

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Apollo Endosurgery, Inc.

Form: 10-Q

Date Filed: 2020-11-05

Corporate Issuer CIK: 1251769

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

FORM 10-Q

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

For the quarterly period ended September 30, 2020

OR

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

For the transition period from to

Commission file number: 001-35706

APOLLO ENDOSURGERY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

16-1630142
(I.R.S. Employer
Identification No.)

1120 S. Capital of Texas Highway, Building 1, Suite #300, Austin, Texas
(Address of principal executive offices)

78746
(Zip Code)

Registrant's telephone number, including area code (512) 279-5100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.001 per share	APEN	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 30, 2020, there were 25,783,554 shares of the issuer's \$0.001 par value common stock issued and outstanding.

APOLLO ENDOSURGERY, INC. AND SUBSIDIARIES
FOR THE QUARTER ENDED SEPTEMBER 30, 2020
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PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

APOLLO ENDOSURGERY, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except for share data)

	September 30, 2020 (unaudited)	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 37,430	\$ 29,905
Accounts receivable, net of allowance for doubtful accounts of \$ 596 and \$658, respectively	8,222	9,232
Inventory, net	10,041	8,865
Prepaid expenses and other current assets	2,748	2,998
Total current assets	<u>58,441</u>	<u>51,000</u>
Restricted cash	765	1,016
Property, equipment and right-of-use assets, net	6,743	6,612
Goodwill	5,290	5,290
Intangible assets, net of accumulated amortization of \$ 12,737 and \$11,648, respectively	6,469	7,831
Other assets	2,985	2,833
Total assets	<u>\$ 80,693</u>	<u>\$ 74,582</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,359	\$ 9,902
Accrued expenses	7,343	8,438
Current portion of long-term debt	8,326	34,449
Total current liabilities	<u>19,028</u>	<u>52,789</u>
Long-term debt	29,451	—
Convertible debt	19,389	18,554
Long-term liabilities	2,406	1,116
Total liabilities	<u>70,274</u>	<u>72,459</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock; \$0.001 par value; 100,000,000 shares authorized; 23,677,676 and 20,951,963 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	24	21
Additional paid-in capital	275,883	250,634
Accumulated other comprehensive income	3,780	1,630
Accumulated deficit	(269,268)	(250,162)
Total stockholders' equity	<u>10,419</u>	<u>2,123</u>
Total liabilities and stockholders' equity	<u>\$ 80,693</u>	<u>\$ 74,582</u>

See accompanying notes to the condensed consolidated financial statements.

APOLLO ENDOSURGERY, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations and Comprehensive Loss
(In thousands, except for share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues	\$ 12,826	\$ 11,259	\$ 29,188	\$ 38,724
Cost of sales	5,840	5,826	14,136	18,884
Gross margin	<u>6,986</u>	<u>5,433</u>	<u>15,052</u>	<u>19,840</u>
Operating expenses:				
Sales and marketing	4,178	6,495	12,773	21,995
General and administrative	2,374	3,159	7,870	10,219
Research and development	1,522	2,128	5,484	8,245
Amortization of intangible assets	486	510	1,472	1,591
Settlement gain	—	—	—	(5,609)
Total operating expenses	<u>8,560</u>	<u>12,292</u>	<u>27,599</u>	<u>36,441</u>
Loss from operations	(1,574)	(6,859)	(12,547)	(16,601)
Other expenses:				
Interest expense, net	1,335	1,221	3,895	2,849
Other (income) expense, net	(353)	498	2,574	655
Net loss before income taxes	<u>(2,556)</u>	<u>(8,578)</u>	<u>(19,016)</u>	<u>(20,105)</u>
Income tax expense	41	80	90	131
Net loss	<u>\$ (2,597)</u>	<u>\$ (8,658)</u>	<u>\$ (19,106)</u>	<u>\$ (20,236)</u>
Other comprehensive income:				
Foreign currency translation	(253)	176	2,150	207
Comprehensive loss	<u>\$ (2,850)</u>	<u>\$ (8,482)</u>	<u>\$ (16,956)</u>	<u>\$ (20,029)</u>
Net loss per share, basic and diluted	<u>\$ (0.11)</u>	<u>\$ (0.40)</u>	<u>\$ (0.88)</u>	<u>\$ (0.93)</u>
Weighted average common shares outstanding, basic and diluted	23,110,524	21,401,044	21,798,336	21,743,218

See accompanying notes to the condensed consolidated financial statements.

APOLLO ENDOSURGERY, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity
(In thousands, except for share data)
(unaudited)

Three Months Ended September 30, 2020 and 2019

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount				
Balances at June 30, 2019	21,933,102	\$ 22	\$ 249,791	\$ 2,532	\$ (234,308)	\$ 18,037
Exercise of common stock options	1,867	—	4	—	—	4
Exchange of common stock for warrants	(1,000,000)	(1)	1	—	—	—
Stock based compensation	—	—	390	—	—	390
Foreign currency translation	—	—	—	176	—	176
Net loss	—	—	—	—	(8,658)	(8,658)
Balances at September 30, 2019	<u>20,934,969</u>	<u>\$ 21</u>	<u>\$ 250,186</u>	<u>\$ 2,708</u>	<u>\$ (242,966)</u>	<u>\$ 9,949</u>
Balances at June 30, 2020	21,196,387	\$ 21	\$ 252,038	\$ 4,033	\$ (266,671)	\$ (10,579)
Issuance of restricted stock units	1,289	—	—	—	—	—
Issuance of common stock, net of issuance costs of \$1,721	2,480,000	3	23,259	—	—	23,262
Stock based compensation	—	—	586	—	—	586
Foreign currency translation	—	—	—	(253)	—	(253)
Net loss	—	—	—	—	(2,597)	(2,597)
Balances at September 30, 2020	<u>23,677,676</u>	<u>\$ 24</u>	<u>\$ 275,883</u>	<u>\$ 3,780</u>	<u>\$ (269,268)</u>	<u>\$ 10,419</u>

See accompanying notes to the condensed consolidated financial statements.

APOLLO ENDOSURGERY, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity
(In thousands, except for share data)
(unaudited)

Nine Months Ended September 30, 2020 and 2019						
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount				
Balances at December 31, 2018	21,899,522	\$ 22	\$ 249,115	\$ 2,501	\$ (222,730)	\$ 28,908
Exercise of common stock options	5,621	—	11	—	—	11
Exchange of common stock for warrants	(1,000,000)	(1)	1	—	—	—
Issuance of restricted stock units	29,826	—	—	—	—	—
Stock based compensation	—	—	1,059	—	—	1,059
Foreign currency translation	—	—	—	207	—	207
Net loss	—	—	—	—	(20,236)	(20,236)
Balances at September 30, 2019	<u>20,934,969</u>	<u>\$ 21</u>	<u>\$ 250,186</u>	<u>\$ 2,708</u>	<u>\$ (242,966)</u>	<u>\$ 9,949</u>
Balances at December 31, 2019	20,951,963	\$ 21	\$ 250,634	\$ 1,630	\$ (250,162)	\$ 2,123
Exercise of common stock options	1,150	—	2	—	—	2
Issuance of restricted stock units	79,766	—	—	—	—	—
Issuance of common stock for convertible debt interest	164,797	—	467	—	—	467
Issuance of common stock, net of issuance costs of \$1,721	2,480,000	3	23,259	—	—	23,262
Stock based compensation	—	—	1,521	—	—	1,521
Foreign currency translation	—	—	—	2,150	—	2,150
Net loss	—	—	—	—	(19,106)	(19,106)
Balances at September 30, 2020	<u>23,677,676</u>	<u>\$ 24</u>	<u>\$ 275,883</u>	<u>\$ 3,780</u>	<u>\$ (269,268)</u>	<u>\$ 10,419</u>

See accompanying notes to the condensed consolidated financial statements.

APOLLO ENDOSURGERY, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net loss	\$ (19,106)	\$ (20,236)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,820	3,108
Amortization of deferred financing costs	487	470
Non-cash interest	1,104	214
Provision for doubtful accounts receivable	34	209
Inventory impairment	—	80
Stock based compensation	1,521	1,059
Unrealized foreign exchange on intercompany payables	2,366	950
Settlement gain	—	(5,609)
Changes in operating assets and liabilities:		
Accounts receivable	930	2,074
Inventory	(1,286)	(1,042)
Prepaid expenses and other assets	387	(319)
Accounts payable and accrued expenses	(7,274)	97
Net cash used in operating activities	<u>(18,017)</u>	<u>(18,945)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(431)	(466)
Purchases of intangibles and other assets	(117)	(181)
Proceeds from sale of equipment	—	18
Net cash used in investing activities	<u>(548)</u>	<u>(629)</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	2	11
Proceeds from issuance of common stock	23,262	—
Proceeds from long-term debt	2,824	35,000
Proceeds from convertible debt	—	20,000
Payments of deferred financing costs	(260)	(2,737)
Payment of long-term debt	—	(21,668)
Net cash provided by financing activities	<u>25,828</u>	<u>30,606</u>
Effect of exchange rate changes on cash	11	(63)
Net change in cash, cash equivalents and restricted cash	<u>7,274</u>	<u>10,969</u>
Cash, cash equivalents and restricted cash at beginning of year	<u>30,921</u>	<u>25,007</u>
Cash, cash equivalents and restricted cash at end of period	<u>\$ 38,195</u>	<u>\$ 35,976</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 2,398	\$ 2,634
Cash paid for income taxes	52	132
Right-of-use assets recognized in exchange for lease obligations (non-cash)	1,152	2,789

See accompanying notes to the condensed consolidated financial statements.

(1) Organization and Business Description

Apollo Endosurgery, Inc. is a Delaware corporation with both domestic and foreign wholly-owned subsidiaries. Throughout these Notes, "Apollo" and the "Company" refer to Apollo Endosurgery, Inc. and its consolidated subsidiaries.

Apollo is a medical technology company primarily focused on the design, development, and commercialization of innovative medical devices to advance gastrointestinal therapeutic endoscopy. The Company develops and distributes devices that are used by surgeons and gastroenterologists for a variety of procedures related to gastrointestinal defect and complication management or bariatric (weight loss) intervention.

The Company's core products include the OverStitch™ Endoscopic Suturing System ("ESS") and the Orbera® IntraGastric Balloon System ("IGB"), which together comprise the Company's Endoscopy products. The Company also offers Apollo Care, a digital and remotely delivered aftercare program. All devices are regulated by the U.S. Food and Drug Administration (the "FDA") or an equivalent regulatory body outside the U.S.

The Company has offices in the United Kingdom and Italy that oversee commercial activities outside the U.S. and a products manufacturing facility in Costa Rica. All other activities are managed and operated from facilities in Austin, Texas.

Liquidity and Capital Resources

The Company has experienced operating losses since inception and expects its negative cash flows from operating activities to continue. To date, the Company has funded its operating losses through equity offerings and the issuance of debt instruments. The Company's ability to fund operations and meet debt covenant requirements will depend on its level of future revenue and operating cash flow and its ability to access additional funding through either equity offerings, issuances of debt instruments or both. At December 31, 2019 and March 31, 2020, substantial doubt existed about the Company's ability to continue as a going concern due to the temporary reduction in sales resulting from the COVID-19 pandemic and the uncertainty regarding how long COVID-19 would impact the Company's business. As a result, the auditor's opinion on the Company's audited financial statements for the year ended December 31, 2019 includes an explanatory paragraph stating that losses and negative cash flows from operations and uncertainty in generating sufficient cash to meet operations raise substantial doubt about the Company's ability to continue as a going concern.

In July 2020, the Company issued shares of common stock and pre-funded warrants for aggregate gross proceeds of approximately \$ 25,000 and entered into the Sixth Amendment to the loan and security agreement with Solar Capital, Ltd. that waives the minimum revenue covenant requirements for the remainder of 2020 and also decreased the minimum liquidity requirement from \$20,000 to \$12,500.

Management believes the Company's existing cash and cash equivalents, product revenues, and available debt and equity financing arrangements will be sufficient to meet covenant, liquidity and capital requirements for at least the next twelve months. Management evaluates the Company's liquidity requirements, alternative uses of capital, capital needs and available resources on an on-going basis. As a result of this process, the Company has in the past, and may in the future, explore alternatives to finance its business plan, including, but not limited to, sales of common stock, preferred stock, convertible securities or debt financings, reduction of planned expenditures, or other sources.

(2) Significant Accounting Policies

(a) Basis of Presentation

The Company prepared its interim condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). They do not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying condensed consolidated financial statements include the Company's accounts and the accounts of its wholly-owned subsidiaries. The Company has eliminated all intercompany balances and transactions.

The Company has made estimates and judgments affecting the amounts reported in its condensed consolidated financial statements and the accompanying notes. The actual results that the Company experiences may differ materially from the Company's estimates. The accounting estimates that require the Company's most significant, difficult and subjective judgments include revenue recognition, impairment of long-lived assets and goodwill, and valuation of inventory.

(b) Unaudited Interim Results

In management's opinion, the unaudited financial information for the interim periods presented includes all adjustments necessary for a fair presentation of the results of operations, financial position, and cash flows. All adjustments are of a normal recurring nature unless otherwise disclosed. Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be the same as those for the full year. This interim information should be read in conjunction with the audited consolidated financial statements in the Company's [Annual Report on Form 10-K](#) for the year ended December 31, 2019.

(c) Recent Accounting Pronouncements

On January 1, 2020, the Company adopted the provision of Accounting Standards Update ("ASU") 2017-04, *Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). The adoption did not result in any financial statement adjustment or change to the Company's critical accounting policies. Due to the impact of the COVID-19 pandemic on the business, the Company performed an updated interim goodwill impairment test as of September 30, 2020 and concluded no impairment was required.

In March 2020, ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, was issued to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients for contracts that reference LIBOR, if certain criteria are met, that can be applied through December 31, 2022. As reference rate reform is still an ongoing process, the Company will continue to evaluate the timing and potential impact of adoption for optional expedients when deemed necessary.

(3) Concentrations

Consolidated financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash and cash equivalents and accounts receivable. At September 30, 2020, the Company's cash, cash equivalents and restricted cash are held in deposit accounts at five different banks totaling \$38,195. The Company has not experienced any losses in such accounts, and management does not believe the Company is exposed to any significant credit risk. Management further believes that credit risk in the Company's accounts receivable is substantially mitigated by the Company's evaluation process, relatively short collection terms, and the high level of creditworthiness of its customers. The Company continually monitors the compliance of its customers with the Company's payment terms, but generally requires no collateral.

The Company had one customer representing approximately 15% of the Company's net accounts receivable balance as of December 31, 2019. There were no concentrations greater than 10% of the Company's net accounts receivable as of September 30, 2020. The Company had no single customer that comprised more than 10% of the Company's total revenues for the three and nine months ended September 30, 2020 and 2019.

(4) Inventory

Inventory consists of the following as of:

	<u>September 30, 2020</u> (unaudited)	<u>December 31, 2019</u>
Raw materials	\$ 2,417	\$ 2,834
Work in progress	754	532
Finished goods	6,870	5,499
Total inventory	<u>\$ 10,041</u>	<u>\$ 8,865</u>

The Company recorded inventory impairment charges of \$ 40 and \$80 for the three and nine months ended September 30, 2019, respectively. There were no inventory impairment charges during the same periods of 2020. Finished goods included \$ 133 of consigned inventory at September 30, 2020.

(5) Property, Equipment and Right-of-Use Assets

Property, equipment and right-of-use assets consists of the following:

	<u>Depreciable Lives</u>	<u>September 30, 2020</u>	<u>December 31, 2019</u>
		(unaudited)	
Equipment	5 years	\$ 7,520	\$ 7,491
Right-of-use assets	1-5 years	4,014	2,890
Furniture, fixtures and tooling	4-8 years	2,155	2,233
Computer hardware	3-5 years	1,240	1,261
Leasehold improvements	3-5 years	1,743	1,671
Construction in process		377	198
		<u>17,049</u>	<u>15,744</u>
Less accumulated depreciation		(10,306)	(9,132)
Property, equipment and right-of-use assets, net		<u>\$ 6,743</u>	<u>\$ 6,612</u>

The Company recorded depreciation expense of \$435 and \$1,346 for the three and nine months ended September 30, 2020 and \$ 436 and \$1,411 for the three and nine months ended September 30, 2019, respectively. There were no impairment charges for the three and nine months ended September 30, 2020 and 2019. The Company disposed of \$275 of property, equipment and right-of-use assets no longer utilized during the nine months ended September 30, 2020.

The Company has operating leases for office space in Texas, the United Kingdom, and Italy, and for the manufacturing facility in Costa Rica. In September 2020, the Company extended the lease of the manufacturing facility in Costa Rica. The Company also has various operating lease agreements for equipment and vehicles.

As of September 30, 2020, the maturities of the Company's operating lease liabilities are as follows:

2020	\$ 285
2021	982
2022	565
2023	490
2024	428
Thereafter	<u>1,579</u>
Total lease payments	4,329
Less imputed interest	(1,149)
Total operating lease liabilities	<u>\$ 3,180</u>

Operating lease liabilities of \$ 774 and \$932 are included in accrued expenses and \$2,406 and \$1,116 are included in long-term liabilities, as of September 30, 2020 and December 31, 2019, respectively. Operating lease expense and cash paid within operating cash flows for operating leases was \$286 and \$870 for the three and nine months ended September 30, 2020 and \$306 and \$958 for the three and nine months ended September 30, 2019, respectively. As of September 30, 2020, the weighted average remaining lease term was 5.3 years and the weighted average discount rate used to estimate the value of the operating lease liabilities was 9.0%.

(6) Other Assets

Included in other assets as of September 30, 2020 and December 31, 2019 is \$ 2,698 and \$2,511 for the non-current portion of the remaining \$ 5,000 receivable due from ReShape Lifesciences Inc. ("ReShape"), respectively, for the remaining unpaid consideration from the divestiture of the Surgical product line, which consisted of the Lap-Band® System and related laparoscopic accessories, in December 2018. Interest on the receivable accretes at 10% annually. Imputed interest income on the ReShape receivable was \$105 and \$317 for the three and nine months ended September 30, 2020 and \$ 151 and \$474 for the three and nine months ended September 30, 2019, respectively, and is included within interest expense, net.

(7) Accrued Expenses

Accrued expenses consists of the following as of:

	September 30, 2020 (unaudited)	December 31, 2019
Accrued employee compensation and expenses	\$ 3,797	\$ 3,183
Accrued professional service fees	912	653
Lease liability	774	932
Accrued insurance and taxes	471	271
Accrued interest	309	467
Accrued returns and rebates	127	216
Settlement liability	—	1,625
Other	953	1,091
Total accrued expenses	\$ 7,343	\$ 8,438

In April 2019, the Company entered into a settlement agreement with Allergan, Inc. to resolve a dispute related to amounts charged for inventory purchases and transition services provided through 2016, after the Company's asset acquisition of the obesity intervention business in December 2013. The settlement agreement provided for a payment of \$3,250 to completely discharge all remaining possibility for these charges. The Company recognized a gain of \$ 5,609 in 2019 as a result of this settlement agreement.

(8) Long-Term Debt

Long-term debt consists of the following as of:

	September 30, 2020 (unaudited)	December 31, 2019
Term loan facility	\$ 35,000	\$ 35,000
PPP loan	2,824	—
Payment-in-kind interest	1,029	517
Deferred financing costs	(1,076)	(1,068)
Less current portion	(8,326)	(34,449)
Long-term debt	\$ 29,451	\$ —

Term Loan Facility

In March 2019, the Company entered into a Term Loan Facility (the "Credit Agreement") with Solar Capital Ltd. ("Solar") to borrow \$ 35,000. The Credit Agreement matures on September 1, 2023, with principal payments beginning in March 2021, and bears interest at the greater of LIBOR or 1.35575%, plus 7.5%. Interest only is payable in arrears until March 1, 2021. Principal payments are due on a straight-line basis after the interest-only period concludes. An additional 4.9% of the outstanding amount will be due at end of the loan term and an additional 4.5% fee of the Term Loan funded amount will be due at the earlier of an Exit Event (as defined in the Credit Agreement) or if the Company achieves trailing twelve-month revenue of \$100,000 before March 15, 2029. The Credit Agreement provides that the Company may borrow an additional \$5,000 upon its request, subject to further credit approval. The Credit Agreement, collateralized by substantially all of the Company's assets, includes customary affirmative covenants, negative covenants and financial covenants, including a minimum liquidity requirement and minimum product revenues. The Company used \$22,372 of the proceeds of the Credit Agreement to repay its previous senior secured credit agreement in full including interest. Unamortized deferred financing costs and discount of \$388 were written off in March 2019 in connection with the repayment.

