax Withholding

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

Tax Advice

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

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

Additional Information

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

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

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

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

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

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

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

Miscellaneous

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

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

EnteroMedics Inc.
September 23, 2010

ENTEROMEDICS INC.

OFFER TO EXCHANGE OUTSTANDING STOCK OPTIONS
ELECTION TO PARTICIPATE

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

To tender some or all of your Eligible Options in accordance with the terms and conditions of the Exchange Offer, please follow the instructions below.

Full Legal Name: _____

INSTRUCTIONS:

1. Complete the below table by listing ALL Eligible Options you wish to tender for exchange. Then, manually sign this form and submit it in accordance with these instructions.

Table with 4 columns: Grant Number, Grant Date, Exercise Price (Post-Split), Shares Granted (Post-Split). The table contains 10 empty rows for data entry.

2. Your properly completed, manually signed and dated Election to Participate must be sent to us either by email to _____ (@enteromedics.com) or by registered mail or courier to EnteroMedics Inc., Attn: _____, 2800 Patton Road, St. Paul, Minnesota 55113 and received on or before 6:00 p.m. Central Time on October 22, 2010, unless the Exchange Offer is extended, in accordance with the terms and conditions of the Exchange Offer.

Delivery of your Election to Participate other than via email, registered mail or courier to the address(es) specified above, will not constitute valid delivery.

3. EnteroMedics intends to confirm the receipt of your Election to Participate by email within five business days. If you have not received an email confirmation, we recommend that you confirm that we have received your Election to Participate. If you need to confirm receipt after five business days have elapsed, you may email _____ (@enteromedics.com).

4. To change your previous election, your properly completed, manually signed and dated new Election to Participate must be sent to us as described in Instruction 2 above and received on or before the Expiration Date of the Exchange Offer.

5. To withdraw your previous Election to Participate in the Exchange Offer, your properly completed, manually signed and dated Notice of Withdrawal must be sent to us as described in Instruction 2 above and received on or before the Expiration Date of the Offer.

6. EnteroMedics will determine all questions as to the number of shares subject to Eligible Options tendered and the validity, form, eligibility (including time of receipt) and acceptance of your tender of Eligible Options. Subject to any order or decision by a court or arbitrator of competent jurisdiction, or any other applicable regulatory authority, our determination of these matters will be final and binding on all parties. We may reject any tender of Eligible Options that we determine is not in the appropriate form or would be unlawful to accept. We may waive any defect or irregularity in your tender with respect to your Eligible Options tendered on or before 6:00 p.m. Central Time on the Expiration Date. Your Eligible Options will not be accepted for exchange until you have cured all defects or irregularities to our satisfaction, or they have been waived by us, on or before 6:00 p.m. Central Time on the Expiration Date. Neither we nor any other person is obligated to give notice of any defects or irregularities involved in the exchange of any Eligible Options.

7. You should refer to “This Exchange Offer—Material United States Income Tax Consequences” of the Exchange Offer, which contains important tax information. We encourage you to consult with your own legal, financial and tax advisors if you have questions about your financial or tax situation.

AGREEMENT TO TERMS OF ELECTION TO PARTICIPATE

By electing to tender my Eligible Options for exchange pursuant to the Exchange Offer, I agree to all of the following:

1. I hereby agree to exchange my Eligible Options for New Options as indicated on this Election to Participate in accordance with the terms and conditions of the Offer to Exchange Certain Outstanding Stock Options for New Stock Options, dated September 23, 2010, of which I hereby acknowledge receipt.

2. The tender of some or all of my Eligible Options will constitute my acceptance of the terms and conditions of the Exchange Offer. Acceptance by EnteroMedics of my Eligible Options for exchange upon the Expiration Date of the Exchange Offer will constitute a binding agreement between EnteroMedics and me upon the terms and subject to the conditions of the Exchange Offer.

3. I understand that the Exchange Offer is conditioned on EnteroMedics obtaining stockholder approval of the Exchange Offer at the Special Meeting of Stockholders to be held on Friday, October 22, 2010. I understand that in the event that such stockholder approval is not obtained, the Exchange Offer will be terminated and EnteroMedics will not accept any Eligible Options for cancellation and exchange pursuant to the Exchange Offer.

4. I understand that if I validly tender Eligible Options for exchange, and such Eligible Options are accepted and canceled, I will lose my rights to purchase any shares under such Eligible Options and I will receive in exchange a New Option for a lesser number of shares, determined based on the Exchange Ratios, with a new exercise price, equal to the closing price per share of EnteroMedics common stock on the NASDAQ Capital Market on the last trading day before the expiration of the Exchange Offer, and a term of seven years from the date of grant.

5. I understand that all New Options will have a new vesting schedule and vest such that one-third of the shares underlying the option will be immediately vested on the date of grant and the remaining shares will vest monthly for 24 months, so long as I continue to remain employed by EnteroMedics during such periods.

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

7. I understand that the New Options will be non-qualified stock options for U.S. federal income tax purposes, regardless of whether my tendered Eligible Options were incentive stock options or non-qualified stock options.

8. I understand that the New Options will be subject to the terms and conditions of new stock option agreements and EnteroMedics' 2003 Stock Incentive Plan, as amended (the "2003 Plan"). By participating in the Exchange Offer, I agree to execute and deliver a new stock option agreement for each of my New Options.

9. I acknowledge that EnteroMedics has encouraged me to consult with my own legal, financial and tax advisors as to the consequences of participating or not participating in the Exchange Offer.

10. To remain eligible to tender Eligible Options for exchange in the Exchange Offer, I understand that I must be actively employed by EnteroMedics on the date the Exchange Offer commences and must remain actively employed by EnteroMedics through the date that the New Options are granted.

11. I understand that nothing in the Exchange Offer or related documents should be construed to confer upon me the right to remain an employee of EnteroMedics. The terms of my employment with EnteroMedics remain unchanged. I understand that EnteroMedics cannot guarantee or provide me with any assurance that I will not be subject to involuntary termination or that I will otherwise remain employed until the grant date of the New Options, until the New Options are fully vested, or thereafter.

12. I understand EnteroMedics may extend, terminate, and/or amend the Exchange Offer. In any such event, I understand that any Eligible Options tendered for exchange but not accepted by EnteroMedics will remain in effect with their current terms and conditions until the Expiration Date, if any, of the Exchange Offer.

13. I understand that my election to participate in the Exchange Offer is entirely voluntary, and I am aware that I may withdraw my decision to tender my Eligible Options at any time until the Expiration Date of the Exchange Offer. **Subject to the foregoing, I understand that my election to tender my Eligible Options will be irrevocable on the Expiration Date of the Exchange Offer, scheduled to be 6:00 p.m. Central Time on October 22, 2010, unless the Offering Period is extended by EnteroMedics.**

14. I hereby relinquish to EnteroMedics all of my right, title and interest in and to all of the Eligible Options that I am electing to tender for exchange as specified in the table above.

15. I hereby represent and warrant that I have full power and authority to tender for exchange the Eligible Options specified in the table above and that, when and to the extent such Eligible Options are accepted by EnteroMedics, such Eligible Options will be free and clear of all security interests, liens, restrictions, charges, encumbrances, conditional sales agreements or other obligations relating to the sale or transfer thereof, and such Eligible Options will not be subject to any adverse claims.

16. I understand that the trading price of EnteroMedics common stock will vary from time to time during the Exchange Offer and after the Expiration Date of the Exchange Offer, such that the trading price of EnteroMedics common stock could increase at some time after the date my tendered Eligible Options are canceled pursuant to the Exchange Offer resulting in my financial position being less advantageous than if I had not accepted the Exchange Offer. By tendering the Eligible Options, I agree to hold EnteroMedics harmless for any actual or perceived loss suffered by me as a result of the changes in the trading price of EnteroMedics common stock during the Exchange Offer and after expiration of the Exchange Offer.

17. I hereby agree to all of the terms and conditions of the Exchange Offer, as set forth in this Agreement to Terms of Election, the Offer to Exchange Certain Outstanding Stock Options for New Options, dated September 23, 2010, and the other documents relating to the Exchange Offer and referred to therein or in the Schedule TO that EnteroMedics has filed with the Securities and Exchange Commission.

Date: _____

Signature of Optionee (or Authorized Signatory): _____

Optionee's Name, please print in full: _____

Optionee's EnteroMedics telephone #: (____) _____-_____

Optionee's EnteroMedics email address: _____

ENTEROMEDICS INC.

OFFER TO EXCHANGE OUTSTANDING STOCK OPTIONS
NOTICE OF WITHDRAWAL

EnteroMedics Inc. ("EnteroMedics," "we," "us" or "our") is offering our employees (including executive officers) the opportunity to exchange certain outstanding options to purchase shares of EnteroMedics common stock that were previously granted under our 2003 Stock Incentive Plan, as amended (the "2003 Plan"), and have an exercise price per share greater than \$6.00 (which is currently greater than the highest per share closing price of our common stock for the 52-week period immediately preceding the Expiration Date of the Exchange Offer) ("Eligible Options"). The procedures for withdrawing your previously delivered election to tender your Eligible Options are summarized in the Offer to Exchange Certain Outstanding Stock Options for New Stock Options, dated September 23, 2010 (the "Exchange Offer") and in this Notice of Withdrawal. Capitalized terms used herein and not defined have the meanings given in the Exchange Offer.

To withdraw your election to tender your Eligible Options in the Exchange Offer, please follow the instructions below.

Full Legal Name: _____

I hereby withdraw my previous election to tender my Eligible Options in accordance with the terms and conditions of the Exchange Offer.