APOLLO ENDOSURGERY, INC. AND SUBSIDIARIES
Notes to Unaudited Interim Condensed Consolidated Financial Statements (continued)
(In thousands, except for share data)

The Credit Agreement was amended in March 2020, April 2020, and July 2020. These amendments, among other things, (i) waive the trailing six-month Endoscopy revenue requirements through the end of 2020, (ii) reduce the minimum liquidity requirement to \$12,500, (iii) establish a minimum LIBOR interest rate, (iv) increase the final fee due at the end of the loan term to 5.0% from 4.9%, (v) permitted the Company to enter into a loan under the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") established under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, and (vi) waived the financial statement covenant default associated with the going concern opinion of the Company's independent registered public accounting firm for the year ended December 31, 2019. In connection with the July 2020 amendment and concurrent equity raise, the Company reclassified the term loan facility from current liabilities to the scheduled maturity of the principal payments set out in the Credit Agreement.

As of September 30, 2020, the Company was in compliance with all financial covenants.

PPP Loan

In March 2020, the CARES Act was signed into law providing certain economic aid packages for qualified entities. In April 2020, the Company was granted a loan of \$2,824 under the PPP established under the CARES Act. The Loan matures on February 27, 2023 and bears interest at a rate of 1.0% per annum with equal interest and principal payments beginning on September 27, 2021.

Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan granted under the PPP, with such forgiveness to be determined, subject to limitations, based on the use of the loan proceeds for payment of payroll costs, rent, utilities, and interest on debt. The terms of any forgiveness may also be subject to further requirements in any regulations and guidelines the SBA may adopt.

In June 2020, the PPP Flexibility Act was signed into law which, among other things, (i) extended the covered forgiveness period from 8 weeks after the date of PPP funding to 24 weeks after the date of PPP funding, (ii) reduced the required amount of payroll expenditures from 75% to 60%, (iii) removed the prior ban on borrowers taking advantage of payroll tax deferral after loan forgiveness and (iv) extended the repayment deferral period to be the earlier of (a) the date forgiveness funds are received or (b) 10 months from the end of the covered period.

As of September 30, 2020, the Company has incurred more than \$ 2,824 in qualifying expenses during the covered period; however the Company is not able to determine the amount, if any, that might be forgiven until completion of the covered period.

Interest expense on the Company's long term debt was \$ 1,054 and \$3,144 for the three and nine months ended September 30, 2020 and \$ 1,284 and \$3,504 for the three and nine months ended September 30, 2019, respectively.

Principal payments of the Company's long-term debt are as follows:

2020	\$	—
2021		12,294
2022		15,883
2023		9,647
2024		—
Thereafter		—
	\$	37,824

(9) Convertible Debt

Convertible debt consists of the following as of:

	September 30, 2020 (unaudited)	December 31, 2019
Convertible debt	\$ 20,600	\$ 20,000
Deferred financing costs	(1,211)	(1,446)
Total convertible debt	\$ 19,389	\$ 18,554

In August 2019, the Company issued \$20,000 aggregate principal amount of 6.0% convertible senior debentures due 2024 (the "Convertible Debt"), primarily to existing stockholders and officers of the Company. Interest on the Convertible Debt is payable semi-annually in shares of the Company's common stock on January 1 and July 1 of each year at a rate of 6.0% per year. The number of shares of common stock required to settle the amount of interest payable will be based on the volume-weighted average price ("VWAP") of the Company's common stock for the 10 consecutive trading days immediately preceding the applicable interest payment date. However, in the event that the trailing 10-trading day VWAP of the Company's common stock is less than \$2.50 per share, interest accrued and payable for the applicable interest payment period will accrete to the principal amount then outstanding. The Convertible Debt will mature on August 12, 2024 unless earlier converted or repurchased in accordance with its terms.

In January 2020, the Company issued 164,797 shares of the Company's common stock to holders of the Convertible Debt in fulfillment of \$467 of accrued interest as of December 31, 2019. In July 2020, outstanding interest of \$600 was accreted to the principal amount of the Convertible Debt. As of September 30, 2020, accrued interest on the Convertible Debt is \$309.

The Convertible Debt converts, at the option of the holders, into shares of the Company's common stock at an initial conversion price of \$3.25 per share, subject to adjustment. If the VWAP of the Company's common stock has been at least \$9.75 (subject to adjustment) for at least 20 trading days during any 30 consecutive trading day period, the Company may force the conversion of all or any part of the outstanding principal amount of the Convertible Debt, accrued and unpaid interest and any other amounts then owing, subject to certain conditions.

Interest expense on the Convertible Debt was \$388 and \$1,144 for the three and nine months ended September 30, 2020 and \$208 for both the three and nine months ended September 30, 2019.

(10) Stock Based Compensation

In June 2017, the 2017 Equity Incentive Plan (the "2017 Plan") was approved by the Company's stockholders and replaced the Company's 2016 Equity Incentive Plan (the "2016 Plan"), which was the successor to the 2006 Stock Option Plan (the "2006 Plan" and collectively with the 2016 Plan, the "Prior Plans"). Grants will no longer be made under the Prior Plans, but the awards that remain outstanding will continue to be governed by the terms of the applicable Prior Plan and the applicable award agreement.

A summary of the stock option activity under the Company's 2017 Plan and Prior Plans (collectively, the "Equity Plans") as of September 30, 2020 is presented below.

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, December 31, 2019	1,927,194	\$ 5.01	7.5 years	\$ 87
Options granted	1,216,942	2.08		
Options exercised	(1,150)	1.76		
Options forfeited	(133,073)	4.18		
Options outstanding, vested and expected to vest, September 30, 2020	<u>3,009,913</u>	3.86	7.8 years	—
Options exercisable	1,331,243	\$ 5.14	6.1 years	\$ —

Shares subject to awards granted under the 2017 Plan which expire, are repurchased, or are canceled or forfeited will again become available for issuance under the 2017 Plan. The shares available will not be reduced by awards settled in cash or by shares withheld to satisfy tax withholding obligations. Only the net number of shares issued upon the exercise of options by means of a net exercise will be deducted from the shares available under the 2017 Plan.

The fair value of stock option grants has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Risk free interest rate	0.4%	2.2%
Expected dividend yield	—%	—%
Estimated volatility	73.8%	64.6%
Expected life	5.8 years	5.8 years

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(In thousands, except for share data)

Additional information regarding options is as follows:

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
Weighted-average grant date fair value of options granted during the period	\$	1.31	\$	2.04
Aggregate intrinsic value of options exercised during the period	\$	—	\$	10

The aggregate intrinsic value in the tables above represents the total pre-tax value of the options shown, calculated as the difference between the Company's closing stock price on September 30, 2020 and the exercise prices of the options shown, multiplied by the number of in-the money options. This is the aggregate amount that would have been received by the option holders if they had all exercised their options on September 30, 2020 and sold the shares thereby received at the closing price of the Company's common stock on that date. This amount changes based on the closing price of the Company's common stock.

The total compensation cost recognized for stock-based awards was \$ 586 and \$ 1,521 for the three and nine months ended September 30, 2020 and \$ 390 and \$ 1,059 for the three and nine months ended September 30, 2019, respectively.

Unrecognized compensation expense related to unvested options was approximately \$ 2,627 at September 30, 2020, with a remaining amortization period of 2.2 years.

A summary of the restricted stock unit activity under the Company's Equity Plans as of September 30, 2020 is presented below.

	Units	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Unvested units, December 31, 2019	243,695	\$ 4.06	\$ 695
Restricted stock units granted	517,978	2.08	
Restricted stock units vested	(79,766)	4.06	
Restricted stock units forfeited	(4,302)	2.08	
Unvested units, September 30, 2020	<u>677,605</u>	<u>\$ 2.56</u>	<u>\$ 1,145</u>

Unrecognized compensation expense related to unvested restricted stock units was approximately \$ 1,437 at September 30, 2020, with a remaining amortization period of 2.4 years.

(11) Income Taxes

The provision for income taxes for the three and nine months ended September 30, 2020 and 2019 primarily consists of foreign income taxes.

The Company has established a valuation allowance due to uncertainties regarding the realization of deferred tax assets based on the Company's lack of earnings history and potential limitations pursuant to changes in ownership under Internal Revenue Code Section 382.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law making several changes to the Internal Revenue Code; however, the tax law changes in the Act did not have a material impact on the Company's income tax provision.

As of September 30, 2020, the Company has no unrecognized tax benefits or accrued interest or penalties associated with uncertain tax positions.

(12) Net Loss Per Share

The basic and diluted net loss per common share presented in the condensed consolidated statements of operations and comprehensive loss is calculated by dividing net loss by the weighted average number of common shares outstanding during the period, without consideration for common stock equivalents. Potentially dilutive shares, which include warrants for the purchase of common stock, convertible debt, restricted stock units, and options outstanding under the Company's equity incentive plans, are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive.

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(In thousands, except for share data)

Potentially dilutive securities that are not included in the calculation of diluted net loss per share attributable to common stockholders because to do so would be anti-dilutive are as follows (in common stock equivalent shares on a weighted-average basis):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Warrants for common stock	14,725,241	736,980	5,744,225	383,858
Convertible debt	6,385,483	3,304,235	6,292,599	1,113,515
Common stock options	3,009,913	2,004,749	2,459,202	1,716,127
Restricted stock units	677,605	233,774	437,640	150,366
	<u>24,798,242</u>	<u>6,279,738</u>	<u>14,933,666</u>	<u>3,363,866</u>

(13) Fair Value Measurements

The carrying amounts of the Company's financial instruments, which primarily include cash, cash equivalents, and restricted cash, accounts receivable, accounts payable and accrued expenses, approximate their fair values due to their short maturities. The fair value of the Company's long-term debt and Convertible Debt is estimated by management to approximate \$40,400 and \$20,600, respectively at September 30, 2020. Management's estimates are based on comparisons of the characteristics of the Company's obligations, comparable ranges of interest rates on recently issued debt, and maturity. Such valuation inputs are considered a Level 3 measurement in the fair value valuation hierarchy.

The accounting guidance defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

(14) Segment and Geographic Information

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company globally manages the business within one reportable segment. Segment information is consistent with how management reviews the business, makes investing and resource allocation decisions and assesses operating performance.

Product sales by product group and geographic market, based on the location of the customer, whether the U.S. or outside the U.S. ("OUS") for the periods shown were as follows:

	Three Months Ended September 30, 2020				Three Months Ended September 30, 2019			
	U.S.	OUS	Total Revenues	% Total Revenues	U.S.	OUS	Total Revenues	% Total Revenues
ESS	\$ 4,734	\$ 2,928	\$ 7,662	59.7 %	\$ 3,711	\$ 2,949	\$ 6,660	59.2 %
IGB	1,853	3,021	4,874	38.0 %	1,088	2,633	3,721	33.0 %
Total Endoscopy	6,587	5,949	12,536	97.7 %	4,799	5,582	10,381	92.2 %
Surgical	—	—	—	— %	—	640	640	5.7 %
Other	272	18	290	2.3 %	228	10	238	2.1 %
Total revenues	<u>\$ 6,859</u>	<u>\$ 5,967</u>	<u>\$ 12,826</u>	<u>100.0 %</u>	<u>\$ 5,027</u>	<u>\$ 6,232</u>	<u>\$ 11,259</u>	<u>100.0 %</u>
% Total revenues	53.5 %	46.5 %			44.6 %	55.4 %		

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Notes to Unaudited Interim Condensed Consolidated Financial Statements (continued)
(In thousands, except for share data)

	Nine Months Ended September 30, 2020				Nine Months Ended September 30, 2019			
	U.S.	OUS	Total Revenues	% Total Revenues	U.S.	OUS	Total Revenues	% Total Revenues
	(unaudited)							
ESS	\$ 10,873	\$ 7,211	\$ 18,084	62.0 %	\$ 10,498	\$ 10,339	\$ 20,837	53.8 %
IGB	3,511	6,688	10,199	34.9 %	4,005	8,552	12,557	32.4 %
Total Endoscopy	14,384	13,899	28,283	96.9 %	14,503	18,891	33,394	86.2 %
Surgical	—	—	—	— %	—	3,670	3,670	9.5 %
Other	854	51	905	3.1 %	1,632	28	1,660	4.3 %
Total revenues	<u>\$ 15,238</u>	<u>\$ 13,950</u>	<u>\$ 29,188</u>	<u>100.0 %</u>	<u>\$ 16,135</u>	<u>\$ 22,589</u>	<u>\$ 38,724</u>	<u>100.0 %</u>
% Total revenues	52.2 %	47.8 %			41.7 %	58.3 %		

Total distributor sales were 30.4% and 31.4% of total OUS revenues for the three and nine months ended September 30, 2020 and 34.4% and 31.8% of total OUS revenues for the three and nine months ended September 30, 2019, respectively. In March 2020, the Company entered into a distributor agreement with a third party Brazilian medical device distribution company and ceased its direct sales operations in Brazil. Sales in the largest individual country outside the U.S. was 8.9% and 8.4% of total revenues for the three and nine months ended September 30, 2020 and 6.8% and 8.2% for the three and nine months ended September 30, 2019, respectively.

The following table represents property, equipment and right-of-use assets, net based on the geographic location of the asset:

	September 30, 2020	December 31, 2019
	(unaudited)	
United States	\$ 2,338	\$ 2,934
Costa Rica	3,961	3,039
Other	444	639
Total property, equipment and right-of-use assets, net	<u>\$ 6,743</u>	<u>\$ 6,612</u>

(15) Subsequent Events

In October 2020, pursuant to the terms of the Securities Purchase Agreement, 2,105,836 warrants were automatically exchanged for shares of the Company's common stock following the special stockholders meeting held on October 7, 2020 to approve the issuance of shares upon the exercise of certain warrants in accordance with Nasdaq listing rules.

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

This quarterly report ("Quarterly Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would," and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events, are based on assumptions, and are subject to risks, uncertainties and other important factors. In particular, statements, whether express or implied, concerning future operating results or the ability to generate sales, income or cash flow are forward-looking statements. They involve risks, uncertainties and assumptions that are beyond our ability to control or predict, including those discussed in [Part II, Item 1A](#), of this Quarterly Report, such as the continuing effects of the COVID-19 pandemic on our financial condition and results of operations. Given these risks, uncertainties and other important factors, you should not place undue reliance on these forward-looking statements as predictions of future events. Also, forward-looking statements represent our estimates and assumptions only as of the date of this Quarterly Report. Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

The following discussion should be read in conjunction with the condensed consolidated financial statements and accompanying notes, and our [Annual Report on Form 10-K for the year ended December 31, 2019 filed on March 26, 2020](#) with the Securities and Exchange Commission ("SEC"). "Apollo," Orbera®, OverStitch™, the Apollo logo and other trademarks, service marks and trade names of Apollo are registered and unregistered marks of Apollo Endosurgery, Inc. in the United States and other jurisdictions.

Overview

We are a medical technology company primarily focused on the design, development and commercialization of innovative medical devices to advance gastrointestinal therapeutic endoscopy. We develop and distribute devices that are used by surgeons and gastroenterologists for a variety of procedures related to gastrointestinal defect and complication management or bariatric (weight loss) intervention.

Our core products are the OverStitch Endoscopic Suturing System ("ESS") and IntraGastric Balloon ("IGB") (most often branded as Orbera). In December 2018, we divested our Surgical product line, which consisted of the Lap-Band® System and related laparoscopic accessories.

We have offices in the United Kingdom and Italy that oversee commercial activities outside the U.S. and a products manufacturing facility in Costa Rica. All other activities are managed and operated from facilities in Austin, Texas.

Impact of COVID-19 on Our Business

In March 2020, the World Health Organization declared that the COVID-19 outbreak had reached pandemic status and a number of countries, particularly countries in Europe that comprise the majority of our OUS sales and the United States, implemented a number of public health interventions to reduce the risk of disease transmission and conserve healthcare resources for addressing the community health needs of COVID-19. This resulted in an unprecedented decline in global healthcare resources available to be utilized for elective or deferrable procedures, including those that use our products. Following sales growth in the months of January and February that were consistent with management's pre-COVID-19 expectations, our sales results in the months of March and April declined commensurate with the global decline in elective procedures and reduced patient access to treatments by shelter in place and social distancing rules, which resulted in cancellation or postponement of procedures, including those that use our products. Our sales personnel who deliver in-person customer support and generate additional business with new customers and facilities were restricted from accessing our customers for these same reasons. Beginning in May 2020, our sales began to recover primarily as certain public health interventions implemented by various countries to reduce COVID-19 transmission risks were eased and elective procedures, including those that use our products, increased. As a result, our sales for the three months ended September 30, 2020 have exceeded those in the same period of 2019. Despite these encouraging signs, the COVID-19 pandemic remains active and continues to represent high uncertainty concerning our sales outlook and risk to our business operations. We believe the precautionary measures and challenges resulting from COVID-19 will likely continue for the duration of the pandemic, which is uncertain. We cannot assure you that our recent increase in revenue relative to comparative periods in 2019 is indicative of future results or that we will not experience additional negative impacts associated with COVID-19, which could be significant. See [Part II, Item 1A. Risk Factors—Risks Related to Our Business—Our business has been and will continue to be adversely affected by the ongoing COVID-19 outbreak](#).

Due to the business disruptions stemming directly from the COVID-19 pandemic, we have taken several actions to preserve our liquidity. As described in [Item 9B of our Annual Report on Form 10-K for the year ended December 31, 2019](#) filed on March 26, 2020, we reduced 2019 cash bonuses and implemented reductions in compensation across our workforce. Effective April 20, 2020, we furloughed 57 U.S. employees and reduced the employment arrangements of an additional 34 employees outside the United States. In addition, we implemented a \$100,000 salary cap, effective April 16, 2020, for all employees. In September 2020, the employee furlough program was discontinued and 35 employees were not recalled resulting in severance costs of \$0.2 million. The annual compensation costs associated with these positions were approximately \$5.0 million. We also began a salary restoration plan to restore employee salaries to pre-reduction levels by November 2020.

On April 27, 2020, the Company was granted a Loan of \$2.8 million under the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") established under the CARES Act. The Loan matures on February 27, 2023 and bears interest at a rate of 1.0% per annum with equal interest and principal payments beginning on September 27, 2021.

Divestiture of the Surgical Product Line

In December 2018, we entered into an Asset Purchase Agreement and sold our Surgical product line to ReShape Lifesciences Inc. ("ReShape"). Our goal with this transaction was to increase our focus on our Endoscopy products and monetize a non-strategic asset.

ReShape agreed to pay \$17.0 million in cash, of which \$2.0 million remains payable in December 2020 and \$3.0 million remains payable in December 2021.

Upon completion of the ReShape transaction, the parties entered into a transition services agreement, supply agreement and distribution agreement. All transition and distribution services were completed as of December 31, 2019. We remain obligated to perform manufacturing services through December 2020.

Financial Operations Overview

Revenues

Our principal source of revenues are sales of our Endoscopy products. The majority of our sales come from direct markets where sales are made to the final end customers, typically healthcare providers. In other markets, we sell our products to distributors who resell our products to end users. Revenues between periods will be impacted by several factors, including the continuing COVID-19 pandemic, physician procedures and therapy preferences, patient procedures and therapy preferences, other market trends, the stability of the average sales price we realize on products and changes in foreign exchange rates used to translate foreign currency denominated sales into U.S. dollars.

Under the ReShape distribution agreement, we agreed to sell Surgical products to customers OUS up to one year. Product sales in 2019 include sales in these serviced markets.

Other revenue includes amounts recognized for our digital aftercare support program, transition and supply services we rendered to ReShape and freight charged to customers.