INSTRUCTIONS:

1. To withdraw your previous election to tender your Eligible Options in the Exchange Offer, check the box above, manually sign this form and submit it in accordance with these instructions.
 2. Your properly completed, manually signed and dated Notice of Withdrawal must be sent to us either by email to _____ (_____.@enteromedics.com) or by registered mail or courier to EnteroMedics Inc., Attn: _____, 2800 Patton Road, St. Paul, Minnesota 55113 and received on or before 6:00 p.m. Central Time on October 22, 2010, unless the Exchange Offer is extended, in accordance with the terms and conditions of the Exchange Offer. You should make a copy of your Notice of Withdrawal and retain it for your records along with evidence of the date and time you emailed, mailed or shipped the Notice of Withdrawal to us.
- Delivery of your Notice of Withdrawal other than via email, registered mail or courier to the address(es) specified above, will not constitute valid delivery.***
3. EnteroMedics will not accept any Notice of Withdrawal that is not received prior to the Expiration Date of the Exchange Offer. If your Notice of Withdrawal is not received on or before to the Expiration Date of the Exchange Offer, the Eligible Options you tendered for exchange on your last submitted Election to Participate will be canceled and exchanged for New Options in accordance with the terms and conditions of the Exchange Offer.
 4. EnteroMedics intends to confirm the receipt of your Notice of Withdrawal by email within five business days. If you have not received an email confirmation, we recommend that you confirm that we have received your Notice of Withdrawal. If you need to confirm receipt after five business days have elapsed, you may email _____ (_____.@enteromedics.com).
 5. If you change your mind and wish to elect to participate in the Exchange Offer again, your new properly completed, manually signed and dated Election to Participate must be sent to us as described in Instruction 2 above and received on or before the Expiration Date of the Exchange Offer.

AGREEMENT TO TERMS OF NOTICE OF WITHDRAWAL

I hereby acknowledge and agree to all of the following for the benefit of EnteroMedics:

1. I received a copy of the Offer to Exchange Certain Outstanding Stock Options for New Options, dated September 23, 2010 and have read and understand all of the terms and conditions of the Exchange Offer.
2. I previously completed and returned an Election to Participate in which I tendered my Eligible Options to you in exchange for New Options. I understand that by completing and returning this Notice of Withdrawal, I am revoking my Election to Participate with respect to the Eligible Options I previously tendered in the Exchange Offer and that none of my previously tendered Eligible Options will be cancelled and exchanged for New Options in the Exchange Offer.
3. I understand that in order to withdraw my previously tendered options, this Notice of Withdrawal must be received by EnteroMedics (as specified in Instruction 2 above) on or before 6:00 p.m. Central Time on October 22, 2010, unless the Exchange Offer is extended, in accordance with the terms and conditions of the Exchange Offer. I understand that if it is not received prior to the Expiration Date of the Exchange Offer, EnteroMedics will cancel and exchange my Eligible Options in accordance with the elections on my last submitted Election to Participate.
4. I hereby withdraw my previous election to tender my Eligible Options in the Exchange Offer.

Date: _____

Signature of Optionee (or Authorized Signatory): _____

Optionee's Name, please print in full: _____

Optionee's EnteroMedics telephone #: (_____) _____ - _____

Optionee's EnteroMedics email address: _____

FORM OF EMAIL COMMUNICATION TO EMPLOYEES

TO: Employees
FROM: EnteroMedics Inc.
SUBJECT: IMPORTANT NEWS: Launch of Stock Option Exchange Offer
DATE: September 23, 2010

IMPORTANT NEWS—PLEASE READ IMMEDIATELY. SHOULD YOU CHOOSE TO PARTICIPATE IN THIS PROGRAM, YOU MUST TAKE ACTION BY 6:00 P.M. CENTRAL TIME ON OCTOBER 22, 2010.

We are pleased to provide details of the EnteroMedics Stock Option Exchange Offer. As you may be eligible to participate, we encourage you to read carefully the attached document entitled “Offer to Exchange Certain Outstanding Stock Options For New Stock Options.” This document will help you to understand fully the risks and benefits of this exchange offer. We have also attached the forms of Election to Participate and Notice of Withdrawal for your use in connection with this exchange offer.

Below you will find a basic outline of the exchange offer. Should you choose to participate, you will need to properly complete, sign and send the Election to Participate form to us in accordance with the procedures described on that form.

ELIGIBILITY

- All employees (including executive officers) who hold one or more Eligible Options (see below) are eligible to participate in this exchange offer. Non-employee directors, consultants and former employees are not eligible.
- All unexercised stock options granted under our 2003 Stock Incentive Plan, whether vested or unvested, with an exercise price per share greater than \$6.00 are eligible for this exchange offer. However, options granted to individuals in connection with the performance of consulting services for EnteroMedics are not eligible to be exchanged in this exchange offer.
- To be eligible, you must continue to be an employee of EnteroMedics through the expiration date of the exchange offer, which we expect will occur at 6:00 p.m. Central Time on October 22, 2010.

EXCHANGE DETAILS

- This is a voluntary exchange of outstanding stock options. You may exchange all or some of your outstanding eligible options, except that you cannot tender less than all of any particular eligible option.
- Each eligible option that you elect to tender will be exchanged for the grant of a new option to purchase shares of EnteroMedics common stock.
- Each new option will be issued under the 2003 Stock Incentive Plan and will have an exercise price equal to the closing price per share of EnteroMedics common stock on the NASDAQ Capital Market the last trading day of the exchange offer, which is expected to be October 22, 2010.
- Each new option will be exercisable for fewer shares of our common stock than the eligible option it replaces. The number of shares underlying new options will be based on an exchange ratio designed to result in the fair value of the new options being approximately equal in the aggregate to the fair value of the eligible options that are tendered for cancellation in the exchange offer. For more information, see the attached document entitled “Offer to Exchange Certain Outstanding Stock Options For New Stock Options.”
- Each new option will have a new vesting schedule and vest such that one-third of the shares underlying the option will be immediately vested on the date of grant and the remaining shares will vest monthly for 24 months. Vesting is conditioned on your continued employment with us through each applicable vesting date.