Cost of Sales

Our ESS products, representing the majority of our Endoscopy product sales, have historically been purchased from third-party manufacturers, and our cost of sales for these products has consisted of the actual purchase price from these manufacturers plus an allocation of our internal overhead cost. Cost of sales for products which we manufacture includes raw materials, labor, and manufacturing overhead. Raw materials used in our manufacturing activity are generally not subject to substantial commodity price volatility, and most of our manufacturing costs are incurred in U.S. dollars. Cost of sales also includes excess and obsolete inventory charges, royalties, shipping, inspection and related costs incurred in making our products available for sale or use. In periods of reduced production volume, unabsorbed manufacturing overhead costs are charged to expense when incurred.

Our gross margin comparability between periods has been impacted by the shift in our revenue mix from Surgical to Endoscopy products. Demand for our divested Surgical products historically were declining but Surgical product sales realized a higher gross margin compared to our Endoscopy products, which have been growing in demand. In addition, manufacturing overhead as a percentage of revenue between periods can fluctuate as a result of manufacturing rates and the degree to which manufacturing overhead is allocated to production during the period. Comparability of cost of sales and gross margin between periods could also be affected by changes in inventory valuation allowances related to obsolete or excess inventory. We expect to improve gross margins as we complete certain identified gross margin improvement projects and improve capacity utilization of our manufacturing facility.

Sales and Marketing Expense

Sales and marketing expense primarily consists of salaries, commissions, benefits and other related costs, including stock-based compensation, for personnel employed in our sales, marketing and medical education departments. In addition, our sales and marketing expense includes costs associated with physician training, industry events, advertising and other promotional activities.

General and Administrative Expense

General and administrative expense primarily consists of salaries, benefits and other related costs, including stock-based compensation, for personnel employed in the corporate management, finance, legal, compliance, information technology and human resource departments. General and administrative expense also includes facilities cost, insurance, audit fees, legal fees, bad debt expense and costs to develop and maintain our intellectual property portfolio.

Research and Development Expense

Research and development expense includes product development, clinical trial costs, quality and regulatory compliance, consulting services, outside prototyping services, outside research activities, materials, depreciation and other costs associated with development of our products. Research and development expense also includes compensation and stock-based compensation expense for personnel dedicated to these activities. Research and development expense may fluctuate between periods depending on the activity associated with our various product development and clinical obligations.

Amortization of Intangible Assets

Definite-lived intangible assets primarily consist of customer relationships, product technology, trade names, patents and trademarks and capitalized software. Intangible assets are amortized over the asset's estimated useful life.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures is in conformity with U.S. generally accepted accounting principles and the Company's discussion and analysis of its financial condition and operating results require the Company's management to make judgments, assumptions and estimates that affect the amounts reported in its condensed consolidated financial statements and accompanying notes. Management bases its estimates on historical evidence and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates, and such differences may be material.

[Note 2, "Significant Accounting Policies" in Part I, Item 1](#) of this Form 10-Q and in the Notes to Consolidated Financial Statements in Part II, Item 8 of the Company's [Annual Report on Form 10-K for the year ended December 31, 2019](#) (the "2019 Form 10-K"), and "Critical Accounting Policies and Estimates" in Part II, Item 7 of the 2019 Form 10-K describe the significant accounting policies and methods used in the preparation of the Company's condensed consolidated financial statements. There have been no material changes to the Company's critical accounting policies and estimates since the 2019 Form 10-K.

Non-GAAP Financial Measures

To supplement our financial results we are providing a non-GAAP financial measure, Endoscopy product sales percentage change in constant currency, which removes the impact of changes in foreign currency exchange rates that affect the comparability and trend of our Endoscopy product sales. Endoscopy product sales percentage change in constant currency is calculated by translating current foreign currency sales using last year's exchange rate. This supplemental measure of our performance is not required by, and is not determined in accordance with GAAP.

We believe the non-GAAP financial measure included herein is helpful in understanding our current financial performance. We use this supplemental non-GAAP financial measure internally to understand, manage and evaluate our business, and make operating decisions. We believe that making non-GAAP financial information available to investors, in addition to GAAP financial information, may facilitate more consistent comparisons between our performance over time with the performance of other companies in the medical device industry, which may use similar financial measures to supplement their GAAP financial information. However, our non-GAAP financial measure is not meant to be considered in isolation or as a substitute for the comparable GAAP metric.

Results of Operations

Comparison of the three and nine months ended September 30, 2020 and 2019

	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019	
	Dollars	% of Revenues	Dollars	% of Revenues
Revenues	\$ 12,826	100.0 %	\$ 11,259	100.0 %
Cost of sales	5,840	45.5 %	5,826	51.7 %
Gross margin	6,986	54.5 %	5,433	48.3 %
Operating expenses:				
Sales and marketing	4,178	32.6 %	6,495	57.7 %
General and administrative	2,374	18.5 %	3,159	28.1 %
Research and development	1,522	11.9 %	2,128	18.9 %
Amortization of intangible assets	486	3.8 %	510	4.5 %
Total operating expenses	8,560	66.8 %	12,292	109.2 %
Loss from operations	(1,574)	(12.3)%	(6,859)	(60.9)%
Interest expense, net	1,335	10.4 %	1,221	10.8 %
Other (income) expense, net	(353)	(2.8) %	498	4.4 %
Net loss before income taxes	(2,556)	(19.9)%	(8,578)	(76.1)%
Income tax expense	41	0.3 %	80	0.7 %
Net loss	\$ (2,597)	(20.2)%	\$ (8,658)	(76.8)%

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
	Dollars	% of Revenues	Dollars	% of Revenues
Revenues	\$ 29,188	100.0 %	\$ 38,724	100.0 %
Cost of sales	14,136	48.4 %	18,884	48.8 %
Gross margin	15,052	51.6 %	19,840	51.2 %
Operating expenses:				
Sales and marketing	12,773	43.8 %	21,995	56.8 %
General and administrative	7,870	27.0 %	10,219	26.4 %
Research and development	5,484	18.8 %	8,245	21.3 %
Amortization of intangible assets	1,472	5.0 %	1,591	4.1 %
Settlement gain	—	— %	(5,609)	(14.5)%
Total operating expenses	27,599	94.6 %	36,441	94.1 %
Loss from operations	(12,547)	(43.0)%	(16,601)	(42.9)%
Interest expense, net	3,895	13.3 %	2,849	7.4 %
Other expense, net	2,574	8.8 %	655	1.7 %
Net loss before income taxes	(19,016)	(65.1)%	(20,105)	(52.0)%
Income tax expense	90	0.3 %	131	0.3 %
Net loss	\$ (19,106)	(65.4)%	\$ (20,236)	(52.3)%

Revenues

Product sales by product group and geographic market for the periods shown were as follows:

	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019			% Increase/ (Decrease)		
	U.S.	OUS	Total Revenues	U.S.	OUS	Total Revenues	U.S.	OUS	Total Revenues
ESS	\$ 4,734	\$ 2,928	\$ 7,662	\$ 3,711	\$ 2,949	\$ 6,660	27.6 %	(0.7)%	15.0 %
IGB	1,853	3,021	4,874	1,088	2,633	3,721	70.3 %	14.7 %	31.0 %
Total Endoscopy	6,587	5,949	12,536	4,799	5,582	10,381	37.3 %	6.6 %	20.8 %
Surgical	—	—	—	—	640	640	— %	(100.0)%	(100.0)%
Other ⁽¹⁾	272	18	290	228	10	238	19.3 %	80.0 %	21.8 %
Total revenues	\$ 6,859	\$ 5,967	\$ 12,826	\$ 5,027	\$ 6,232	\$ 11,259	36.4 %	(4.3)%	13.9 %
% Total revenues	53.5 %	46.5 %		44.6 %	55.4 %				

⁽¹⁾ Other U.S. revenue includes \$0.1 million of transition and manufacturing services provided to ReShape for both of the three months ended September 30, 2020 and 2019.

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019			% Increase/ (Decrease)		
	U.S.	OUS	Total Revenues	U.S.	OUS	Total Revenues	U.S.	OUS	Total Revenues
ESS	\$ 10,873	\$ 7,211	\$ 18,084	\$ 10,498	\$ 10,339	\$ 20,837	3.6 %	(30.3)%	(13.2)%
IGB	3,511	6,688	10,199	4,005	8,552	12,557	(12.3)%	(21.8)%	(18.8)%
Total Endoscopy	14,384	13,899	28,283	14,503	18,891	33,394	(0.8)%	(26.4)%	(15.3)%
Surgical	—	—	—	—	3,670	3,670	— %	(100.0)%	(100.0)%
Other ⁽¹⁾	854	51	905	1,632	28	1,660	(47.7)%	82.1 %	(45.5)%
Total revenues	\$ 15,238	\$ 13,950	\$ 29,188	\$ 16,135	\$ 22,589	\$ 38,724	(5.6)%	(38.2)%	(24.6)%
% Total revenues	52.2 %	47.8 %		41.7 %	58.3 %				

⁽¹⁾ Other U.S. revenue includes \$0.4 million and \$1.2 million of transition and manufacturing services provided to ReShape for the nine months ended September 30, 2020 and 2019, respectively.

Non-GAAP Endoscopy product sales percentage change in constant currency were as follows:

	Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
	% Increase/Decrease in Constant Currency		% Increase/Decrease in Constant Currency	
	OUS	Total Revenues	OUS	Total Revenues
ESS	(1.0)%	14.9 %	(28.6)%	(12.4)%
IGB	12.6 %	29.4 %	(21.1)%	(18.3)%
Total Endoscopy	5.4 %	20.1 %	(25.2)%	(14.6)%

Total revenues for the three months ended September 30, 2020 were \$12.8 million, compared to \$11.3 million for the three months ended September 30, 2019, an increase of 13.9%. Excluding revenue of \$0.1 million and \$0.8 million for the three months ended September 30, 2020 and 2019, respectively, associated with transition obligations following the divestiture of the Surgical product line in December 2018, total revenue increased 20.9%. Total Endoscopy product sales increased 20.8% for the three months ended September 30, 2020 from the same period of 2019 due to a 15.0% increase in ESS product sales and a 31.0% increase in IGB product sales.

Geographically, U.S. and OUS direct market Endoscopy product sales increased 37.3% and 45.6%, respectively, for the three months ended September 30, 2020, as the easing of certain public health interventions to reduce the risk of COVID-19 transmission resulted in an increase in elective procedure volumes. Purchases from OUS distributors remained below pre-pandemic levels due to ongoing COVID-19 effects in most of these countries which offset much of the product sales increase from OUS direct markets during the three months ended September 30, 2020.

Total revenues for the nine months ended September 30, 2020 were \$29.2 million, compared to \$38.7 million for the nine months ended September 30, 2019, a decrease of 24.6%. The decline in revenues for the nine months ended September 30, 2020 was primarily due to the impact of the COVID-19 pandemic and related shelter-in-place restrictions and diversion of healthcare resources on worldwide procedure volumes and distributor purchases during the second quarter of 2020. In addition, total revenue declined \$4.5 million for the nine months ended September 30, 2020 as we completed the majority of our transition service obligations following the divestiture of the Surgical product line during 2019.

Direct market Endoscopy product sales accounted for approximately 85.6% and 84.5% of total Endoscopy product sales for the three and nine months ended September 30, 2020, compared to 79.6% and 79.7% for the same periods of 2019, respectively. In March 2020, we entered into a distribution agreement with a third party Brazilian medical device distributor and ceased our direct sales operations in Brazil.

Included in other revenues is \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2020 and \$0.1 million and \$1.2 million for the same periods in 2019, respectively, of transition and manufacturing services provided to ReShape. We remain obligated to perform manufacturing services through December 2020.

Cost of Sales

Costs of product sales for the periods shown were as follows:

	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019	
	Dollars	% Total Revenues	Dollars	% Total Revenues
Materials, labor and purchased goods	\$ 4,036	31.4 %	\$ 4,354	38.7 %
Overhead	1,357	10.6 %	806	7.2 %
Other indirect costs	447	3.5 %	666	5.8 %
Total cost of sales	\$ 5,840	45.5 %	\$ 5,826	51.7 %

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
	Dollars	% Total Revenues	Dollars	% Total Revenues
Materials, labor and purchased goods	\$ 9,187	31.5 %	\$ 13,127	33.9 %
Overhead	3,644	12.5 %	3,563	9.2 %
Other indirect costs	1,305	4.4 %	2,194	5.7 %
Total cost of sales	\$ 14,136	48.4 %	\$ 18,884	48.8 %

Gross Margin

Gross margin as a percentage of revenue was 54.5% and 51.6% for the three and nine months ended September 30, 2020, compared to 48.3% and 51.2% for the same periods of 2019, respectively. The increase in gross margin percentage is primarily due to implemented gross margin improvement projects, an increase in our direct market sales as a percentage of total sales and a higher proportion of IGB product sales. The nine months ended September 30, 2020 includes \$0.5 million of unabsorbed overhead costs associated with reduced manufacturing activity during the second quarter of 2020 as a result of the COVID-19 pandemic. Excluding these unabsorbed overhead costs, Endoscopy product gross margin was 54.0% and 52.6% for the three and nine months ended September 30, 2020, compared to 48.4% and 49.8% for the same periods of 2019.

Operating Expenses

Sales and Marketing Expense. Sales and marketing expense decreased \$2.3 million and \$9.2 million for the three and nine months ended September 30, 2020 when compared to the same periods in 2019, respectively, primarily as a result of the cost saving actions we initiated in response to the COVID-19 pandemic. During the third quarter, select employees were recalled from furlough and certain activities were reinstated that will result in higher sales and marketing expenses in future periods.

General and Administrative Expense. General and administrative expense decreased \$0.8 million and \$2.3 million for the three and nine months ended September 30, 2020 when compared to the same periods of 2019, respectively, as a result of the cost saving actions we initiated in response to the COVID-19 pandemic and lower professional service fees.

Research and Development Expense. Research and development expense decreased \$0.6 million and \$2.8 million for the three and nine months ended September 30, 2020 when compared to the same periods for 2019, respectively, primarily due to lower clinical trial costs as enrollment milestones were achieved in the first half of 2019 for clinical studies that we are funding and as a result of the cost saving actions we initiated in response to the COVID-19 pandemic.

Amortization of Intangible Assets. Amortization of intangible assets remained unchanged and decreased \$0.1 million for the three and nine months ended September 30, 2020 when compared to the same periods in 2019, respectively.

Settlement gain. Settlement gain of \$5.6 million for the nine months ended September 30, 2019 resulted from the resolution of a dispute with Allergan Inc. related to amounts previously charged for inventory purchases and transition services provided through 2016.

Loss from Operations

Loss from operations for the three and nine months ended September 30, 2020 was \$1.6 million and \$12.5 million compared to \$6.9 million and \$16.6 million for three and nine months ended September 30, 2019, respectively. Excluding the settlement gain recorded in the nine months ended September 30, 2019 of \$5.6 million, our loss from operations decreased by \$5.3 million and \$9.7 million for the three and nine months ended September 30, 2020, respectively, primarily due to cost saving actions initiated in response to the COVID-19 pandemic.

Other Expenses

Interest Expense, net. Net interest expense increased by \$0.1 million and \$1.0 million for the three and nine months ended September 30, 2020 when compared to the same periods in 2019, respectively, primarily due to non-cash interest on the Convertible Debt issued in August 2019 and lower interest income.

Other (Income) Expense, net. Other (income) expense primarily consists of realized and unrealized foreign exchange losses on short-term intercompany loans denominated in U.S. dollars payable by our foreign subsidiaries. During the three and nine months ended September 30, 2020, unrealized exchange rate gains and losses on these intercompany loans were an unrealized gain of \$0.4 million and unrealized loss of \$2.4 million for the three and nine months ended September 30, 2020 compared to unrealized losses of \$0.6 million and \$1.0 million for the three and nine months ended September 30, 2019.

Liquidity and Capital Resources

We have experienced operating losses since inception and have an accumulated deficit of \$269.3 million as of September 30, 2020. To date, we have funded our operating losses and acquisitions through equity offerings and the issuance of debt instruments. We have occasionally been out of compliance with our debt covenants which have resulted in amendments to the terms of our debt instruments. Our ability to fund future operations and meet debt covenant requirements will depend upon our level of future revenue and operating cash flow and our ability to access additional funding through either equity offerings, issuances of debt instruments or both.

In July 2020, we issued shares of our common stock and pre-funded warrants for aggregate gross proceeds of approximately \$25.0 million and entered into the Sixth Amendment to our loan and security agreement with Solar Capital, Ltd. that waives the minimum revenue covenant requirements for the remainder of 2020 and also decreased our minimum liquidity requirement from \$20.0 million to \$12.5 million.

Management believes its existing cash and cash equivalents, product revenues, and available debt and equity financing arrangements will be sufficient to meet covenant, liquidity and capital requirements for at least the next twelve months, although there can be no assurances that we will be able to do so. Management periodically evaluates our liquidity requirements, alternative uses of capital, capital needs and available resources. As a result of this process, we have in the past, and may in the future, explore alternatives to finance our business plan, including, but not limited to, sales of common stock, preferred stock, convertible securities or debt financings, reduction of planned expenditures, or other sources, although there can be no assurances that such additional funding could be obtained.

Term Loan Facility

In March 2019, we entered into a term loan facility agreement with Solar Capital, Ltd. to borrow \$35.0 million (the "Credit Agreement"). The Credit Agreement matures on September 1, 2023, with principal payments beginning in March 2021, and bears interest at the greater of LIBOR or 1.35575%, plus 7.5%. Interest only is payable in arrears until March 1, 2021. Principal payments are due on a straight-line basis after the interest-only period concludes. An additional 4.9% of the outstanding amount will be due at end of the loan term and an additional 4.5% fee of the Term Loan funded amount will be due at the earlier of an Exit Event (as defined in the Credit Agreement) or if we achieve trailing twelve-month revenue of \$100.0 million before March 15, 2029. The Credit Agreement provides that we may borrow an additional \$5.0 million upon our request, subject to further credit approval. The Credit Agreement includes the customary affirmative covenants, negative covenants and financial covenants, including a minimum liquidity requirement and minimum

product revenues. We used \$22.4 million of the proceeds of the Credit Agreement to repay our previous senior secured credit agreement in full, including interest.

The Credit Agreement was amended in March 2020, April 2020, and July 2020. These amendments, among other things, (i) waives the trailing six-month Endoscopy revenue requirements through the end of 2020, (ii) reduces the minimum liquidity requirement to \$12.5 million, (iii) establishes a minimum LIBOR interest rate, (iv) increases the final fee due at the end of the loan term to 5.0% from 4.9%, (v) permitted us to enter into a loan under the SBA's PPP established under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, and (vi) waived the financial statement covenant default associated with the going concern opinion of our independent registered public accounting firm for the year ended December 31, 2019.

Convertible Senior Debt

In August 2019, we issued \$20.0 million aggregate principal amount of Convertible Debt. Interest on the Convertible Debt will be payable semi-annually in shares of our common stock on January 1 and July 1 of each year, beginning on January 1, 2020, at a rate of 6.0% per year. The number of shares of common stock required to settle the amount of interest payable will be based on the volume-weighted average price ("VWAP"), of our common stock for the 10 consecutive trading days immediately preceding the applicable interest payment date. The Convertible Debt will mature on August 12, 2024 unless earlier converted or repurchased in accordance with its terms.

The Convertible Debt converts, at the option of the holders, into shares of our common stock at an initial conversion price of \$3.25 per share, subject to adjustment. If the VWAP of our common stock has been at least \$9.75 (subject to adjustment) for at least 20 trading days during any 30 consecutive trading day period, we may force the conversion of all or any part of the outstanding principal amount of the Convertible Debt, accrued and unpaid interest and any other amounts then owing, subject to certain conditions.

As of September 30, 2020, \$20.6 million aggregate principal amount was outstanding under the Convertible Debt. In July 2020, \$0.6 million of interest due for the six-month period ended June 30, 2020 automatically accreted into principal outstanding under the Convertible Debt.

CARES Act

On March 27, 2020, the CARES Act was signed into law providing certain economic aid packages for qualified entities. In April 2020, we were granted a loan of \$2.8 million under the PPP established under the CARES Act. The Loan matures on February 27, 2023 and bears interest at a rate of 1.0% per annum with equal interest and principal payments beginning on September 27, 2021.

Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan granted under the PPP, with such forgiveness to be determined, subject to limitations, based on the use of the loan proceeds for payment of payroll costs, rent, utilities, and interest on debt. The terms of any forgiveness may also be subject to further requirements in any regulations and guidelines the SBA may adopt.