- Upon the occurrence of a “Change in Control” (as defined in the stock option agreement), 50% of the unvested portion of the New Options would become fully vested. In addition, in the event of a Change in Control in which your employment is terminated, 100% of the remaining unvested portion of the New Option would immediately vest and would be exercisable for five years following your termination.
- Each new option will be a non-qualified stock option for U.S. federal income tax purposes and will have a term of seven years from the date of grant.

TIMING

- The offer period begins now and is expected to end at 6:00 p.m. Central Time on October 22, 2010, unless EnteroMedics is required or opts to extend the exchange offer.
- Employees who wish to participate in the exchange offer must elect to participate during this period by properly completing, signing and submitting an Election to Participate form to us either by email to _____ (_____.@enteromedics.com) or by registered mail or courier to EnteroMedics Inc., Attn: _____, 2800 Patton Road, St. Paul, Minnesota 55113. We will not be able to accept any elections received after 6:00 p.m. Central Time on October 22, 2010, unless EnteroMedics is required or opts to extend the exchange offer.

CONDITIONS

- This exchange offer is conditioned on EnteroMedics obtaining stockholder approval of the exchange offer at the Special Meeting of Stockholders to be held on October 22, 2010. In the event that such stockholder approval is not obtained, this exchange offer will be terminated and we will not accept any options for cancellation and exchange pursuant to the exchange offer.

HOW TO LEARN MORE

The election period for this exchange program begins today. There are many things to consider when deciding to participate in this exchange offer, and we encourage you to carefully read the attached document entitled “Offer to Exchange Certain Outstanding Stock Options For New Stock Options” to fully understand the risks and benefits of this exchange offer. That document also contains more information and instructions on how to elect to participate in the exchange offer and how to withdraw from the exchange offer before the end of the offering period, if you change your mind regarding your participation.

GENERAL STOCK INFORMATION

You may review your individual stock option information, including all of your stock option grants to date and the status of each stock option, online at the Morgan Stanley Smith Barney website (www.benefitaccess.com).

If you have any questions about the exchange program after reading the attached documents, please contact _____ (_____.@enteromedics.com). For any other questions on your stock options, you can also contact _____ (_____.@enteromedics.com).

**FORM OF COMMUNICATION TO ELIGIBLE OPTIONHOLDERS PARTICIPATING IN
THE EXCHANGE OFFER CONFIRMING RECEIPT OF ELECTION FORM**

Date:
To:
From: EnteroMedics Inc.
Re: Confirmation of Receipt of Election to Participate

This message confirms that we have received your Election to Participate in the Exchange Offer. If all of the eligibility requirements are met, we expect to accept your Eligible Options for exchange, subject to the terms and conditions set forth in the Exchange Offer, promptly following the Expiration Date, which we expect will be at 6:00 p.m., Central Time, on October 22, 2010 (or a later Expiration Date if we extend the offer).

Unless you withdraw your tendered Eligible Options by properly completing and delivering a Notice of Withdrawal that is received by us on or before 6:00 p.m., Central Time, on the Expiration Date, we will exchange your Eligible Options for New Options. If you do not withdraw your tendered Eligible Options and we accept your Eligible Options for exchange, promptly following the expiration of this Exchange Offer we will provide you with a confirmation email confirming that your Eligible Options have been accepted for exchange.

You may change any previous election at any time, or revoke a previous election entirely by delivering a new properly completed election or withdrawal form to us either by email or by registered mail or courier. You may change your election as many times as you like, but your last election received on or before 6:00 p.m., Central Time, on the Expiration Date will serve as your final election and control the extent of your participation in the Exchange Offer.

**FORM OF COMMUNICATION TO ELIGIBLE OPTIONHOLDERS
CONFIRMING RECEIPT OF NOTICE OF WITHDRAWAL**

Date:
To:
From: EnteroMedics Inc.
Re: Confirmation of Receipt of Notice of Withdrawal

This message confirms that we have received your Notice of Withdrawal pursuant to the Exchange Offer. This means that you have withdrawn all of your Eligible Options from the Exchange Offer and that you have revoked your previous acceptance of our offer to exchange your Eligible Options for New Options. You will not receive any New Options. You will retain your Eligible Options previously tendered for exchange with their existing terms, exercise prices, vesting schedules and other terms and conditions. Your Eligible Options will continue to be governed by the 2003 Stock Incentive Plan under which they were originally granted and by your applicable existing stock option agreements with EnteroMedics.

If you change your mind and wish to tender your Eligible Options in the Exchange Offer, your new properly completed Election to Participate must be sent to us either by email or by registered mail or courier and received on or before 6:00 p.m. Central Time on the Expiration Date of the Exchange Offer.