On June 5, 2020, the PPP Flexibility Act was signed into law which, among other things, (i) extended the covered period from 8 weeks after the date of PPP funding to 24 weeks after the date of PPP funding, (ii) reduced the required amount of payroll expenditures from 75% to 60%, (iii) removed the prior ban on borrowers taking advantage of payroll tax deferral after loan forgiveness and (iv) extended the repayment deferral period to be the earlier of (a) the date forgiveness funds are received or (b) 10 months from the end of the covered period.

As of September 30, 2020, we have incurred more than \$2.8 million in qualifying expenses during the covered period; however, we are not able to determine the amount, if any, that might be forgiven until completion of the covered period.

Cash Flows

The following table provides information regarding our cash flows:

	Nine Months Ended September 30,	
	2020	2019
Net cash used in operating activities	\$ (18,017)	\$ (18,945)
Net cash used in investing activities	(548)	(629)
Net cash provided by financing activities	25,828	30,606
Effect of exchange rate changes on cash	11	(63)
Net change in cash, cash equivalents and restricted cash	<u>\$ 7,274</u>	<u>\$ 10,969</u>

Operating Activities

Cash used in operating activities of \$18.0 million for the nine months ended September 30, 2020 was primarily the result of a net loss of \$19.1 million offset by non-cash items of \$8.3 million, primarily related to depreciation, amortization, foreign currency on intercompany loans, non-cash interest, and stock based compensation. Net loss, after adjustment for non-cash items, improved \$9.0 million compared to the same period in 2019 due to lower operating expenses, primarily due to cost saving actions we initiated to preserve our liquidity during the COVID-19 pandemic, which offset reduced gross margin. Additionally, cash used by operating assets and liabilities of \$7.2 million related to working capital changes primarily related to clinical study payments and raw material purchases.

Cash used in operating activities of \$18.9 million for the nine months ended September 30, 2019 was primarily the result of a net loss of \$20.2 million plus non-cash items of \$0.5 million primarily related to the settlement gain of \$5.6 million offset by depreciation, amortization, foreign currency on intercompany loans, and stock based compensation. Additionally, cash provided by operating assets and liabilities of \$0.8 million related to working capital changes primarily related to accounts receivable offset by inventory purchases.

Investing Activities

Cash used in investing activities of \$0.5 million and \$0.6 million for the nine months ended September 30, 2020 and 2019, respectively, were primarily related to equipment purchases associated with our product development and gross margin improvement projects, as well as ongoing investments in our intellectual property portfolio.

Financing Activities

Cash provided by financing activities of \$25.8 million for the nine months ended September 30, 2020 was primarily related to proceeds received from the issuance of common stock and pre-funded warrants to purchase common stock in July 2020 of \$23.3 million and the PPP Loan granted in April 2020 of \$2.8 million.

Cash provided by financing activities of \$30.6 million for the nine months ended September 30, 2019 was primarily related to the net proceeds of \$13.3 million received from the Term Loan Facility refinancing, proceeds from the issuance of the Convertible Debt of \$20.0 million, offset by the payment of deferred financing costs of \$2.7 million.

Future Funding Requirements

As of September 30, 2020, we had cash, cash equivalents and restricted cash balances totaling \$38.2 million. We believe our existing cash and cash equivalents, product revenues, and available debt and equity financing arrangements will be sufficient to meet covenant, liquidity and capital requirements for at least the next twelve months, although there can be no assurances that we will be able to do so.

Any future capital requirements will depend on many factors including market acceptance of our products, the costs of our research and development activities, the cost and timing of additional regulatory clearance and approvals, the cost and timing of identified gross margin improvement projects, the cost and timing of clinical programs, the ability to maintain covenant compliance with our lending facility, and the costs and timing of sales, marketing, distribution and manufacturing activities. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition could be adversely affected.

Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined by rules enacted by the U.S. Securities and Exchange Commission ("SEC").

Recent Accounting Pronouncements

See [Note 2\(c\) to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report](#) for a discussion of recently enacted accounting pronouncements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This item has been omitted as we qualify as a smaller reporting company as defined by Rule 12b-2 of the Exchange Act.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report, our management (with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO)) conducted an evaluation pursuant to Rule 13a-15 promulgated under the Exchange Act, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, the CEO and CFO concluded that as of the end of the period covered by this Quarterly Report such disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as such item is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the last quarter covered by this Quarterly Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitation on Effectiveness of Controls

Our management, including our principal executive and principal financial officers, does not expect that our disclosure controls and procedures or our internal controls, will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by individuals' acts, by collusion of two or more people, or by management overriding the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in legal proceedings. The results of such legal proceedings and claims cannot be predicted with certainty, and regardless of the outcome, legal proceedings could have an adverse impact on our business because of defense and settlement costs, diversion of resources and other factors.

ITEM 1A. RISK FACTORS

We have identified the following additional risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations. Investors should carefully consider the risks described below before making an investment decision. Our business faces significant risks and the risks described below may not be the only risks we face. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations. If any of these risks occur, our business, results of operations or financial condition could suffer, the market price of our common stock could decline and you could lose all or part of your investment in our common stock.

We have marked with an asterisk (*) those risks described below that reflect substantive changes from, or additions to, the risks described in our [Annual Report on Form 10-K](#) for the year ended December 31, 2019.

Risks Related to Our Business

*** Our business has been and likely will continue to be adversely affected by the ongoing COVID-19 pandemic.**

In December 2019, a novel strain of coronavirus, SARS-CoV-2, was reported to have surfaced in Wuhan, China. Since then, SARS-CoV-2, and the resulting disease COVID-19, has spread to multiple countries, including the United States and all of the primary markets where we conduct business. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, and the U.S. government imposed travel restrictions on travel between the United States and Europe for a 30-day period. Later in March 2020, the President of the United States declared the COVID-19 pandemic a national emergency, invoking powers under the Stafford Act, the legislation that directs federal emergency disaster response. Several states and local jurisdictions have imposed, and others in the future may impose, "shelter-in-place" orders, quarantines, executive orders and similar government orders and restrictions for their residents to control the spread of COVID-19. Such orders or restrictions, and the perception that such orders or restrictions could occur, have resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions and cancellation of events, among other effects. We continue to monitor our operations and government mandates and may elect or be required to temporarily close our offices to protect our employees, and limit our access to customers and limit customer use of our products as they are required to prioritize resources to address the public healthcare needs arising from the COVID-19 pandemic. The disruptions to our activities and operations have negatively impacted and will continue to negatively impact our business, operating results and financial condition. There is a risk that government actions will not be effective at containing COVID-19, and that government actions, including the orders and restrictions described above, that are intended to contain the spread of COVID-19 will have a devastating negative impact on the world economy at large, in which case the risks to our sales, operating results and financial condition described herein would be elevated significantly.

We are unable to predict the duration of COVID-19's impact on our business. The widespread pandemic has resulted, and may continue to result for an extended period, in significant disruption of global financial markets, reducing our ability to access capital, which would negatively affect our liquidity. In addition, if the COVID-19 pandemic results in a prolonged economic recession, it would materially affect our sales and our ability to continue as a going concern. A prolonged economic contraction or recession may also result in employer layoffs of their employees in markets where we conduct business, which could result in lower demand for procedures that use our products. In particular, as certain of the procedures that use our products have limited reimbursement and require patients to pay for the procedures in whole or in part, reductions in employment in our target markets have reduced, and may continue to reduce, utilization and sales of our products.

Restrictions on the ability to travel, social distancing policies, orders and restriction, including those described above, and recommendations and fears of COVID-19 spreading within medical centers have caused and may continue to cause both patients and providers to delay or cancel procedures that use our devices, which has harmed our sales, results of operations and financial condition. Even as governmental restrictions begin to be relaxed or lifted and various jurisdictions gradually reopen, we are unable to accurately predict when these policies, orders and restrictions will be fully relaxed or lifted or for how long they will remain relaxed or lifted. There can be no assurances that patients or providers will restart procedures that use our devices upon the lifting, relaxation or termination of these policies, orders and restrictions, particularly if there remains any continued community outbreak of COVID-19. Our distributors have deferred and may continue to defer their purchases of our products due to the ongoing COVID-19 pandemic. Health systems and other

healthcare providers in our markets that provide procedures that use our products have also suffered financially and operationally and may not be able to return to pre-pandemic levels of operations following a slowdown in the pandemic, which would harm the recovery of our sales growth as well. Further, quarantines or government reaction or shutdowns for COVID-19 could disrupt our supply chain. Travel and import restrictions may also disrupt our ability to manufacture or distribute our devices. Any import or export or other cargo restrictions related to our products or the raw materials used to manufacture our products would restrict our ability to manufacture and ship products and harm our business, financial condition and results of operations. Our key personnel and other employees could also be affected by COVID-19, potentially reducing their availability, and an outbreak such as COVID-19 or the procedures we take to mitigate its effect on our workforce, including cost saving measures we have instituted to date, could reduce the efficiency of our operations or prove insufficient. We may delay or reduce certain capital spending and related projects until the travel and logistical impacts of COVID-19 are lifted, which will delay the completion of such projects.

In addition, the conduct of clinical trials required to maintain the regulatory status of certain of our products, such as the Orbera365 CE post approval study, may be affected by the COVID-19 pandemic. Site initiation and patient enrollment may be delayed due to prioritization of hospital resources toward the COVID-19 outbreak and changing standards of care. Some patients may not be able to comply with clinical trial protocols if quarantines impede patient movement or interrupt healthcare services. COVID-19 restrictions may also delay the timing of regulatory reviews and approvals as regulators in various jurisdictions may have reduced staffing and capability. Due to capital resource constraints resulting from our reduced sales levels, we have prioritized key growth and operational projects over others, which may harm our future growth strategies, sales, business and results of operations.

Our sales and marketing personnel often rely on in-person and onsite access to healthcare providers which is currently restricted as hospitals reduce access to essential personnel only. These restrictions have harmed our sales and marketing efforts, and continued restrictions would have a negative impact on our sales and results of operations. An increase of COVID-19-related hospital admissions may overload hospitals with unexpected patients, thereby delaying further procedures that use our devices but that are deemed elective by the hospital. Limited supplies of personal protective equipment and COVID-19 testing supplies may further reduce onsite access for our personnel and may delay the lifting of restrictions on elective procedures, including those that use our products. In addition, we have made reductions to salary and work hour reductions as well as employee furloughs and the elimination of certain employee positions, and may in the future take further actions including further reductions to salary and work hours, furloughs, restructuring or layoffs which may negatively impact our workforce and our business.

The global outbreak of COVID-19 continues to be volatile and rapidly evolving and cause our business to be highly uncertain and unpredictable. We do not yet know the full extent of any impacts on our future business or the global economy as a whole. However, these effects have harmed our business, financial condition and results of operations in the near term and could have a material and negative impact on our future operations, sales and ability to continue as a going concern.

We have incurred significant operating losses since inception and may not be able to achieve profitability.

We have incurred net losses since our inception in 2005. For the years ended December 31, 2019 and 2018, we had net losses of \$27.4 million and \$45.8 million, respectively, and for the nine months ended September 30, 2020 we had a net loss of \$19.1 million. As of September 30, 2020, we had an accumulated deficit of \$269.3 million. To date, we have funded our operations primarily through equity offerings, the issuance of debt instruments, and from sales of our products. We have devoted substantially all of our resources to the acquisition of products, the research and development of products, sales and marketing activities and clinical and regulatory initiatives to obtain approvals for our products. Our ability to generate sufficient revenue from our existing products, and to transition to profitability and generate consistent positive cash flows is uncertain. We may need to raise additional funds in the future, and such funds may not be available on a timely basis, or at all. We expect that our operating expenses may increase as we continue to build our commercial infrastructure, develop, enhance and commercialize our products and incur additional costs associated with being a public company. As a result, we may incur operating losses for the foreseeable future and may never achieve profitability.

Our long-term growth depends on our ability to successfully develop the therapeutic endoscopy market and successfully commercialize our Endoscopy products.

It is important to our business that we continue to build a market for therapeutic endoscopy procedures within the gastroenterology and bariatric communities. Our Endoscopy products offer non-surgical and less-invasive solutions and technology that enable new options for physicians treating their patients who suffer from a variety of gastrointestinal conditions, including obesity. However, this is a new market and developing this market is expensive and time-consuming and may not be successful due to a variety of factors including lack of physician adoption, patient demand, or both. Even if we are successful in developing additional products in the Endoscopy market, the success of any new product offering or enhancement to an existing product will depend on several factors, including our ability to:

- properly identify and anticipate physician and patient needs;
- effectively train physicians on how to use our products and achieve good patient outcomes;

- effectively communicate with physicians, payors and patients and educate them on the benefits of Endoscopy procedures;
- achieve adoption of procedures for the use of our products in a timely manner, including for procedures that may not receive third party insurance coverage or reimbursement;
- develop clinical data that demonstrate the safety and efficacy of the procedures that use our products;
- obtain the necessary regulatory clearances or approvals for new products or product enhancements;
- market new devices or modified products in compliance with the regulations of the FDA and other applicable regulatory authorities;
- receive adequate coverage and reimbursement for procedures performed with our products; and
- train our sales and marketing team to effectively support our market development efforts.

If we are unsuccessful in developing and commercializing the therapeutic endoscopy market, our ability to increase our revenue will be impaired and our business, results of operations, financial condition and prospects will be materially adversely affected.

Adverse U.S. and international economic conditions may reduce consumer demand for our products, causing our sales and profitability to suffer.

Adverse economic conditions in the U.S. and international markets, including the economic contraction resulting in part from the COVID-19 pandemic, may negatively affect our revenues and operating results. Our Endoscopy products, such as the IntraGastric Balloon products, have limited reimbursement, and in most cases are not reimbursable by governmental or other health care plans and instead are partially or wholly paid for directly by patients. Sales of our products may be negatively affected by adverse economic conditions impacting consumer spending, including among others, increased taxation, higher unemployment, lower consumer confidence in the economy, disasters or disease outbreaks, such as the COVID-19 pandemic, higher consumer debt levels, lower availability of consumer credit, higher interest rates and hardships relating to declines in the housing and stock markets which have historically caused consumers to reassess their spending choices and reduce their likelihood to pursue elective surgical procedures. Any reduced consumer demand due to adverse economic or market conditions could have a material adverse effect on our business, cause sales and profitability to suffer, reduce operating cash flow and result in a decline in the price of our common stock. Adverse economic and market conditions could also have a negative impact on others, such as creditors, third-party contractors and suppliers, causing them to fail to meet their obligations to us.

Our future growth depends on physician adoption and recommendation of procedures utilizing our products.

Our ability to sell our products depends on the willingness of our physician customers to adopt our products and to recommend corresponding procedures to their patients. Physicians may not adopt our products unless they determine that they have the necessary skills to use our products and, based on their own experience, clinical data, communications from regulatory authorities and published peer-reviewed research, that our products provide a safe and effective treatment option. Even if we are able to raise favorable awareness among physicians, physicians may be hesitant to change their medical treatment practices and may be hesitant to recommend procedures that utilize our products for a variety of reasons, including:

- existing preferences for competitor products or with alternative medical procedures and a general reluctance to change to or use new products or procedures;
- lack of experience or proficiency with our products;
- time and skill commitment that may be necessary to gain familiarity with a new product or new treatment;
- a perception that our products are unproven, unsafe, ineffective, experimental or too expensive;
- reluctance for a related hospital or healthcare facility to approve the introduction of a new product or procedure;
- a preference for an alternative procedure that may afford a physician or a related hospital or healthcare facility greater remuneration; and,
- the development of new weight loss treatment options, including pharmacological treatments, that are less costly, less invasive, or more effective.

Our future growth depends on patient awareness of and demand for procedures that use our products.

The procedures that utilize our products are generally elective in nature and demand for our products is driven significantly by patient awareness and preference for the procedures that use our products. We provide patient education materials about our products and related

procedures where allowed by local law and consistent with our product regulatory indications through various forms of media. However, the general media, social media and other forms of media outside of our control as well as competing organizations may distribute information that presents our products and related procedures as being unproven, unsafe, ineffective, experimental, or otherwise unfavorable to our products and related procedures. If patient awareness and preference for procedures is not sufficient or is not positive, our future growth will be impaired. In addition, our future growth will be impacted by the level of patient satisfaction achieved from procedures that use our products. If patients who undergo treatment using our product are not satisfied with their results, our reputation and that of our products may suffer. Even if we are able to raise favorable awareness among patients, patients may be hesitant to proceed with a medical treatment for various reasons including:

- perception that our products are unproven or experimental;
- reluctance to undergo a medical procedure;
- previous long-term failure with other weight loss programs;
- reluctance of a prospective patient to commit to long-term lifestyle changes;
- out of pocket cost for an elective procedure; and
- alternative treatments that are perceived to be more effective or less expensive.

We may not be able to successfully introduce new products or indications to the market in a timely manner.

Our future financial performance will depend in part on our ability to develop and manufacture new products or to acquire new products in a cost-effective manner, to introduce these products to the market on a timely basis and to achieve market acceptance of these products. Factors which may result in delays of new product introductions include capital constraints, research and development delays, lack of personnel with sufficient experience or competence, delays in acquiring regulatory approvals or clearances, including obtaining regulatory approval for new indications for use or delays in closing acquisition transactions. The ongoing COVID-19 pandemic may contribute to such delays, particularly as research and development may be narrowed to key projects and activities. Future product introductions may fail to achieve expected levels of market acceptance including physician adoption, patient awareness or both. Factors impacting the level of market acceptance include the timeliness of our product introductions, the effectiveness of medical education efforts, the effectiveness of patient awareness and educational activities, successful product pricing strategies, available financial and technological resources for product promotion and development, the ability to show clinical benefit from future products, the scope of the indicated use for new products and the availability of coverage and reimbursement for procedures that use future products.

The misuse or off-label use of our products may harm our image in the marketplace, result in injuries that lead to product liability suits or result in costly investigations and sanctions by regulatory bodies if we are deemed to have engaged in the promotion of these uses, any of which could be costly to our business.

The products we currently market have been approved or cleared by the FDA for specific indications. We train our marketing and direct sales force to not promote our products for uses outside of the FDA-approved or cleared indications for use, known as "off-label uses." We cannot, however, prevent a physician from using our products off-label, when in the physician's independent professional medical judgment he or she deems it appropriate. There may be increased risk of injury to patients if physicians attempt to use our products off-label. Furthermore, the use of our products for indications other than those approved or cleared by the FDA or any foreign regulatory body may not effectively treat such conditions, which could harm our reputation in the marketplace among physicians and patients.

Physicians may also misuse our products, use improper techniques, ignore or disregard information provided in training or product labeling, or fail to obtain adequate training, potentially leading to injury and an increased risk of product liability. If our products are misused or used with improper technique, we may become subject to costly litigation by our customers or their patients. Product liability claims could divert management's attention from our core business, be expensive to defend, and result in sizable damage awards against us that may not be covered by insurance. Some of our products have cleared indications for general use and the FDA or foreign regulatory bodies may request clinical evidence to support a specific intended use, or determine that promotional materials or training relating to a particular procedure is off-label promotion. If the FDA or any foreign regulatory body determines that our promotional materials or training constitute promotion of an off-label use, it could request that we modify our training or promotional materials or we could be subject to regulatory or enforcement actions, including the issuance of an untitled letter, a warning letter, injunction, seizure, civil fine or criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider our business activities to constitute promotion of an off-label use, which could result in significant penalties, including, but not limited to, criminal, civil and administrative penalties, damages, fines, disgorgement, exclusion from participation in government healthcare programs and the curtailment of our operations. Any of these events could significantly harm our business and results of operations and cause our stock price to decline.

If we are unable to manage and maintain our direct sales and marketing organizations, we may not be able to generate anticipated revenue.

Our operating results are directly dependent upon the sales and marketing efforts of our employees. If our direct sales representatives fail to adequately promote, market and sell our products, our sales may suffer. In order to generate our anticipated sales, we will need to maintain a qualified and well-trained direct sales organization. In addition, as part of our cost reduction program to manage the impact of COVID-19, we have implemented furloughs, salary reductions and work hour reductions to employees, and eliminated certain employee positions, including for sales and marketing employees and positions. As a result, our future success will depend largely on our ability to hire, train, retain and motivate skilled sales managers and direct sales representatives. Because of the competition for their services, we cannot assure you we will be able to hire and retain direct sales representatives on favorable or commercially reasonable terms, if at all. Failure to hire or retain qualified sales representatives would prevent us from expanding our business and generating sales. Additionally, new hires require training and take time before they achieve full productivity. If we fail to train new hires adequately, new hires may not become as productive as may be necessary to maintain or increase our sales and we may not be able to effectively commercialize our products, which would adversely affect our business, results of operations and financial condition. In addition, we may change our sales approach in certain markets from direct sales to healthcare providers to sales to distributors who then resell our products. If we were to change our sales approach in a given market, our product sales price in the affected market would be reduced which would lower our revenue and gross margin and the resulting reduction in our operating expense may not be sufficient to offset this reduction in our gross margin.

We are dependent on certain suppliers, vendors and manufacturers, and supply or service disruptions could materially adversely affect our business and future growth.

If the supply of materials from our suppliers or provision of services from our vendors were to be interrupted or if we experience delays or interruptions from our manufacturers, including due to the COVID-19 pandemic, replacement or alternative sources might not be readily obtainable. In particular, the products which together comprise our ESS products are sourced from a variety of suppliers and manufacturers, and these suppliers and manufacturers further depend on many component providers. If our suppliers experience unanticipated quality issues or fail to supply components that meet design specifications, or if our contract sterilizers experience delays or shutdowns, we may experience manufacturing delays or product quality issues that may erode customer confidence in our products and negatively affect our sales. As ESS product sales increase, we have experienced times of temporary supply and vendor disruption for a variety of reasons and this has caused delays in our fulfillment of customer orders. For example, we have experienced production and inventory shortages for OverStitch as a result of supply shortages from component suppliers from time to time. Continued interruptions or shortages in these inputs or services, or future unexpected interruptions and shortages, could harm our business, financial condition and results of operations. If such a condition were to persist, our business could suffer as our reputation with customers could be damaged and eventually could lead to reduced future demand for our products. An inability to continue to source materials or components, or receive services, from any of our suppliers, vendors or manufacturers could be due to reasons outside of our direct control, such as regulatory actions or requirements affecting the supplier, adverse financial or other strategic developments experienced by a supplier or manufacturer, labor disputes or shortages at the supplier and unexpected demands or quality issues. We may also face disputes with our current or previous suppliers and vendors. In any of these cases, we could face a delay of several months to identify and qualify alternative suppliers and service providers with regulatory authorities, as we do not currently have supplier or vendor transition plans. In addition, the failure of our third-party suppliers and service providers to maintain acceptable quality requirements could result in the recall of our products.

Manufacturing of our products requires capital equipment and a well-trained workforce. The sourcing of new manufacturing or supply capacity can require significant lead time. If demand increases faster than we expect, or if we are unable to produce the quantity of goods that we expect with our current suppliers and manufacturers, we will not be able to adequately address demand for our products and our revenues and results of operations would suffer.

If we are required to replace a vendor, a new or supplemental filing with applicable regulatory authorities may be required before the product could be sold with a material or component supplied by a new supplier or manufacturer. The regulatory approval process may take a substantial period of time and we cannot assure investors that we would be able to obtain the necessary regulatory approval for a new material to be used in products on a timely basis, if at all. This could create supply disruptions that would materially adversely affect our business. For example, in instances where we are changing our supplier of a key component of a product, we will need to ensure that we have sufficient supply of the component while the change is reviewed by regulatory authorities.

We are dependent on warehouses and service providers in the United States, Australia and the Netherlands for product logistics, order fulfillment and distribution support that are owned and operated by third parties. Our ability to supply products to our customers in a timely manner and at acceptable commercial terms could be disrupted or continue to be disrupted by factors such as fire, earthquake or any other natural disaster, work stoppages or information technology system failures that occur at these third-party warehouse and service providers.

It is difficult to forecast future performance, which may cause operational delays or inefficiency.

We create internal operational forecasts to determine requirements for components and materials used in the manufacture of our products and to make production plans. Our limited operating history and commercial experience, as well as the ongoing COVID-19 pandemic, may make it difficult for us to accurately predict future production requirements. If we forecast inaccurately, this may cause us to have shortfalls or backorders that may negatively impact our reputation with customers and cause them to seek alternative products, or could lead us to have excessive inventory, scrap or similar operational and financial inefficiency that could harm our business.

We compete or may compete in the future against other companies, some of which have longer operating histories, more established products and greater resources, which may prevent us from achieving significant market penetration or improved operating results.

Our industry is highly competitive, subject to change and significantly affected by new product introductions and activities of other industry participants.

These participants may enjoy several competitive advantages, including:

- greater financial and human capital resources;
- significantly greater name recognition;
- established relationships with physicians, referring physicians, customers and third-party payors;
- additional lines of products, and the ability to offer rebates or bundle products to offer greater discounts or incentives to gain a competitive advantage; and
- established sales, marketing and worldwide distribution networks.

If another company successfully develops an approach for the treatment of gastrointestinal conditions, including obesity, that is less invasive or more effective than our current product offerings, sales of our products would be significantly and adversely affected.

We may be unable to successfully integrate or expand operations and processes in connection with acquisitions or we may be unable to efficiently transfer divested assets.

In the future, should we grow or acquire new assets or businesses, we expect to incrementally hire and train new personnel and implement appropriate financial and managerial controls, systems and procedures in order to effectively manage our growth and integrate newly acquired operations and processes. In the future, should we divest assets or portions of our business, we will need to implement financial and managerial controls and procedures to efficiently manage the divestiture of such assets and the transition of such business to an acquirer. Failure to successfully manage the integration of newly acquired assets or business or to efficiently transition divested assets to an acquirer could adversely affect our business.

We face the risk of product liability claims that could be expensive, divert management's attention and harm our reputation and business. We may not be able to maintain adequate product liability insurance.

Our business exposes us to the risk of product liability claims that are inherent in the testing, manufacturing and marketing of medical devices and drug products. This risk exists even if a device or product is approved or cleared for commercial sale by the FDA and manufactured in facilities regulated by the FDA, or an applicable foreign regulatory authority. Our products and product candidates are designed to affect important bodily functions and processes. Any side effects, manufacturing defects, misuse or abuse associated with our products or our product candidates could result in patient injury or death. The medical device industry has historically been subject to extensive litigation over product liability claims, and we cannot offer any assurance that we will not face product liability suits. We may be subject to product liability claims if our products contribute to, or merely appear to or are alleged to have contributed to, patient injury or death. In addition, an injury that is caused by the activities of our suppliers, such as those who provide us with components and raw materials, may be the basis for a claim against us. Further, because we are obligated to continue providing certain transition services, including manufacturing and distribution support, to ReShape for our divested Surgical Product line, we may be subject to product liability claims from sales of Surgical products by ReShape, over which we have limited to no control. Product liability claims may be brought against us by patients and their family members, health care providers or others selling or otherwise coming into contact with our products or product candidates, among others. If we cannot successfully defend ourselves against product liability claims, we will incur substantial liabilities and reputational harm. In addition, regardless of merit or eventual outcome, product liability claims may result in:

- litigation costs;
- distraction of management's attention from our primary business;
- the inability to commercialize our products or, if approved or cleared, our product candidates;

- decreased demand for our products or, if approved or cleared, product candidates;
- impairment of our business reputation;
- product recall or withdrawal from the market;
- withdrawal of clinical trial participants;
- substantial monetary awards to patients or other claimants; or
- loss of revenue.

While we may attempt to manage our product liability exposure by proactively recalling or withdrawing from the market any defective products, any recall or market withdrawal of our products may delay the supply of those products to our customers and may impact our reputation. We can provide no assurance that we will be successful in initiating appropriate market recall or market withdrawal efforts that may be required in the future or that these efforts will have the intended effect of preventing product malfunctions and the accompanying product liability that may result. Such recalls and withdrawals may also be used by our competitors to harm our reputation for safety or be perceived by patients as a safety risk when considering the use of our products, either of which could have an adverse effect on our business.

In addition, although we maintain product liability and clinical study liability insurance that we believe is appropriate, this insurance is subject to deductibles and coverage limitations. Our current product liability insurance may not continue to be available to us on acceptable terms, if at all, and, if available, coverage may not be adequate to protect us against any future product liability claims. If we are unable to obtain insurance at an acceptable cost or on acceptable terms with adequate coverage or otherwise protect against potential product liability claims, we will be exposed to significant liabilities, which may harm our business. A product liability claim, recall or other claim with respect to uninsured liabilities or for amounts in excess of insured liabilities could have a material adverse effect on our business, financial condition and results of operations.

If our facilities or the facility of a supplier become inoperable, we will be unable to continue to research, develop, manufacture and commercialize our products and, as a result, our business will be harmed.

We do not have redundant facilities. We perform substantially all of our manufacturing in a single location in Costa Rica or at contract manufacturer locations in the United States. Any manufacturing facility and equipment would be costly to replace and would require substantial lead time to repair or replace. Manufacturing facilities may be harmed or rendered inoperable by natural or man-made disasters, including, but not limited to, flooding, fire, earthquakes, volcanic activity and power outages, which may render it difficult or impossible for us to perform our research, development, manufacturing and commercialization activities for some period of time. The inability to perform those activities, combined with our limited inventory of reserve raw materials and finished product, may result in the inability to continue manufacturing our products during such periods and the loss of customers, potential liabilities under our supply agreement with ReShape for the manufacture of Surgical products or harm to our reputation. Although we possess insurance for damage to our property and the disruption of our business, this insurance may not be sufficient to cover all of our potential losses and this insurance may not continue to be available to us on acceptable terms, or at all.

Our business and operations would suffer in the event of system failures, security breaches or cyber-attacks

Our computer systems, as well as those of various third-parties on which we rely, including those of contractors, consultants, and law and accounting firms, may sustain damage from computer viruses, unauthorized access, data breaches, phishing attacks, cyber criminals, natural disasters, terrorism, war and telecommunication and electrical failures. We rely on our third-party providers to implement effective security measures and identify and correct for any such failures, deficiencies, or breaches. The risk of a security breach or disruption, particularly through cyber-attacks or cyber intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as the number, intensity, and sophistication of attempted attacks and intrusions from around the world have increased. We may in the future experience material system failures or security breaches that could cause interruptions in our operations or result in material disruption of our product development programs. To the extent that any disruption or security breach were to result in a loss of or damage to our data or applications, or inappropriate disclosure of personal, confidential or proprietary information we could incur liability.

If we experience significant disruptions in our or our third-party service providers' information technology systems, our business may be adversely affected.

We depend on information technology systems for the efficient functioning of our business, including but not limited to accounting, data storage, compliance, sales operations, inventory management and product support applications. Information technology systems are also critical to enabling employees to work remotely. A number of information technology systems in use to support our business operations are owned and/or operated by third-party service providers over whom we have no or very limited control, and upon whom we have to rely to maintain business continuity procedures and adequate security controls to ensure high availability of their information technology systems and to protect our proprietary information.

While we will attempt to mitigate interruptions, they could still occur and disrupt our operations, including our ability to timely ship and track product orders, project inventory requirements, manage our supply chain and otherwise adequately service our customers. In the event we experience significant disruptions to our information technology systems, we may not be able to repair our systems in an efficient and timely manner. Accordingly, such events may disrupt or reduce the efficiency of our entire operation and have a material adverse effect on our results of operations and cash flows.

From time to time, we perform business improvements or infrastructure modernizations or use service providers for key systems and processes. If any of these initiatives are not successfully or efficiently implemented or maintained, they could adversely affect our business and our internal control over financial reporting.

The ability to protect our or our third-party service providers' information systems and electronic transmissions of sensitive and/or proprietary data from data corruption, cyber-based attacks, security breaches or privacy violations is critical to the success of our business.

We rely on information technology networks and systems, including the Internet, to securely process, transmit and store electronic information, including personal information of our customers and prospective product end-users. A security breach of this infrastructure, including physical or electronic break-ins, computer viruses, malware attacks by hackers and similar breaches, may cause all or portions of our or our third-party providers' systems to be unavailable, create system disruptions or shutdowns, and lead to erasure of critical data and software or unauthorized disclosure of confidential information. We invest in security technology to protect our data against risks of data security breaches and cyber-attacks, and we have implemented solutions, processes, and procedures to help mitigate these risks at various locations, such as encryption, virus protection, security firewalls and information security and privacy policies.

Nonetheless, information technology and infrastructure which we rely upon may be subject to attacks by hackers and may be breached due to inadequate protective measures undertaken, human errors or omissions, malfeasance or other disruptions. The age of our or our third-party providers' information technology systems, as well as the level of protection and business continuity or disaster recovery capability, varies significantly by application software and third-party service provider, and there can be no guarantee that any such measures, to the extent they are in place, will be effective. In addition, a security breach or privacy violation that leads to disclosure of consumer information (including personally identifiable information, protected health information, or personal data of EU residents) could harm our reputation, compel us to comply with disparate federal, state and foreign breach notification laws and otherwise subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue. If we or our third-party providers are unable to prevent security breaches or privacy violations or implement satisfactory remedial measures, our operations could be disrupted, we may be subject to additional legal claims or proceedings, or we may suffer loss of reputation, financial loss and other regulatory penalties, which could have a material adverse impact on our business, financial condition and results of operations. Hackers and other cyber criminals are using increasingly sophisticated and constantly evolving techniques, and we may need to expend substantial additional resources to continue to protect against potential security breaches or to address problems caused by such attacks or any breach of our safeguards. In addition, a data security breach could distract management or other key personnel from performing their primary operational duties, impair our ability to transact business with our customers, lose access to critical data or systems, or compromise confidential information including trade secrets and other intellectual property, any of which may harm our competitive position, require us to allocate more resources to improved security technologies, or otherwise adversely affect our business.

In addition, the interpretation and application of consumer and data protection laws in the U.S., Europe and elsewhere are often uncertain, contradictory and in flux. For example, the EU General Data Protection Regulation ("GDPR") that became effective on May 25, 2018 imposes significant obligations on many U.S. companies, including us, to protect the personal information of European citizens. GDPR may be interpreted and applied in a manner that is inconsistent with our data practices such that our practices will be found to be non-compliant with this regulation. If so, this could result in government-imposed fines, orders or guidance requiring that we change our data practices, which could have a material adverse effect on our business. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

Certain state laws may also be more stringent or broader in scope, or offer greater individual rights, with respect to personal information than federal, international or other state laws, and such laws may differ from each other, all of which may complicate compliance efforts. New privacy rules are being enacted in the United States and globally, and existing ones are being updated and strengthened. For example, the California Consumer Privacy Act (the "CCPA"), which increases privacy rights for California residents and imposes obligations on companies that process their personal information, came into effect on January 1, 2020. Among other things, the CCPA requires covered companies to provide new disclosures to California consumers and provide such consumers new data protection and privacy rights, including the ability to opt-out of certain sales of personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for certain data breaches that result in the loss of personal information. This private right of action may increase the likelihood of, and risks associated with, data breach litigation. The CCPA was amended in September 2018 and November 2019, and it is possible that further amendments will be enacted, but even in its current form it remains unclear how various provisions of the CCPA will be interpreted and enforced. State laws are changing rapidly and there is discussion in Congress of a new federal data protection and privacy law to which we would become subject if it is enacted. All of these evolving compliance and

operational requirements impose significant costs that are likely to increase over time, may require us to modify our data processing practices and policies, divert resources from other initiatives and projects, and could restrict the way products and services involving data are offered, all of which may harm our business, financial condition and results of operations.

Fluctuations in insurance costs and availability could adversely affect our profitability or our risk management profile.

We hold a number of insurance policies, including product liability insurance, directors' and officers' liability insurance, general liability insurance, property insurance and workers' compensation insurance. If the costs of maintaining adequate insurance coverage increase significantly in the future, our operating results could be materially adversely affected. Likewise, if any of our current insurance coverage should become unavailable to us or become economically impractical, we would be required to operate our business without coverage from commercial insurance providers. If we operate our business without insurance, we could be responsible for paying claims or judgments against us that would have otherwise been covered by insurance, which could adversely affect our results of operations or financial condition.

**** Our ability to maintain our competitive position depends on our ability to attract and retain highly qualified personnel.***

We believe that our continued success depends to a significant extent upon our efforts and ability to retain highly qualified personnel. All of our officers and other employees are at-will employees, and therefore may terminate employment with us at any time with no advance notice. The replacement of any of our key personnel likely would involve significant time and costs and may significantly delay or prevent the achievement of our business objectives and would harm our business.

In order to manage the impact of COVID-19, we have implemented cost reduction programs including furloughs, salary reductions and work hour reductions that have impacted all employees. The introduction of these cost reduction measures increases the likelihood the employees may voluntarily terminate employment. The impact of COVID-19 on our business has harmed our stock price and, as a result, reduced the retention value of our employee's stock-based compensation. Our future success will depend largely on our ability maintain our workforce until business conditions improve such that we can return employees to previous employment status, salary, and work hour levels. However, we cannot assure you we will be able to maintain our workforce or to replace any departing personnel on favorable or commercially reasonable terms, if at all. Loss of personnel may negatively impact our ability to support business activities in the future if and when market activities return to pre-COVID-19 levels. The cost reduction programs were implemented in multiple foreign and domestic jurisdictions and may also expose us to contract or other disputes with impacted employees that may be detrimental to our business.

We may fail to perform certain services under the supply agreement with ReShape, and the performance of such services may negatively impact our business and operations.

We have entered into a supply agreement with ReShape in connection with the sale of our Surgical product line to ReShape pursuant to which we agreed, among other things, to manufacture the Surgical products for ReShape until December 2020. If we do not satisfactorily perform our obligations under the supply agreement, we may be subject to liabilities to ReShape and our business may be adversely affected.

**** We may be unable to collect future payments from ReShape related to the divestiture of our Surgical product line.***

As part of the sale of the Surgical product line to ReShape, we are owed future payments of \$2.0 million in December 2020 and \$3.0 million in December 2021. Any failure of ReShape to timely pay some or all of the remaining future payments will adversely affect our business and financial position. Additionally, any failure by ReShape to timely pay for products ordered under our Supply Agreement with ReShape will adversely impact our business and results of operations.

If we fail to maintain an effective system of internal controls in the future, we may not be able to accurately or timely report our financial condition or results of operations, which may adversely affect investor confidence in us and, as a result, the value of our common stock.

If our internal controls over financial reporting are found to be insufficient, our independent registered public accounting firm, which audits our financial statements, may issue an adverse opinion on the effectiveness of internal control over financial reporting.

A material weakness is a deficiency, or combination of deficiencies, in internal controls over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. In the event that a material weakness is identified, we cannot assure you that we will be able to identify and implement measures that will be sufficient to remediate any such material weakness or that future material weaknesses will not occur.

If we fail to remediate an identified material weakness or identify new material weaknesses in our internal controls over financial reporting, investors may lack confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected regardless of whether material inaccuracies are determined to exist in our reported financial statements. If material inaccuracies are determined to exist in our financial statements or we are unable to report our financial statements on a timely

basis, we could also become subject to investigations by Nasdaq, the SEC, or other regulatory authorities, and become subject to litigation from investors and stockholders, which could harm our reputation and financial condition or divert financial and management resources from our regular business activities.

The United Kingdom's exit from the EU could lead to increased market access issues, legal issues, and economic conditions which could adversely impact our business.

The U.K.'s withdrawal from the EU is commonly referred to as "Brexit." The U.K. and the EU have agreed to a withdrawal agreement (the "Withdrawal Agreement") which was approved by the U.K. Parliament in January 2020. Under the Withdrawal Agreement, the U.K. will be subject to a transition period until December 31, 2020 (the "Transition Period"), during which EU rules will continue to apply. Negotiations between the U.K. and the EU are expected to continue to determine the customs and trading relationship that will exist between the U.K. and the EU following the expiration of the Transition Period. Our subsidiary that manages our European business is located in the U.K. and, thus, there are many ways in which our business operations may be impacted by Brexit, only some of which we can identify at this time. Our notified body in Europe was BSI based in the U.K., which will no longer have standing in the EU as a notified body. We subsequently transferred our notified body to BSI in the Netherlands which required that we change product labeling and packaging for all our products and may have other potential implications that have yet to be identified at this time. Financial markets could experience volatility which could negatively impact currency exchange rates and therefore the translated U.S. dollar value of our local currency sales to customers in the U.K. or Europe. We do not hedge our foreign currency transaction or translation risks. Our warehousing and distribution hub for Europe is in the Netherlands and distribution of our products in the U.K. market may be slowed or disrupted and our U.K. sales may suffer as a result. Our efforts to mitigate the risk of this supply disruption to our U.K. customers may not prove sufficient.