**FORM OF CONFIRMATION EMAIL
TO PARTICIPATING ELIGIBLE OPTIONHOLDERS**

Date:
To:
From: EnteroMedics Inc.
Re: Confirmation of Acceptance of Participation in Exchange Offer

Thank you for your submission of your election to participate in the Exchange Offer. We confirm with this email that we have accepted your election to participate and have canceled the following Eligible Options that you have properly tendered pursuant to the procedures outlined in the Exchange Offer:

Grant Number	Grant Date	Exercise Price (Post-Split)	Shares Granted (Post-Split)

Subject to your continued employment with EnteroMedics on the New Option Grant Date and the other terms and conditions of the Exchange Offer, you now have the right to receive New Options.

You will receive a new stock option agreement in approximately four weeks for each Eligible Option that has been tendered and canceled in the Exchange Offer. These new stock option agreements supersede the stock option agreements you originally received for the Eligible Options you tendered in the Exchange Offer and describe the terms of the New Options granted pursuant to the Exchange Offer. After receiving and reviewing each of your new stock option agreements you will need to execute a signed copy and deliver it to _____.

In the meantime, if you have any questions, please send an email to _____ (_____@enteromedics.com).

Grant ID XXXXX
ENTEROMEDICS INC.
NON-INCENTIVE STOCK OPTION AGREEMENT

THIS AGREEMENT, made as of this ____ day of _____, 2010 (the "New Option Grant Date") by and between EnteroMedics Inc., a Delaware corporation (the "Company"), and _____ ("Optionee").

WHEREAS, the Company, pursuant to the Amended and Restated EnteroMedics Inc. 2003 Stock Incentive Plan (the "Plan"), wishes to grant this stock option to Optionee;

WHEREAS, Optionee was a holder of Eligible Options granted under the Plan. Pursuant to the Tender Offer Statement on Schedule TO and exhibits, including the "Offer to Exchange Certain Outstanding Stock Options for New Options, dated September 23, 2010" describing the terms of the Company's stock option exchange offer (collectively, the "Option Exchange Documents"), Optionee as a holder of Eligible Options was offered to exchange his or her Eligible Options for New Options (the "Exchange Offer"), and Optionee tendered all or some of his or her Eligible Options in the Exchange Offer;

WHEREAS, by tendering all or some of his or her Eligible Options in the Exchange Offer, Optionee agreed that his or her tendered Eligible Options would be canceled in exchange for New Options and that the stock option agreements for the New Options would supercede Optionee's existing stock option agreements for the Eligible Options tendered in the Exchange Offer.

WHEREAS, pursuant to the Exchange Offer, Optionee has received the New Options described herein. The grant of New Options is subject to the terms of the Plan, the Option Exchange Documents and this Agreement. Capitalized terms not otherwise defined herein have the meaning set forth in the Plan or Option Exchange Documents. Copies of the Plan and the Option Exchange Documents are available from _____, and are also available on the Company's website.

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

1. Grant of New Option. Subject to the terms and conditions set forth herein and in the Plan and the Option Exchange Documents, and pursuant to the Optionee's election to exchange the Eligible Option with Grant ID XXXXX pursuant to the Exchange Offer, the Company hereby cancels Optionee's Eligible Option with Grant ID XXXXX and grants to Optionee in exchange the right and option ("the New Option") to purchase all or any part of an aggregate of _____ shares (the "Shares") of the common stock, par value \$0.01 per share (the "Common Stock"), of the Company at the price of \$____ per Share. The New Option is not intended to qualify as an incentive stock option within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended (the "Code").

2. Duration and Exercisability. The New Option may not be exercised by Optionee except as set forth herein, and the New Option shall in all events terminate seven years from the date hereof. Subject to the other terms and conditions set forth herein, the New Option shall vest at one-third (1/3), or approximately ____ shares, immediately on the date hereof, and then __%, or approximately ____ shares, per month thereafter for 24 months, starting _____, 2010 and ending _____, 2012.

During the lifetime of Optionee, the New Option shall be exercisable only by Optionee. The New Option shall not be assignable or transferable by Optionee, other than by will or the laws of descent and distribution. The vesting of the New Option is subject to acceleration under the circumstances described in Section 4.

3. Effect of Termination of Relationship with the Company.

(a) In the event that Optionee's relationship with the Company or its subsidiaries shall terminate, for any reason other than Optionee's gross and willful misconduct or Optionee's death or disability, Optionee shall have the right to exercise the New Option at any time within five years after such termination to the extent of the full number of Shares Optionee was entitled to purchase under the New Option on the date of termination, subject to the condition that the New Option shall not be exercisable after the expiration of its term.

(b) In the event that Optionee's relationship with the Company or its subsidiaries shall terminate by reason of Optionee's gross and willful misconduct during the course of his/her relationship with the Company (as reasonably determined by the Company), the New Option shall terminate as of the date of the misconduct and shall not be exercisable thereafter.

(c) If Optionee shall die during its relationship with the Company or its subsidiaries, or within three months after termination of such relationship with the Company for any reason other than gross and willful misconduct, or if Optionee's relationship with the Company or its subsidiaries is terminated because the Optionee has become disabled within the meaning of Section 22(e)(3) of the Code, and Optionee shall not have fully exercised the New Option, the New Option may be exercised at any time within twelve months after the date of Optionee's death or termination of Optionee's relationship because of disability by the legal representative or, if applicable, guardian of Optionee or by any person to whom the New Option is transferred by will or the applicable laws of descent and distribution to the extent of the full number of Shares Optionee was entitled to purchase under the New Option on the date of death (or termination of Optionee's relationship with the Company, if earlier) or termination of Optionee's relationship because of disability and subject to the condition that the New Option shall not be exercisable after the expiration of its term.

4. Change in Control.

(a) In the event that a "Change in Control" (as hereinafter defined) occurs, (A) all outstanding New Options shall be subject to the agreement pursuant to which such Change in Control is consummated (the "COC Agreement") and (B) the vesting schedule of the New Options held by Optionee shall accelerate such that (y) on the date the Change in Control is completed, 50% of any then-unvested shares subject to the New Options held by Optionee shall immediately vest, irrespective of which of the provisions described in clauses (i) through (v) below are set forth in the COC Agreement is consummated (except in the case of clauses (iv) or (v), in which case 100% of the New Options would become vested), and (z) if Optionee is a Company employee at the time of the Change of Control and, in connection with or within the first two years after a Change in Control, Optionee's employment is terminated "Without Cause" (as hereinafter defined), the vesting schedule of the New Options held by Optionee shall accelerate such that on the termination of employment in connection with such Change in Control, 100% of any then-unvested shares subject to the New Option held by Optionee that remain outstanding shall immediately vest and shall be exercisable during the five-year period following the date of termination of employment (but not after the end of the New Option's original term) irrespective of which of the provisions described in clauses (i) through (v) below are set forth in the COC Agreement (except in the

case of clauses (iv) or (v), in which case 100% of the New Options would become vested). The COC Agreement shall provide for one or more of the following:

(i) The continuation of such outstanding New Options by the Company (if the Company is the surviving corporation).

(ii) The assumption of such outstanding New Options by the surviving corporation or its parent in a manner that complies with Section 424(a) of the Code (whether or not such New Options are ISOs).

(iii) The substitution by the surviving corporation or its parent of new options for such outstanding New Options in a manner that complies with Section 424(a) of the Code (whether or not such New Options are ISOs).

(iv) Full exercisability of such outstanding New Options and full vesting of the Shares subject to such New Options, followed by the cancellation of such New Options. The full exercisability of such New Options and full vesting of the Shares subject to such New Options may be contingent on the closing of such Change in Control. The Optionees shall be able to exercise such New Options during a period of not less than five full business days preceding the closing date of such Change in Control, unless (A) a shorter period is required to permit a timely closing of such Change in Control and (B) such shorter period still offers the Optionee a reasonable opportunity to exercise such New Options. Any exercise of such New Options during such period may be contingent on the closing of such Change in Control.

(v) The cancellation of such outstanding New Options and a payment to the Optionee equal to the excess of (A) the Fair Market Value (as defined in the Plan) of the Shares subject to such New Options (whether or not such New Options are then exercisable or such Shares are then vested) as of the closing date of such Change in Control over (B) their aggregate exercise price. Such payment shall be made in the form of cash, cash equivalents, or securities of the surviving corporation or its parent with a Fair Market Value equal to the required amount. Such payment may be made in installments and may be deferred until the date or dates when such New Options would have become exercisable or such Shares would have vested. Such payment may be subject to vesting based on the Optionee's continuing service to the Company or its affiliates, provided that the vesting schedule shall not be less favorable to the Optionee than the schedule under which such New Options would have become exercisable or such Shares would have vested. If the aggregate exercise price of the Shares subject to such New Options exceeds the Fair Market Value of such Shares by greater than ten percent (10%) of the Fair Market Value of such Shares, then such New Options may be cancelled without making a payment to the Optionee. For purposes of this Section 4(a)(v), the Fair Market Value of any security shall be determined without regard to any vesting conditions that may apply to such security.

(b) A "Change in Control" of the Company shall be deemed to have occurred if:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) who did not own shares of the capital stock of the Company on the date of grant of the New Option shall, together with his, her or its "Affiliates" and "Associates" (as such terms are defined in Rule 12b-2 promulgated under the Exchange Act), become the "Beneficial Owner" (as such term is defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company

representing 50% or more of the combined voting power of the Company's then outstanding securities (any such person being hereinafter referred to as an "Acquiring Person");

(ii) The "Continuing Directors" (as hereinafter defined) shall cease to constitute a majority of the Company's Board of Directors;

(iii) There should occur (A) any consolidation or merger involving the Company and the Company shall not be the continuing or surviving corporation or the shares of the Company's capital stock shall be converted into cash, securities or other property; provided, however, that this subclause (A) shall not apply to a merger or consolidation in which (i) the Company is the surviving corporation and (ii) the stockholders of the Company immediately prior to the transaction have the same proportionate ownership of the capital stock of the surviving corporation immediately after the transaction; (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company; or (C) any liquidation or dissolution of the Company; or

(iv) The majority of the Continuing Directors determine, in their sole and absolute discretion, that there has been a Change in Control.