If the U.K. and the EU are unable to negotiate acceptable trading and customs terms or if other EU member states pursue withdrawal, barrier-free access between the U.K. and other EU member states or among the European Economic Area overall could be diminished or eliminated. The long-term effects of Brexit will depend on any agreements (or lack thereof) between the U.K. and the EU and, in particular, any arrangements for the U.K. to retain access to EU markets after the Transition Period. Such a withdrawal from the EU is unprecedented, and it is unclear how the U.K.'s access to the European single market for goods, capital, services and labor within the EU, or single market, and the wider commercial, legal and regulatory environment, will impact our U.K. operations. There may continue to be economic uncertainty surrounding the consequences of Brexit which could negatively impact our financial condition, results of operations and cash flows.

Risks Related to Regulatory Review and Approval of Our Products

Our products are subject to extensive regulation by the FDA, including the requirement to obtain premarket approval and the requirement to report adverse events and violations of the U.S. Federal Food, Drug and Cosmetic Act that could present significant risk of injury to patients. Even though we have received FDA approval of our PMA applications and 510(k) clearances to commercially market our products, we will continue to be subject to extensive FDA regulatory oversight.

Our products are subject to rigorous regulation by the FDA and numerous other federal, state and foreign governmental authorities. The process of obtaining regulatory clearances or approvals to market a medical device can be costly and time consuming, and we may not be able to obtain these clearances or approvals on a timely basis, if at all. In particular, the FDA permits commercial distribution of a new medical device only after the device has received clearance under Section 510(k) of the U.S. Federal Food, Drug and Cosmetic Act, or is the subject of an approved premarket approval application, or PMA unless the device is specifically exempt from those requirements. The FDA will clear marketing of a lower risk medical device through the 510(k) process if the manufacturer demonstrates that the new product is substantially equivalent to other pre-amendment, 510(k)-exempt, 510(k) cleared products, or PMA-approved products that have subsequently been down-classified. If the FDA determines that the device is not "substantially equivalent" to a predicate device, or if the device is automatically classified into Class III, the device sponsor must then fulfill the much more rigorous premarketing requirements of the PMA approval process, or seek reclassification of the device through the De Novo process. Pursuant to amendments to the statute in 2012, a manufacturer can also submit a petition for a direct De Novo review if the manufacturer is unable to identify an appropriate predicate device and the new device or new use of the device presents a moderate or low risk.

High risk devices deemed to pose the greatest risk, such as life-sustaining, life-supporting, or implantable devices, or devices not deemed substantially equivalent to a previously cleared device, require the approval of a PMA. In addition, the FDA may deem certain uses of an existing cleared general use device, such as OverStitch, to be a high risk use and may require the submission of a PMA or a De Novo 510(k) prior to expanding the device's indication for such additional use. The PMA process is more costly, lengthy and uncertain than the 510(k) clearance process. A PMA application must be supported by extensive data, including, but not limited to, technical, preclinical, clinical trial, manufacturing and labeling data, to demonstrate to the FDA's satisfaction the safety and efficacy of the device for its intended use. Of our products, Orbera is a class III product and has been approved through the FDA's PMA process and our OverStitch products are class II products and have been cleared through the 510(k) process. In addition, although FDA has granted PMA approval for our class III products, holding those approvals in good standing requires ongoing compliance with FDA reporting requirements and conditions of approval including the completion of lengthy and expensive post market approval studies. The De Novo 510(k) process is

also more costly, lengthy and uncertain than the 510(k) clearance process. Despite the time, effort and cost required to obtain approval, there can be no assurance that we will be able to meet all FDA requirements to maintain our PMA approvals or that circumstances outside of our control may cause the FDA to withdraw our PMA approvals.

Our failure to comply with U.S. federal, state and foreign governmental regulations could lead to the issuance of warning letters or untitled letters, the imposition of injunctions, suspensions or loss of regulatory clearance or approvals, product recalls, termination of distribution, product seizures or civil penalties. In the most extreme cases, criminal sanctions or closure of our manufacturing facility are possible.

If we fail to comply with U.S. federal and state healthcare fraud and abuse or data privacy and security laws and regulations, we could be subject to penalties, including, but not limited to, administrative, civil and criminal penalties, damages, fines, disgorgement, exclusion from participation in governmental healthcare programs and the curtailment of our operations, any of which could adversely impact our reputation and business operations.

Our industry is subject to numerous U.S. federal and state healthcare laws and regulations, including, but not limited to, anti-kickback, false claims, privacy and transparency laws and regulations. Our relationships with healthcare providers and entities, including but not limited to, physicians, hospitals, ambulatory surgery centers, group purchasing organizations and our international distributors are subject to scrutiny under these laws. Violations of these laws or regulations can subject us to penalties, including, but not limited to, administrative, civil and criminal penalties, damages, fines, disgorgement, imprisonment, exclusion from participation in federal and state healthcare programs, including the Medicare, Medicaid and Veterans Administration health programs and the curtailment of our operations. Healthcare fraud and abuse regulations are complex and subject to evolving interpretations and enforcement discretion, and even minor irregularities can potentially give rise to claims that a statute or regulation has been violated. The laws that may affect our ability to operate include, but are not limited to:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons and entities from knowingly and willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, in cash or in kind, in exchange for or to induce either the referral of an individual for, or the purchase, lease, order or recommendation of, any good, facility, item or service for which payment may be made, in whole or in part, under federal healthcare programs such as Medicare and Medicaid; the FCA, which prohibits, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid or other third-party payors that are false or fraudulent; knowingly making using, or causing to be made or used, a false record or statement to get a false or fraudulent claim paid or approved by the government; or knowingly making, using, or causing to be made or used, a false record or statement to avoid, decrease or conceal an obligation to pay money to the federal government;
- the civil monetary penalties statute, which imposes penalties against any person or entity who, among other things, is determined to have presented or caused to be presented, a claim to a federal healthcare program that the person knows, or should know, is for an item or service that was not provided as claimed or is false or fraudulent;
- the federal Health Insurance Portability and Accountability Act of 1996, and the federal Health Information Technology for Economic and Clinical Health Act of 2009, each as amended, and their implementing regulations, which impose requirements upon certain entities relating to the privacy, security, and transmission of health information;
- the Federal Trade Commission Act and similar laws regulating advertisement and consumer protections;
- the federal Foreign Corrupt Practices Act, which prohibits corrupt payments, gifts or transfers of value to foreign officials; and
- foreign or U.S. state law equivalents of each of the above federal laws

While we do not submit claims for reimbursement to payors and our customers make the ultimate decision on how to submit claims, from time-to-time, we may be asked for reimbursement guidance by our customers. Failure to comply with any of these laws, or any action against us for alleged violation of these laws, even if we successfully defend against it, could result in a material adverse effect on our reputation, business, results of operations and financial condition.

We have entered into consulting agreements with physicians, including some who use our products and may influence the ordering and use of our products. While we believe these transactions were structured to comply with all applicable laws, including state and federal anti-kickback laws, to the extent applicable, should the government take the position that these transactions are prohibited arrangements that must be restructured or discontinued, we could be subject to significant penalties. The medical device industry's relationship with physicians is under increasing scrutiny by the OIG, the DOJ, state attorneys general, and other foreign and domestic government agencies. Our failure to comply with laws, rules and regulations governing our relationships with physicians, or an investigation into our compliance by the OIG, DOJ, state attorneys general and other government agencies could significantly harm our business.

To enforce compliance with the healthcare regulatory laws, federal and state enforcement bodies have recently increased their scrutiny of interactions between healthcare companies and healthcare providers, which has led to a number of investigations, prosecutions, convictions and settlements in the healthcare industry. Responding to investigations can be time and resource consuming and can divert management's attention from the business. Additionally, as a result of these investigations, healthcare providers and entities may have to agree to onerous additional compliance and reporting requirements as part of a consent decree or corporate integrity agreement. Any such investigation or settlement could increase our costs or otherwise have an adverse effect on our business.

In addition, there has been a recent trend of increased federal and state regulation of payments and transfers of value provided to healthcare professionals or entities. The Affordable Care Act's provision commonly referred to as the federal Physician Payment Sunshine Act, as well as similar state and foreign laws, impose obligations on medical device manufacturers to annually report certain payments and other transfers of value provided, directly or indirectly, to certain physicians and teaching hospitals, as well as ownership and investment interests held by physicians and their family members. Failure to comply with any of these state, federal, or foreign transparency and disclosure requirements could subject us to significant fines and penalties. The shifting commercial compliance environment and the need to build and maintain robust and expandable systems to comply with different compliance and reporting requirements in multiple jurisdictions increase the possibility that we may fail to comply fully with one or more of these requirements.

Although compliance programs can mitigate the risk of investigation and prosecution for violations of these laws, the risks cannot be entirely eliminated. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business.

Most of these laws apply to not only the actions taken by us, but also actions taken by our distributors. We have limited knowledge and control over the business practices of our distributors, and we may face regulatory action against us as a result of their actions which could have a material adverse effect on our reputation, business, results of operations and financial condition.

In addition, the scope and enforcement of these laws is uncertain and subject to rapid change in the current environment of healthcare reform, especially in light of the lack of applicable precedent and regulations. Federal or state regulatory authorities might challenge our current or future activities under these laws. Any such challenge could have a material adverse effect on our reputation, business, results of operations and financial condition. Any state or federal regulatory review of the Company, regardless of the outcome, would be costly and time-consuming. Additionally, we cannot predict the impact of any changes in these laws, whether or not retroactive.

Healthcare cost containment pressures and legislative or administrative reforms resulting in restrictive reimbursement practices of third-party payors could decrease the demand for our products, the prices that customers are willing to pay and the number of procedures performed using our products, which could have an adverse effect on our business.

All third-party payors, whether governmental or commercial, whether inside the U.S. or outside, are developing increasingly sophisticated methods of controlling healthcare costs. These cost-control methods include prospective payment systems, bundled payment models, capitated arrangements, group purchasing, benefit redesign, pre-authorization processes and requirements for second opinions prior to major surgery. These cost-control methods also potentially limit the amount that healthcare providers may be willing to pay for our products. Therefore, coverage or reimbursement for medical devices may decrease in the future.

Federal and state governments in the U.S. and outside the U.S. may enact legislation to modify the healthcare system which may result in increased government price controls, additional regulatory mandates and other measures designed to constrain medical costs. These reform measures may limit the amounts that federal and state governments will pay for healthcare products and services, and also indirectly affect the amounts that private payors are willing to pay. These changes could result in reduced demand for our products and may adversely affect our operating results.

Further, from time to time, typically on an annual basis, payment amounts are updated and revised by third-party payors. In cases where the cost of certain of our products are recovered by the healthcare provider as part of the payment for performing a procedure and not separately reimbursed or paid directly by the patient, these updates could directly impact the demand for our products. We cannot predict how pending and future healthcare legislation will impact our business, and any changes in coverage and reimbursement that further restricts coverage of our products or lowers reimbursement for procedures using our products could materially affect our business.

Modifications to our marketed products may require new 510(k) or De Novo clearances or PMA approvals, or may require us to cease marketing or recall the modified products until clearances or approvals are obtained.

Modifications to our products may require new regulatory approvals or clearances, including 510(k) or De Novo clearances or premarket approvals, or require us to recall or cease marketing the modified devices until these clearances or approvals are obtained. The FDA and other regulatory authorities outside the United States require device manufacturers to initially make and document a determination of whether or not a modification requires a new approval, supplement or clearance. For example, a manufacturer may determine that a modification does not significantly affect safety or efficacy and does not represent a major change in its intended use, so that no new 510(k) clearance is necessary. However, a given regulatory authority, such as the FDA, can review a manufacturer's decision and may disagree and on its own initiative determine that a new clearance or approval is required. We have made modifications to our

products in the past and may make additional modifications in the future that we believe do not or will not require additional clearances or approvals. If a regulatory authority disagrees and requires new clearances or approvals for the modifications, we may be required to recall and to stop marketing our products as modified, which could require us to redesign our products, re-introduce pre-modified product back into the specific market, and harm our operating results. In addition, a regulatory authority in one country may not agree with the conclusion of a regulatory authority of another country. In these circumstances, we may be subject to significant enforcement actions.

If we determine that a modification to an FDA-cleared device could significantly affect its safety or efficacy, or would constitute a major change in its intended use, then we must file for a new 510(k) clearance or possibly De Novo, down classification, or a premarket approval application. Where we determine that modifications to our products require a new 510(k) or De Novo clearance or premarket approval application, we may not be able to obtain those additional clearances or approvals for the modifications or additional indications in a timely manner, or at all. For those products sold in the EU, we must notify our EU Notified Body, if significant changes are made to the products or if there are substantial changes to our quality assurance systems affecting those products. Obtaining clearances and approvals can be a time consuming process, and delays in obtaining required future clearances or approvals would adversely affect our ability to introduce new or enhanced products in a timely manner, which in turn would harm our sales.

For our class III devices, new PMAs or PMA supplements are required for modifications that affect the safety or effectiveness of the device, including, for example, certain types of modifications to the device's indication for use, manufacturing process, labeling and design. PMA supplements often require submission of the same type of information as a PMA, except that the supplement is limited to information needed to support any changes to the device covered by the original PMA and may not require as extensive clinical data or the convening of an advisory panel. There is no guarantee that the FDA will grant PMA approval of our future products and failure to obtain necessary approvals for our future products would adversely affect our ability to grow our business. Delays in receipt or failure to receive approvals, the loss of previously received approvals, or the failure to comply with existing or future regulatory requirements could reduce our sales, profitability and future growth prospects.

Expanding the indications of our marketed products may require new 510(k) or De Novo clearances or PMA approvals.

Expanding the indications for our products will require new regulatory approvals or clearances, including 510(k) or De Novo clearances or PMA approvals. We have current products such as OverStitch with clearance as a general use device but no procedure-specific indications for use. In the event that we pursue the approval of expanded indications for a product, the FDA may require a separate 510(k) or De Novo submission or may deem the desired indication for use to be of high enough risk to require a PMA submission. For example, the investigators conducting the MERIT trial sought and received an Investigational Device Exemption following communication from the FDA which indicated that the FDA considered the ESG procedure for weight loss to be a high risk use. Obtaining clearances and approvals for expanded uses can be a time consuming and costly process and could adversely affect our ability to market our products or delay efforts to obtain reimbursement coverage from payors.

If our products contribute to a death or a serious injury, or malfunction in certain ways, we will be subject to medical device reporting regulations, which can result in voluntary corrective actions or agency enforcement actions.

Under the FDA medical device reporting regulations, medical device manufacturers are required to report to the FDA information that a device has or may have caused or contributed to a death or serious injury or has malfunctioned in a way that would likely cause or contribute to death or serious injury if the malfunction of the device were to recur. As required per the FDA Code of Federal Regulations (21 CFR) Part 803, we have established procedures and processes for documentation and evaluation of all complaints relative to reporting requirements. As with all device manufacturers, we have 30 days from "becoming aware" of an incident to submit to FDA a MDR for an event that reasonably suggests that a device has or may have caused or contributed to the incident, or five work days for an event designated by the FDA or an event that requires remedial action to prevent an unreasonable risk of substantial harm to the public health. As part of this assessment we conduct a complaint investigation of each reported Adverse Event. In the event that an investigation is inconclusive (i.e., the investigation cannot confirm whether or not our product was a cause of an Adverse Event), our policy and practice is to default in favor of reporting events to the FDA. If we fail to report these events to the FDA within the required timeframes, or at all, FDA could take enforcement action against us. Any such adverse event involving our products or for which we cannot confirm whether or not our product caused or contributed to the adverse event also could result in future voluntary corrective actions, such as recalls or customer notifications, or agency action, such as inspection or enforcement action. Any corrective action, whether voluntary or involuntary, as well as defending ourselves in a lawsuit, will require the dedication of our time and capital, distract management from operating our business, and may harm our reputation and financial results.

The FDA may issue safety alerts in response to its review of reported Adverse Events that do not require voluntary corrective actions or agency enforcement but that still negatively affect our product marketing efforts. For instance, in February of 2017, the FDA issued an update to alert health care providers of reported adverse events of liquid-filled intragastric balloons including several dozen incidents of balloon over-inflation and, separately, a set of reports of acute pancreatitis. In August of 2017, the FDA issued a second update to alert health care providers of five reports of unanticipated deaths that had been reported since 2016 in patients with liquid-filled intragastric balloons, four of which had received our IGB. In June 2018, the FDA issued a new update to alert health care providers of five additional reports worldwide of unanticipated deaths that had been reported since the August 2017 letter to Health Care Providers and also announced

the approval of labeling changes for the Orbera Balloon System. Four of the additional mentioned reported deaths involved patients who had received our IGB product. In each case, the occurrence had been self-reported by us to the FDA as part of our normal product surveillance process. Neither the FDA's August 2017 letter to Health Care Providers nor the June 2018 letter to Health Care Providers indicates that the patient deaths were related to the intragastric balloon product or the insertion procedures. However, both letters to Health Care Providers subjected us to adverse publicity that harmed our business. In April 2020, the FDA issued a new update to Health Care Providers following the completion of the Orbera post approval study, which may further subject us to adverse publicity and harm our business. The FDA has full authority to issue these updates or letters and to choose to include or exclude key context and facts based solely on their regulatory discretion and may from time to time issue new letters or updates in the future. These types of letters, and updates to existing letters, can be reviewed by regulatory authorities worldwide, who may then require formal Field Safety Notices to communicate labeling updates to customers. Making these notifications requires significant time and resources, distract from other projects, and may harm our reputation.

Our international operations must comply with local laws and regulations that present certain legal and operating risks, which could adversely impact our business, results of operations and financial condition.

We currently operate in the U.S., Costa Rica, Australia and various European countries and our products are approved for sale in over 75 different countries; our activities are subject to U.S. and foreign governmental trade, import and export and customs regulations and laws. Compliance with these regulations and laws is costly and exposes us to penalties for non-compliance.

Other laws and regulations that can significantly impact us include various anti-bribery laws, including the U.S. FCPA, as well as export control laws and economic sanctions laws. Any failure to comply with applicable legal and regulatory obligations could impact us in a variety of ways that include, but are not limited to, significant costs and disruption of business associated with an internal and/or government investigation, criminal, civil and administrative penalties, including imprisonment of individuals, fines and penalties, denial of export privileges, seizure of shipments, restrictions on certain business activities and exclusion or debarment from government contracting.

Our international operations present the same risks as presented by our U.S. operations plus unique risks inherent in operating in foreign jurisdictions. These unique risks include:

- foreign regulatory approval which could result in delays leading to possible insufficient inventory levels;
- foreign currency exchange rate fluctuations;
- reliance on sales people and distributors;
- pricing pressure that we may experience internationally;
- competitive disadvantage to competitors who have more established business and customer relationships in a given market;
- reduced or varied intellectual property rights available in some countries;
- economic instability of certain countries;
- the imposition of additional U.S. and foreign governmental controls, regulations and laws;
- changes in duties and tariffs, license obligations, importation requirements and other non-tariff barriers to trade;
- scrutiny of foreign tax authorities which could result in significant fines, penalties and additional taxes being imposed on the Company; and
- laws and business practices favoring local companies.

If we experience any of these events, our business, results of operations and financial condition may be harmed.

If we or our suppliers fail to comply with ongoing FDA or foreign regulatory authority requirements, or if we experience unanticipated problems with our products, these products could be subject to restrictions or withdrawal from the market.