(c) "Continuing Director" shall mean any person who is a member of the Board of Directors of the Company, while such person is a member of the Board of Directors, who is not an Acquiring Person, an Affiliate or Associate of an Acquiring Person or a representative of an Acquiring Person or of any such Affiliate or Associate and who (i) was a member of the Company's Board of Directors on the date of grant of the New Option or (ii) subsequently became a member of the Board of Directors, upon the nomination or recommendation, or with the approval of, a majority of the Continuing Directors.

(d) "Without Cause" For purposes of this Agreement, a termination of Optionee Without Cause shall mean a termination (other than termination involving death, disability or mutual agreement of the Company and Optionee) of employment for any reason other than any of the following: (a) willful breach of Optionee's duties to Company; (b) conviction of any felony or any crime involving fraud, dishonesty, or moral turpitude; (c) participation in any fraud against or affecting Company or any subsidiary, affiliate, customer, supplier, client, agent, or employee thereof; or (d) any other act Company determines constitutes gross or willful misconduct detrimental to Company including, but not limited to, unethical practices, dishonesty, disloyalty, or any other acts harmful to Company.

5. Manner of Exercise.

(a) The New Option may only be exercised by Optionee or other proper party within the option period by delivering written notice of exercise to the Company at its principal executive office. The notice shall state the number of Shares as to which the New Option is being exercised and shall be accompanied by payment in full of the option price for all of the Shares designated in the notice.

(b) Optionee may, at the Company's election, pay the option price in cash, by check (bank check, certified check or personal check) or by any other means approved by the Committee (as such term is defined in the Plan) in its discretion, or in accordance with the terms set forth in the Plan.

(c) The exercise of the New Option is contingent upon receipt from Optionee (or other proper person exercising the New Option) of a representation that, at the time of such exercise, it is Optionee's intention to acquire the Shares being purchased for investment and not with a view to the distribution or

sale thereof within the meaning of the Securities Act of 1933, as amended (the "Securities Act"); provided, however, that the receipt of such representation shall not be required upon exercise of the New Option if, at the time of such exercise, the issuance of the Shares subject to the New Option shall have been properly registered under the Securities Act and all applicable state securities laws. Such representation shall be in writing and in such form as the Company may reasonably request. The certificate representing the Shares so issued for investment shall be imprinted with an appropriate legend setting forth all applicable restrictions on their transferability.

6. Right of First Refusal.

(a) **Right of First Refusal.** In the event that the Optionee proposes to sell, pledge or otherwise transfer to a third party any Shares acquired under this Agreement, or any interest in such Shares, the Company shall have the Right of First Refusal with respect to all (and not less than all) of such Shares. If the Optionee desires to transfer Shares acquired under this Agreement, the Optionee shall give a written transfer notice (a "Transfer Notice") to the Company describing fully the proposed transfer, including the number of Shares proposed to be transferred, the proposed transfer price, the name and address of the proposed transferee (the "Transferee") and proof satisfactory to the Company that the proposed sale or transfer will not violate any applicable federal or state securities laws. The Transfer Notice shall be signed both by the Optionee and by the proposed Transferee and must constitute a binding commitment of both parties to the transfer of the Shares. The Company shall have the right to purchase all, and not less than all, of the Shares on the terms of the proposal described in the Transfer Notice (subject, however, to any change in such terms permitted under Subsection (b) below) by delivery of a notice of exercise of the Right of First Refusal within 30 days after the date when the Transfer Notice was received by the Company.

(b) **Transfer of Shares.** If the Company fails to exercise its Right of First Refusal within 30 days after the date when it received the Transfer Notice, the Optionee may, not later than 90 days following receipt of the Transfer Notice by the Company, conclude a transfer of the Shares subject to the Transfer Notice on the terms and conditions described in the Transfer Notice, provided that any such sale is made in compliance with applicable federal and state securities laws and not in violation of any other contractual restrictions to which the Optionee is bound. Any proposed transfer on terms and conditions different from those described in the Transfer Notice, as well as any subsequent proposed transfer by the Optionee, shall again be subject to the Right of First Refusal and shall require compliance with the procedure described in Subsection (a) above. If the Company exercises its Right of First Refusal, the parties shall consummate the sale of the Shares on the terms set forth in the Transfer Notice within 60 days after the date when the Company received the Transfer Notice (or within such longer period as may have been specified in the Transfer Notice); provided, however, that in the event the Transfer Notice provided that payment for the Shares was to be made in a form other than cash or cash equivalents paid at the time of transfer, the Company shall have the option of paying for the Shares with cash or cash equivalents equal to the present value of the consideration described in the Transfer Notice.

(c) **Additional or Exchanged Securities and Property.** In the event of a merger or consolidation of the Company with or into another entity, any other corporate reorganization, a stock split, the declaration of a stock dividend, the declaration of an extraordinary dividend payable in a form other than stock, a spin-off, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company's outstanding securities, any securities or other property (including cash or cash equivalents) that are by reason of such transaction exchanged for, or distributed with respect to, any Shares subject to this Section 6 shall immediately be subject to the Right of First Refusal. Appropriate

adjustments to reflect the exchange or distribution of such securities or property shall be made to the number and/or class of the Shares subject to this Section 6.