Any product for which we obtain approval or clearance, and the manufacturing processes, reporting requirements, post-market clinical data and promotional activities for such product, will be subject to continued regulatory review, oversight and periodic inspections by the FDA and other domestic and foreign regulatory bodies. In particular, we and our third-party suppliers are required to comply with the quality system requirements ("QSR"). The QSR covers the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, sterilization, storage and shipping of our products. Compliance with applicable regulatory requirements is subject to continual review and is monitored rigorously through periodic inspections by the FDA. If we, or our manufacturers, fail to adhere to QSR requirements in the U.S. or experience delays in obtaining necessary regulatory approvals or clearances, this could delay

production of our products and lead to fines, difficulties in obtaining regulatory approvals or clearances, recalls, enforcement actions, including injunctive relief or consent decrees, or other consequences, which could, in turn, have a material adverse effect on our financial condition or results of operations.

In addition, the FDA audits compliance with the QSR through periodic announced and unannounced inspections of manufacturing and other facilities. The failure by the Company or one of our suppliers to comply with applicable statutes and regulations administered by the FDA, or the failure to timely and adequately respond to any adverse inspection observations or product safety issues, could result in any of the following enforcement actions:

- untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- unanticipated expenditures to address or defend such actions;
- customer notifications or repair, replacement, refunds, recall, detention or seizure of our products;
- operating restrictions, partial suspension or total shutdown of production;
- refusing or delaying our requests for regulatory approvals or clearances of new products or modified products;
- withdrawing PMA approvals that have already been granted;
- refusal to grant export approval for our products; or
- criminal prosecution.

Any of these sanctions could have a material adverse effect on our reputation, business, results of operations and financial condition. Furthermore, our key component suppliers may not currently be or may not continue to be in compliance with all applicable regulatory requirements, which could result in a failure to produce our products on a timely basis and in the required quantities, if at all.

Our products and operations are required to comply with standards set by foreign regulatory bodies, and those standards, types of evaluation and scope of review differ among foreign regulatory bodies. If we fail to comply with any of these standards adequately or if changes to our manufacturing or supply practices require additional regulatory approval, a foreign regulatory body may take adverse actions or cause delays within their jurisdiction similar to those within the power of the FDA. Any such action or circumstance may harm our reputation and business, and could have an adverse effect on our business, results of operations and financial condition.

Our products may in the future be subject to product recalls that could harm our reputation, business and financial results.

We may, under our own initiative, recall a product if any material deficiency in a device is found. In addition, the FDA and similar foreign governmental authorities can require the recall of commercialized products in the event of material deficiencies or defects in design or manufacture. In the case of the FDA, the recall must be based on an FDA finding that there is a reasonable probability that the device would cause serious injury or death. In addition, foreign governmental bodies have the authority to require the recall of our products in the event of material deficiencies or defects in design or manufacture. A government-mandated or voluntary recall by us or one of our distributors could occur as a result of component failures, manufacturing errors, design or labeling defects or other deficiencies and issues. Recalls of any of our products would divert managerial and financial resources and have an adverse effect on our financial condition and results of operations. The FDA requires that certain classifications of voluntary recalls be reported to FDA within 10 working days after the recall is initiated. Companies are required to maintain certain records of recalls, even if they are not reportable to the FDA. We may initiate voluntary recalls involving our products in the future that we determine do not require notification of the FDA. If the FDA disagrees with our determinations, they could require us to report those actions as recalls. A future recall announcement could harm our reputation with customers and negatively affect our sales. In addition, the FDA could take enforcement action for failing to report the recalls when they were conducted.

U.S. legislative, FDA or global regulatory reforms may make it more difficult and costly for us to obtain regulatory approval of our product candidates and to manufacture, market and distribute our products after approval is obtained.

From time to time, legislation is drafted and introduced in Congress that could significantly change the statutory provisions governing the regulatory approval, manufacture and marketing of regulated products or the reimbursement thereof. Any new regulations or revisions or reinterpretations of existing regulations may impose additional costs or lengthen review times of future products. In addition, FDA regulations and guidance are often revised or reinterpreted by the agency in ways that may significantly affect our business and our products. It is impossible to predict whether legislative changes will be enacted or FDA regulations, guidance or interpretations changed, and what the impact of such changes, if any, may be.

Moreover, organizational changes within the FDA as well as recent and future federal election outcomes could result in significant legislative and regulatory reforms impacting the FDA's regulation of our products. Any change in the laws or regulations that govern the clearance and approval processes relating to our current and future products could make it more difficult and costly to obtain clearance or

approval for new products, or to produce, market and distribute existing products. Significant delays in receiving clearance or approval, or the failure to receive clearance or approval for our new products would have an adverse effect on our ability to expand our business.

In addition, on May 25, 2017, the new EU Medical Devices Regulation ("MDR 2017") was published and was scheduled to become effective on May 26, 2020. On April 17, 2020, the European Parliament approved the delay of the effectiveness of MDR 2017 until May 26, 2021. The MDR 2017 changes certain obligations of medical device manufacturers with product in the EU and will subject high risk medical devices to additional scrutiny during the conformity assessment process. MDR 2017 repeals and replaces the EU Medical Devices Directive and intends to eliminate current differences in the regulation of medical devices among EEA Member States. The new regulations will among other things:

- add new rules on placing devices on the market and reinforce surveillance once they are available;
- establish explicit provisions on manufacturers' responsibilities for the follow-up of the quality, performance and safety of devices placed on the market;
- require the traceability of medical devices throughout the supply chain to the end-user or patient through a unique identification number;
- set up a central database to provide patients, healthcare professionals and the public with comprehensive information on products available in the EU; and
- add rules for the assessment of certain high-risk devices which may have to undergo an additional check by experts before they are placed on the market;
- modify or increase clinical evidence requirements necessary to maintain existing CE marks

In addition, the MDR 2017 may impose increased compliance obligations for us to access the EU market and other countries that rely on the CE Mark.

In order to continue to sell our products in Europe, we must maintain our CE marks and continue to comply with certain EU directives and, in the future with the MDR 2017. Our failure to continue to comply with applicable foreign regulatory requirements, including meeting additional clinical evidence requirements and complying with regulatory requirements administered by authorities of the EEA countries, could result in enforcement actions against us, including refusal, suspension or withdrawal of our CE Certificates of Conformity by our Notified Body, which could impair our ability to market products in the EEA in the future. Any changes to the membership of the EU, such as the departure of the United Kingdom (Brexit), may impact the regulatory requirements for the impacted countries and impair our business operations and our ability to market products in such countries.

We are also subject to regulations and periodic review from various regulatory bodies in other countries where our products are sold. Lack of regulatory compliance in any of these jurisdictions could limit our ability to distribute products in these countries. A number of countries outside of Europe consider the CE Mark status of a medical device when making their decisions to grant a license for said product. In many countries, we rely significantly on independent distributors to comply with the varying regulations, and any failures on their part could result in restrictions on the sale of our products.

If the third parties on which we rely to conduct our clinical trials and to assist us with post market studies do not perform as contractually required or expected, we may not be able to maintain regulatory approval for our products.

We often must rely on third parties, such as medical institutions, clinical investigators, contract research organizations and contract laboratories to conduct our clinical trials and provide data or prepare deliverables for our PMA post market studies or CE Mark post-approval studies required to keep our market approvals in good standing. If these third parties do not successfully carry out their contractual duties or regulatory obligations or meet expected deadlines, if these third parties need to be replaced, or if the quality or accuracy of the data they obtain is compromised due to the failure to adhere to applicable clinical protocols or regulatory requirements or for other reasons, our clinical activities or clinical trials may be extended, delayed, suspended or terminated, and we may be at risk of losing our regulatory approvals, or fail to obtain desired regulatory approvals, which could harm our business.

Our operations involve the use of hazardous and toxic materials, and we must comply with environmental laws and regulations, which can be expensive, and may affect our business and operating results.

We are subject to a variety of federal, state and local regulations relating to the use, handling, storage, disposal and human exposure to hazardous materials. Liability under environmental laws can be joint and several and without regard to comparative fault, and environmental laws could become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violations, which could harm our business. Although we believe that our activities conform in all material respects with environmental laws, there can be no assurance that violations of environmental and health and safety laws will not occur in the future as a result of human error, accident, equipment failure or other causes. The failure to comply with past, present or future laws could result in the

imposition of fines, third-party property damage and personal injury claims, investigation and remediation costs, the suspension of production or a cessation of operations. We also expect that our operations may be affected by other new environmental and health and safety laws on an ongoing basis. Although we cannot predict the ultimate impact of any such new laws, they will likely result in additional costs, and may require us to change how we manufacture our products, which could have a material adverse effect on our business.

Failure to comply with the U.S. FCPA and similar laws associated with any activities outside the U.S. could subject us to penalties and other adverse consequences.

We are subject to the U.S. FCPA, and other anti-bribery legislation around the world. The FCPA generally prohibits covered entities and their intermediaries from engaging in bribery or making other prohibited payments, offers or promises to foreign officials for the purpose of obtaining or retaining business or other advantages. In addition, the FCPA imposes recordkeeping and internal controls requirements on publicly traded corporations and their foreign affiliates. We may face significant risks if we fail to comply with the FCPA and other similar foreign antibribery laws. Although we have implemented safeguards and training, including company policies requiring our employees, distributors, consultants and agents to comply with the FCPA and similar laws, our international operations nonetheless present a risk of unauthorized payments or offers of payments by one of our employees, consultants, sales agents, or distributors, because these parties are not always subject to our control. Any violation of the FCPA and related policies could result in severe criminal or civil sanctions, which could have a material and adverse effect on our reputation, business, operating results and financial condition.

Risks Related to Our Intellectual Property

Intellectual property rights may not provide adequate protection, which may permit third parties to compete against us more effectively.

Our success depends significantly on our ability to protect our proprietary rights to the technologies and inventions used in, or embodied by, our products. To protect our proprietary technology, we rely on patent protection, as well as a combination of copyright, trade secret and trademark laws, as well as nondisclosure, confidentiality and other contractual restrictions in our supply, consulting and employment agreements. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage.

Patents

The process of applying for patent protection itself is time consuming and expensive and we cannot assure investors that all of our patent applications will issue as patents or that, if issued, they will issue in a form that will be advantageous to us. The rights granted to us under our patents, including prospective rights sought in our pending patent applications, may not be meaningful or provide us with any commercial advantage and they could be opposed, contested or circumvented by our competitors or be declared invalid or unenforceable in judicial or administrative proceedings.

We own numerous issued patents and pending patent applications that relate to our products and methods of using our products, as well as individual components of our products. If any of our patents are challenged, invalidated or legally circumvented by third parties, and if we do not own other enforceable patents protecting our products, competitors could market products and use processes that are substantially similar to, or superior to, ours, and our business will suffer. In addition, the patents we own may not be sufficient in scope or strength to provide us with any meaningful protection or commercial advantage, and competitors may be able to design around our patents or develop products that provide outcomes comparable to ours without infringing on our intellectual property rights. We may also determine from time to time to discontinue the payment of maintenance fees, if we determine that certain patents are not material to our business.

We may be subject to a third-party preissuance submission of prior art to the U.S. Patent and Trademark Office ("USPTO"), or become involved in opposition, derivation, reexamination, inter partes review, post-grant review, or other patent office proceedings or litigation, in the U.S. or elsewhere, challenging our patent rights or the patent rights of others. An adverse determination in any such submission, proceeding or litigation could reduce the scope of, or invalidate, our patent rights, allow third parties to commercialize our technology or products and compete directly with us, without payment to the Company, or result in our inability to manufacture or commercialize products without infringing third-party patent rights.

Moreover, the USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. In addition, periodic maintenance fees on issued patents often must be paid to the USPTO and foreign patent agencies over the lifetime of the patent. While an unintentional lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. If we fail to maintain the patents and patent applications covering our products or procedures, we may not be able to stop a competitor from marketing products that are the same as or similar to our products, which would have a material adverse effect on our business.

Furthermore, we do not have patent rights in certain foreign countries in which a market may exist in the future, and the laws of many foreign countries may not protect our intellectual property rights to the same extent as the laws of the U.S. Thus, we may not be able to stop a competitor from marketing and selling in foreign countries products that are the same as or similar to our products.

Trademarks

We rely on our trademarks as one means to distinguish our products from the products of our competitors and have registered or applied to register many of these trademarks. Our trademark applications may not be approved, however. Third parties may oppose our trademark applications, or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products, which could result in loss of brand recognition and could require us to devote resources to advertising and marketing new brands. Our competitors may infringe our trademarks and we may not have adequate resources to enforce our trademarks.

Trade Secrets and Know-How

We may not be able to prevent the unauthorized disclosure or use of our technical knowledge or other trade secrets by consultants, vendors, former employees or current employees, despite the existence of confidentiality agreements and other contractual restrictions. Monitoring unauthorized uses and disclosures of our intellectual property is difficult, and we do not know whether the steps we have taken to protect our intellectual property will be effective.

Moreover, our competitors may independently develop equivalent knowledge, methods and know-how. Competitors could purchase our products and attempt to replicate some or all of the competitive advantages we derive from our development efforts, willfully infringe our intellectual property rights, design around our protected technology or develop their own competitive technologies that fall outside of our intellectual property rights. If our intellectual property is not adequately protected so as to protect our market against competitors' products and methods, our competitive position could be adversely affected, as could our business.

We may in the future be a party to patent and other intellectual property litigation and administrative proceedings that could be costly and could interfere with our ability to sell our products.

The medical device industry has been characterized by frequent and extensive intellectual property litigation. Additionally, the bariatric and therapeutic endoscopy markets are competitive. Our competitors or other patent holders may assert that our products and the methods we employ are covered by their patents. If our products or methods are found to infringe, we could be prevented from manufacturing or marketing our products. In the event that we become involved in such a dispute, we may incur significant costs and expenses and may need to devote resources to resolving any claims, which would reduce the cash we have available for operations and may be distracting to management. We do not know whether our competitors or potential competitors have applied for, will apply for, or will obtain patents that will prevent, limit or interfere with our ability to make, use, sell, import or export our products.

Competing products may also be sold in other countries in which our patent coverage might not exist or be as strong. If we lose a foreign patent lawsuit, alleging our infringement of a competitor's patents, we could be prevented from marketing our products in one or more foreign countries. We may also initiate litigation against third parties to protect our own intellectual property. Our intellectual property has not been tested in prior litigation. If we initiate litigation to protect our rights, we run the risk of having our intellectual property rights adjudicated, invalidated, or limited in scope, which would undermine our competitive position.

Litigation related to infringement and other intellectual property claims, with or without merit, is unpredictable, expensive and time-consuming and can divert management's attention from our core business. If we lose this kind of litigation, a court could require us to pay substantial damages, treble damages and attorneys' fees, and prohibit us from using technologies essential to our products, any of which would have a material adverse effect on our business, results of operations and financial condition. If relevant patents held by other parties are upheld as valid and enforceable and we are found to infringe, we could be prevented from selling our products unless we can obtain licenses to use technology or ideas covered by such patents. We do not know whether any necessary licenses would be available to us on satisfactory terms, if at all. If we cannot obtain these licenses, we could be forced to design around those patents at additional cost or abandon our products altogether. As a result, our ability to grow our business and compete in the market may be harmed.

We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of our competitors or are in breach of non-competition or non-solicitation agreements with our competitors.

Many of our employees were previously employed at other medical device companies, including our competitors or potential competitors. We could in the future be subject to claims that we or our employees have inadvertently or otherwise used or disclosed alleged trade secrets or other proprietary information of these former employers or competitors. In addition, we may in the future be subject to claims that we caused an employee to breach the terms of his or her non-competition or non-solicitation agreement and litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and could be a distraction to management. If our defense to those claims fails, in addition to paying monetary damages, a court could prohibit us from using technologies or features that are essential to our products or information that is essential to our business

operations, if such technologies, features or information are found to incorporate or be derived from the trade secrets or other proprietary information of the former employers. An inability to incorporate technologies, features or information that are important or essential to our products or business operations would have a material adverse effect on our business and may prevent us from selling our products. In addition, we may lose valuable intellectual property rights or personnel. Any litigation or the threat thereof may adversely affect our ability to hire employees. A loss of key personnel or their work product could hamper or prevent our ability to commercialize our products and conduct business, which could have an adverse effect on our business, results of operations and financial condition.

Risks Related to Our Capital Requirements and Finances

The auditor's opinion on our audited financial statements for the fiscal year ended December 31, 2019, included in the annual report on Form 10-K, contains an explanatory paragraph relating to our ability to continue as a going concern.

The auditor's opinion on our audited financial statements for the year ended December 31, 2019 includes an explanatory paragraph stating that our losses and negative cash flows from operations and uncertainty in generating sufficient cash to meet our operations raise substantial doubt about our ability to continue as a going concern. In July 2020, we issued shares of common stock and pre-funded warrants for aggregate gross proceeds of approximately \$25.0 million and entered into the Sixth Amendment to our loan and security agreement with Solar Capital, Ltd. that waives the minimum revenue covenant requirements for the remainder of 2020 and also decreased the minimum liquidity requirement from \$20.0 million to \$12.5 million. With the additional \$25.0 million of equity raised in July 2020, we believe our existing cash and cash equivalents, product revenues, and available debt and equity financing arrangements will be sufficient to meet covenant, liquidity and capital requirements for at least the next twelve months, although there can be no assurances that we will be able to do so.

Any future capital requirements will depend on many factors including market acceptance of our products, the costs of our research and development activities, the cost and timing of additional regulatory clearance and approvals, the cost and timing of identified gross margin improvement projects, the cost and timing of clinical programs, the ability to maintain covenant compliance with our lending facility, and the costs and timing of sales, marketing, distribution and manufacturing activities. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition could be adversely affected.

We have substantial indebtedness which contain restrictive covenants that may limit our operating flexibility and our failure to comply with the covenants and payment requirements of our indebtedness may subject us to increased interest expenses, lender consent and amendment costs or adverse financial consequences.

In March 2019, we borrowed \$35.0 million principal amount of debt under a term loan facility ("Solar Debt Facility") with Solar Capital, Ltd. ("Solar"). We used \$22.4 million of the proceeds to repay the existing senior secured credit facility. We may borrow an additional \$5.0 million upon our request subject to further credit approval. We cannot assure you that additional funding will be received. In April and July 2020, we entered into amendments to this agreement to allow us to enter into a loan under PPP, provide revenue covenant relief for the remainder of 2020 due to the impact of COVID-19, and decrease the minimum liquidity requirement from \$20.0 million to \$12.5 million. Our outstanding debt is collateralized by substantially all of our assets and contains customary financial and operating covenants limiting our ability to transfer or dispose of assets, merge with or acquire other companies, make investments, pay dividends, incur additional indebtedness and liens and conduct transactions with affiliates without Solar's consent. We therefore may not be able to engage in any of the foregoing transactions until our current debt obligations are paid in full or we obtain the consent of the lender. In addition, we are required to prepare our financial statements and receive audits on our annual financial statements in a timely manner, meet certain financial ratio requirements and pay interest and principal when due. Furthermore, under the Solar Debt Facility our interest rate is tied to LIBOR. We do not hedge this variable rate exposure to LIBOR and in the event of an increase in the LIBOR rate, we will be required to pay greater interest expenses, which may be material and have an adverse effect on our net loss and financial condition.

To the extent that our operating trends do not enable us to meet our financial and restrictive covenant requirements, we are unable to pay interest or principal when due or we are unable to meet other covenants and requirements contained within our credit agreements, we may default under such agreement. A default under any such agreements could result in further increases in consent or amendment fees to our lender, further increases in interest costs, the imposition of additional constraints on borrowing by our lender or potentially more serious liquidity constraints and adverse financial consequences, including reductions in the value of our common stock or the necessity of seeking protection from creditors under bankruptcy laws. To remedy issues we may encounter with meeting our debt obligations, or for other purposes, we may find it necessary to seek further refinancing of our indebtedness, and may do so with debt instruments that are more costly than our existing instruments (and which will rank senior to our common shareholders), or we may issue additional securities which may dilute the ownership interests or value of our existing shareholders.

We cannot assure you that we will be able to generate sufficient cash flows or revenue to meet the financial covenants or pay the principal and interest on our debt. Furthermore, we cannot assure you that future working capital, borrowings or equity financing will be available to repay or refinance any such debt.