(d) **Termination of Right of First Refusal.** Any other provision of this Section 6 notwithstanding, in the event that the Common Stock is readily tradable on an established securities market when the Optionee desires to transfer Shares, the Company shall have no Right of First Refusal, and the Optionee shall have no obligation to comply with the procedures prescribed by Subsections (a) and (b) above.

(e) **Permitted Transfers.** This Section 6 shall not apply to (i) a transfer by beneficiary designation, will or intestate succession or (ii) a transfer to one or more members of the Optionee's Immediate Family or to a trust established by the Optionee for the benefit of the Optionee and/or one or more members of the Optionee's Immediate Family, provided in either case that the Transferee agrees in writing on a form prescribed by the Company to be bound by all provisions of this Agreement. If the Optionee transfers any Shares acquired under this Agreement, either under this Subsection (e) or after the Company has failed to exercise the Right of First Refusal, then this Agreement shall apply to the Transferee to the same extent as to the Optionee. For purposes of this Agreement, "Immediate Family" shall include the ancestors, descendants, siblings and spouse of the Optionee.

(f) **Termination of Rights as Stockholder.** If the Company makes available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Shares to be purchased in accordance with this Section 6, then after such time the person from whom such Shares are to be purchased shall no longer have any rights as a holder of such Shares (other than the right to receive payment of such consideration in accordance with this Agreement). Such Shares shall be deemed to have been purchased in accordance with the applicable provisions hereof, whether or not the certificate(s) therefor have been delivered as required by this Agreement.

(g) **Assignment of Right of First Refusal.** The Board of Directors may freely assign the Company's Right of First Refusal, in whole or in part. Any person who accepts an assignment of the Right of First Refusal from the Company shall assume all of the Company's rights and obligations under this Section 6.

7. **Market Stand-Off.** In connection with any underwritten public offering by the Company of its equity securities pursuant to an effective registration statement filed under the Securities Act, including the Company's initial public offering, the Optionee or a Transferee shall not directly or indirectly sell, make any short sale of, loan, hypothecate, pledge, offer, grant or sell any option or other contract for the purchase of, purchase any option or other contract for the sale of, or otherwise dispose of or transfer, or agree to engage in any of the foregoing transactions with respect to, any Shares acquired under this Agreement without the prior written consent of the Company or its underwriters. Such restriction (the "Market Stand-Off") shall be in effect for such period of time following the date of the final prospectus for the offering as may be requested by the Company or such underwriters. In no event, however, shall such period exceed 180 days. The Market Stand-Off shall in any event terminate two years after the date of the Company's initial public offering. In the event of the declaration of a stock dividend, a spin-off, a stock split, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting the Company's outstanding securities without receipt of consideration, any new, substituted or additional securities which are by reason of such transaction distributed with respect to any Shares subject to the Market Stand-Off, or into which such Shares thereby become convertible, shall immediately be subject to the Market Stand-Off. In order to enforce the Market Stand-Off, the Company may impose stop-transfer instructions with respect to the Shares acquired under this Agreement until the

end of the applicable stand-off period. The Company's underwriters shall be beneficiaries of the agreement set forth in this Section 7. This Section 7 shall not apply to Shares registered in the public offering under the Securities Act, and the Optionee or a Transferee shall be subject to this Section 7 only if the directors and officers of the Company are subject to similar arrangements.

8. Adjustments. In the event that there is any change in the Common Stock or corporate structure of the Company as a result of any dividend or other distribution (whether in the form of cash, Common Stock, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company or other similar corporate transaction or event, and all or any portion of the New Option shall then be unexercised and not yet expired, then appropriate adjustments in the outstanding New Option shall be made as determined by the Committee in accordance with the provisions of Section 4(c) of the Plan in order to prevent dilution or enlargement of New Option rights.

9. Miscellaneous.

(a) The New Option is issued pursuant to the Plan and is subject to the terms of the Plan and the Option Exchange Documents. In the event any of the terms of this New Option conflict or are inconsistent in any respect with terms of the Plan or the Option Exchange Documents, the Plan terms shall control. Optionee hereby acknowledges receipt of a copy of the Plan and the Option Exchange Documents. The Plan and the Option Exchange Documents are also available for inspection during business hours at the principal office of the Company.

(b) This Agreement shall not confer on Optionee any right with respect to continuance of employment by or continuance of the relationship with the Company or any of its subsidiaries, nor will it interfere in any way with the right of the Company to terminate such employment at any time. Optionee shall have none of the rights of a stockholder with respect to the Shares until such Shares shall have been issued to him or her upon exercise of the New Option.

(c) The Company shall at all times during the term of the New Option reserve and keep available such number of Shares as will be sufficient to satisfy the requirements thereof. The exercise of all or any part of the New Option shall only be effective at, and may be deferred until, such time as the sale of the Shares pursuant to such exercise will not violate any federal or state securities laws, it being understood that the Company shall have no obligation to register the issuance or sale of the Shares for such purpose.

[The remainder of this page is intentionally left blank; signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the day and year first above written.

ENTEROMEDICS, INC.

By _____
Name: Mark B. Knudson, Ph.D.
Title: President and CEO

Optionee