In April 2020, we were granted a loan of \$2.8 million under the PPP of the CARES Act, or the PPP Loan, all or a portion of which may be forgiven dependent on our use of proceeds. The PPP Loan matures on February 27, 2023 and bears interest at a rate of 1.0% per annum. Commencing September 27, 2021, we are required to pay the lender equal monthly payments of principal and interest as required to fully amortize by February 27, 2023 any principal amount outstanding on the PPP Loan as of August 24, 2021. All or a portion of the PPP Loan may be forgiven by the SBA upon application by us beginning 60 days, but not later than 120 days, after loan approval and upon documentation of expenditures in accordance with the SBA's requirements. Under the CARES Act, loan forgiveness is available for the sum of documented payroll costs, covered rent payments, covered mortgage interest and covered utilities during the eight week period beginning on the date of loan approval. Not more than 25% of the forgiven amount may be for non-payroll costs. The amount of the PPP Loan eligible to be forgiven will be reduced if our full-time headcount declines, or if salaries and wages for employees with salaries of \$100,000 or less annually are reduced by more than 25%. We will be required to repay any portion of the outstanding principal that is not forgiven, along with accrued interest, in accordance with the amortization schedule described above, and we cannot provide any assurance that we will be eligible for loan forgiveness, that we will ultimately apply for forgiveness, or that any amount of the PPP Loan will ultimately be forgiven by the SBA. Furthermore, on April 28, 2020, the Secretary of the U.S. Department of the Treasury stated that the SBA will perform a full review of any PPP loan over \$2.0 million before forgiving the loan.

In June 2020, the PPP Flexibility Act was signed into law which, among other things, (i) extended the covered period from 8 weeks after the date of PPP funding to 24 weeks after the date of PPP funding, (ii) reduced the required amount of payroll expenditures from 75% to 60%, (iii) removed the prior ban on borrowers taking advantage of payroll tax deferral after loan forgiveness and (iv) extended the repayment deferral period to be the earlier of (a) the date forgiveness funds are received or (b) 10 months from the end of the covered period. We are evaluating the impact of these changes on the PPP Loan, including the payment date and the amounts available for forgiveness. There can be no assurance that we will be eligible or able to take advantage of certain of the changes under the PPP Flexibility Act.

The PPP Loan application required us to certify, among other things, that the current economic uncertainty made the PPP Loan request necessary to support our ongoing operations. While we made this certification in good faith after analyzing, among other things, our financial situation and access to alternative forms of capital, and believe that we satisfied all eligibility criteria for the PPP Loan and that our receipt of the PPP Loan is consistent with the broad objectives of the PPP of the CARES Act, the certification described above does not contain any objective criteria and is subject to interpretation. In addition, the SBA has stated that it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith. The lack of clarity regarding loan eligibility under the Paycheck Protection Program has resulted in significant media coverage and controversy with respect to public companies applying for and receiving loans. If, despite our good faith belief that we satisfied all eligibility requirements for the PPP Loan, we are found to have been ineligible to receive the PPP Loan or in violation of any of the laws or governmental regulations that apply to us in connection with the PPP Loan, including the False Claims Act, we may be subject to penalties, including significant civil, criminal and administrative penalties and could be required to repay the PPP Loan. In the event that we seek forgiveness of all or a portion of the PPP Loan, we will also be required to make certain certifications which will be subject to audit and review by governmental entities and could subject us to significant penalties and liabilities if found to be inaccurate, including under the False Claims Act. In addition, our receipt of the PPP Loan may result in adverse publicity and damage to our reputation, and a review or audit by the SBA or other government entity or claims under the False Claims Act could consume significant financial and management resources. Any of these events could harm our business, results of operations and financial condition.

We may need substantial additional funding and may be unable to raise capital when needed, which would force us to delay, reduce, eliminate or abandon our commercialization efforts or product development programs.

We may need to raise substantial additional capital to fund our operations, including:

- expand the commercialization of our products;
- fund our operations and clinical studies;
- continue our research and development activities;
- support and expand ongoing manufacturing activities;
- defend or enforce, in litigation or otherwise, our patent and other intellectual property rights and any claims that we infringe on third-party patents or other intellectual property rights;
- address legal or enforcement actions by the FDA or other governmental agencies and remediate underlying problems;
- commercialize our new products in development, if any such products receive regulatory clearance or approval for commercial sale; and
- acquire companies or products and in-license products or intellectual property.

Any future funding requirements will depend on many factors, including:

- market acceptance of our products;
- the scope, rate of progress and cost of our clinical studies;
- the cost of our research and development activities;
- the cost of filing, defending and enforcing our patent or other intellectual property rights, in litigation or otherwise and any claims that our product infringes third-party patents or other intellectual property rights;
- the cost of defending, in litigation or otherwise, products liability claims;
- the cost and timing of additional regulatory clearances or approvals;
- the cost and timing of establishing additional sales, marketing and distribution capabilities;
- the scope, rate of progress and cost to expand ongoing manufacturing activities;
- costs associated with any product recall that may occur;
- the effect of competing technological and market developments;
- the extent to which we acquire or invest in products, technologies and businesses;
- the costs of operating as a public company; and
- the ability of third-parties to pay future invoices and obligations.

If we raise additional funds by issuing equity securities, our stockholders may experience dilution. Any future debt financing into which we enter may impose covenants that restrict our operations, including limitations on our ability to incur liens or additional debt, pay dividends, repurchase our stock, make certain investments and engage in certain merger, consolidation or asset sale transactions. Any debt financing or additional equity that we raise may contain terms that are not favorable to us or our stockholders. If we raise additional funds through collaboration and licensing arrangements with third parties, it may be necessary to relinquish some rights to our technologies or our products, or grant licenses on terms that are not favorable to us. If we are unable to raise adequate funds, we may have to liquidate some or all of our assets, or delay, reduce the scope of or eliminate some or all of our development programs.

We cannot be certain that additional funding will be available on acceptable terms, if at all. In particular, the impact of the COVID-19 pandemic is highly uncertain as to the availability of additional funding and the underlying terms of such funding. If we do not have, or are not able to obtain, sufficient funds, we may have to delay development or commercialization of our products or license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize. We also may have to reduce marketing, customer support or other resources devoted to our products or cease operations. Any of these factors could harm our operating results.

Risks Related to Ownership of Our Common Stock

Our stock price may be volatile, and you may not be able to resell shares of our common stock at or above the price you paid.

The market price of our common stock could be subject to significant fluctuations. Market prices for securities of early-stage medical device, pharmaceutical and other life sciences companies have historically been particularly volatile. Some of the factors that may cause the market price of our common stock to fluctuate include:

- a slowdown in the medical device industry or the general economy, including due to the COVID-19 pandemic;
- inability to obtain adequate supply of the components for any of our products or inability to do so at acceptable prices;
- performance of third parties on whom we may rely, including for the manufacture of the components for our products, including their ability to comply with regulatory requirements;
- the results of our current and any future clinical trials of our devices;
- unanticipated or serious safety concerns related to the use of any of our products;
- the entry into, or termination of, key agreements, including key commercial partner agreements;
- the initiation of, material developments in or conclusion of litigation to enforce or defend any of our intellectual property rights or defend against the intellectual property rights of others;

- announcements by us, our commercial partners or our competitors of new products or product enhancements, clinical progress or the lack thereof, significant contracts, commercial relationships or capital commitments;
- competition from existing technologies and products or new technologies and products that may emerge;
- the loss of key employees;
- changes in estimates or recommendations by securities analysts, if any, who may cover our common stock;
- general and industry-specific economic conditions that may affect our research and development expenditures;
- the low trading volume and the high proportion of shares and convertible securities held by affiliates;
- changes in the structure of health care payment systems and insurance coverage related to our products and procedures that utilize our products; and
- period-to-period fluctuations in our financial results.

Moreover, the stock markets in general have experienced substantial volatility that has often been unrelated to the operating performance of individual companies. These broad market fluctuations may also adversely affect the trading price of our common stock.

In the past, following periods of volatility in the market price of a company's securities, stockholders have often instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial costs and diversion of management attention and resources, which could significantly harm our profitability and reputation.

We incur costs and demands upon management as a result of complying with the laws and regulations affecting public companies.

We will continue to incur significant legal, accounting and other expenses including costs associated with public company reporting requirements. We will also incur costs associated with corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, as well as new rules implemented by the SEC and The Nasdaq Stock Market LLC. Our executive officers, service providers and other personnel will need to devote substantial time to these rules and regulations. These rules and regulations are expected to increase our legal and financial compliance costs and to make some other activities more time consuming and costly. These rules and regulations may also make it difficult and expensive for us to obtain directors' and officers' liability insurance. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers of the Company, which may adversely affect investor confidence and could cause our business or stock price to suffer.

Anti-takeover provisions in our charter documents and under Delaware General Corporate Law could make an acquisition of the Company more difficult and may prevent attempts by our stockholders to replace or remove Company management.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may delay or prevent an acquisition or a change in management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporate Law, which prohibits stockholders owning in excess of 15% of our outstanding voting stock from merging or combining with us. Although we believe these provisions collectively will provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with our board of directors, they would apply even if the offer may be considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove then current management by making it more difficult for stockholders to replace members of the board of directors, which is responsible for appointing the members of management.

We do not anticipate that we will pay any cash dividends in the foreseeable future.

The current expectation is that we will retain future earnings to fund the development and growth of our business. As a result, capital appreciation, if any, of our common stock will be your sole source of gain, if any, for the foreseeable future. In addition, our ability to pay dividends is limited by covenants in our credit agreement. Additionally, we are a holding company, and our ability to pay dividends will be dependent upon our subsidiaries' ability to make distributions, which may be restricted by covenants in our credit agreement or any future contractual obligations.

Future sales and issuances of our common stock or other securities may result in significant dilution or could cause the price of our common stock to decline.

We cannot predict what effect, if any, sales of our shares in the public market or the availability of shares for sale will have on the market price of our common stock. However, if certain of our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline. In addition, shares of common stock that are subject to outstanding options will become eligible for sale in the public market to the extent permitted by the provisions of

various vesting agreements and Rules 144 and 701 under the Securities Act. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

The conversion or exercise of some or all of our outstanding convertible debt and pre-funded warrants, respectively, may also dilute the ownership interests of existing stockholders. Any sales in the public market of any shares of our common stock issuable upon such conversion or exercise, as applicable, including pursuant to our registration statements on Form S-3 with respect to shares underlying these convertible securities, could negatively impact prevailing market prices of our common stock. In addition, the anticipated conversion of the convertible debt or exercise of the pre-funded warrants into shares of our common stock or a combination of cash and shares of our common stock could depress the price of our common stock.

We also expect that additional capital may be needed in the future to fund our operations. To raise capital, we may sell common stock, preferred stock, convertible securities or such other equity securities in one or more transactions at prices and in a manner we determine from time to time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock.

The limited public float and trading volume for our common stock may have an adverse impact and cause significant fluctuation of market price.

As of September 30, 2020, the majority of the outstanding shares of our common stock was held by a relatively small number of stockholders. In addition, our officers, directors, and members of management acquire stock or have the potential to own stock through previously granted equity awards. Consequently, our common stock has a relatively small float and low average daily trading volume, which could affect a stockholder's ability to sell our stock or the price at which it can be sold. In addition, future sales of substantial amounts of our common stock in the public market by those larger stockholders, or the perception that these sales could occur, may adversely impact the market price of the stock and our stock could be difficult for a stockholder to liquidate.

Our amended and restated certificate of incorporation and amended and restated bylaws designate the Court of Chancery of the State of Delaware and, the federal district courts of the United States of America as the exclusive forums for substantially all disputes between us and our stockholders, which will restrict our stockholders' ability to choose the judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated certificate of incorporation and amended and restated bylaws each provide that, unless we consent in writing to an alternative forum, the Court of Chancery of the State of Delaware will, to the fullest extent permitted by applicable law, be the sole and exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: (i) any derivative action or proceeding brought on behalf of the corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer, or other employee of the corporation to the corporation or the corporation's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, or (iv) any action asserting a claim governed by the internal affairs doctrine.

The provisions would not apply to suits brought to enforce a duty or liability created by the Exchange Act or any other claim for which the U.S. federal courts have exclusive jurisdiction. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all such Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. Our stockholders cannot waive compliance with the federal securities laws and the rules and regulations thereunder. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than those designated in the exclusive forum provisions. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our amended and restated certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions.

These exclusive choice of forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees. If a court were to find the exclusive-forum provision in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur further significant additional costs associated with resolving the dispute in other jurisdictions, all of which could harm our business.

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

Issuer Purchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description	Incorporated by Reference			
		Schedule / Form	File Number	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation	Form 8-K	001-35706	3.1	June 13, 2017
3.2	Amended and Restated Bylaws	Form 8-K	001-35706	3.2	June 13, 2017
10.1	Addendum No. 2 to Office Lease Agreement dated August 7, 2014 between Apollo Endosurgery Costa Rica and BCR Fondo de Inversion Inmobiliario				
10.2+	Securities Purchase Agreement, dated as of July 17, 2020, by and among Apollo Endosurgery, Inc. and the purchasers named therein.	Form 8-K	001-35706	10.1	July 22, 2020
10.3	Registration Rights Agreement, dated as of July 17, 2020, by and among Apollo Endosurgery, Inc. and the purchasers named therein.	Form 8-K	001-35706	10.2	July 22, 2020
10.4	Form of Pre-Funded Warrant, dated as of July 21, 2020, issued by Apollo Endosurgery, Inc.	Form 8-K	001-35706	10.3	July 22, 2020
10.5	Sixth Amendment, dated July 17, 2020, to the Loan and Security Agreement, dated March 15, 2019, by and among Apollo Endosurgery, Inc., Solar Capital, Ltd., the guarantors party thereto, and the lenders.	Form 8-K	001-35706	10.4	July 22, 2020
31.1 *	Certification of Chief Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934				
31.2 *	Certification of Chief Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934				
32.1# *	Certification of Chief Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934				
32.2# *	Certification of Chief Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934				
101.INS *	Instance Document - the instance document does not appear in the Interactive data File because its XBRL tags are embedded within the Inline XBRL document				
101.SCH *	XBRL Taxonomy Extension Schema Document				
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB *	XBRL Taxonomy Extension Label Linkbase Document				

Incorporated by Reference

<u>Exhibit No.</u>	<u>Exhibit Description</u>	<u>Schedule / Form</u>	<u>File Number</u>	<u>Exhibit</u>	<u>Filing Date</u>
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase Document				

+ Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Apollo Endosurgery, Inc. hereby undertakes to furnish copies of any of the omitted schedules and exhibits upon request by the U.S. Securities and Exchange Commission.

* Filed herewith

In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purpose of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 5, 2020.

APOLLO ENDOSURGERY, INC.

/s/ Todd Newton

Todd Newton
Chief Executive Officer
(Principal Executive Officer)

/s/ Stefanie Cavanaugh

Stefanie Cavanaugh
Chief Financial Officer, Treasurer and Secretary
(Principal Financial Officer)

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ARRENDANTE: BCR FONDO DE INVERSION INMOBILIARIO

ARRENDATARIO: APOLLO ENDOSURGERY COSTA RICA S.R.L.

<p style="text-align: center;">ADDENDUM AL CONTRATO DE ARRENDAMIENTO VIGENTE ENTRE BCR FONDO DE INVERSIÓN INMOBILIARIO Y APOLLO ENDOSURGERY COSTA RICA S.R.L.</p> <p style="text-align: center;">N° 2</p> <p>Entre nosotros,</p> <p>BCR FONDO DE INVERSIÓN INMOBILIARIO fondo de inversión con cédula de persona jurídica número tres –ciento diez –doscientos setenta y siete mil cuatrocientos ocho fondo de inversión debidamente registrado ante el Registro Nacional de Valores e Intermediarios de la Superintendencia General de Valores mediante resolución número SGV-R-CIENTO CUARENTA Y CUATRO de las diez horas once de setiembre del año dos mil, fondo que fundamento en lo dispuesto en el artículo 62 de la Ley Reguladora del Mercado de Valores es administrado y representado por BCR SOCIEDAD ADMINISTRADORA DE FONDOS DE INVERSIÓN, SOCIEDAD ANÓNIMA, con cédula de persona jurídica número tres – ciento uno – doscientos cuarenta y nueve mil cincuenta y uno, sociedad que a su vez es representada en este acto por ROSNNIE DÍAZ MÉNDEZ, mayor, costarricense, casado, licenciado en Contaduría pública, portador de la cédula de identidad número uno – ochocientos catorce – doscientos cuarenta y uno, con domicilio social en Oficentro Torre Cordillera, Rohrmoser, piso #13, 300 metros al sur de Plaza Mayor, en su calidad de REPRESENTANTE LEGAL, con facultades de APODERADO GENERALÍSIMO SIN LÍMITE DE SUMA en adelante y en su conjunto, conocido como el “PROPIETARIO”, o el “ARRENDANTE”, o el “FONDO” y,</p> <p>FELIX NIEVES, mayor, estadounidense, casado, empresario, con domicilio social en Alajuela, La Garita, Parque Empresarial Zona Franca Coyol, portador del pasaporte de su país número , en su condición de APODERADO GENERALÍSIMO SIN LÍMITE DE SUMA de la sociedad APOLLO ENDOSURGERY COSTA RICA S.R.L. con cedula jurídica número 3-102-683842, en adelante denominado como el “ARRENDATARIO” o el “INQUILINO”.</p>	<p style="text-align: center;">ADDENDUM TO CURRENT LEASE BY AND BETWEEN BCR FONDO DE INVERSIÓN INMOBILIARIO AND APOLLO ENDOSURGERY COSTA RICA S.R.L.</p> <p style="text-align: center;">No. 2</p> <p>We,</p> <p>BCR FONDO DE INVERSIÓN INMOBILIARIO, a real estate investment fund with legal entity identification number three – one hundred and ten – two hundred and seventy-seven thousand four hundred and eight, duly registered with the National Register of Securities and Intermediaries of the Superintendence General of Securities, by means of resolution number SGV-R-ONE HUNDRED AND FORTY-FOUR, issued at ten hours on the eleventh day of September, two thousand, which fund, in accordance with the provisions of Article 62 of the Stock Market Regulatory Law, is managed and represented by BCR SOCIEDAD ADMINISTRADORA DE FONDOS DE INVERSIÓN, SOCIEDAD ANÓNIMA, with legal entity identification number three – one hundred and one – two hundred and forty-nine thousand and fifty-one, company that is in turn represented by ROSNNIE DÍAZ MÉNDEZ, of age, a Costa Rican national, married, a Licentiate in public accounting, bearer of identity card number one – eight hundred fourteen – two hundred forty one, domiciled in Oficentro Torre Cordillera, Rohrmoser, 13th floor, 300 meters South of “Plaza Mayor”, in my capacity as LEGAL REPRESENTATIVE, with FULL POWER OF ATTORNEY AND NO RESTRICTIONS AS TO THE AMOUNTS INVOLVED, hereinafter and collectively referred to as the “OWNER” or “LESSOR” or the “FUND”, and</p> <p>FELIX NIEVES, of age, a United States national, married, businessman, domiciled in Alajuela, La Garita, Zona Franca Coyol, bearer of your country’s passport number , in his capacity as duly authorized representative with FULL POWER OF ATTORNEY AND NO RESTRICTIONS AS TO THE AMOUNTS INVOLVED, of the company APOLLO ENDOSURGERY COSTA RICA S.R.L., with legal entity identification number 3-102-683842, hereinafter referred to as “LESSEE” or “TENANT”.</p>
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<p>CONSIDERANDO QUE:</p> <p>PRIMERO</p> <p>EL ARRENDATARIO, suscribió un contrato de arrendamiento con ZONA FRANCA COYOL S.A. cédula jurídica número 3-101-420512 el pasado 7 de agosto del año 2014, contrato que con sus adendas, comprende 1.694,00 m² de la finca que se encuentra debidamente inscrita en el Registro Inmobiliario del Registro Nacional bajo la matrícula de Folio Real número 2-175348-F-000 antiguamente 2-68504-F-000, ubicada en el distrito 13, La Garita, del Cantón 1, Alajuela, de la Provincia de Alajuela.</p> <p>SEGUNDO</p> <p>En escritura otorgada en la ciudad de San José, a las diez horas con treinta minutos del 29 de septiembre del año 2016, ante notario Lic. Karla Villalobos Alpizar, mediante la cual BCR FONDO DE INVERSIÓN INMOBILIARIO, adquirió de ZONA FRANCA COYOL S.A. la finca objeto del contrato de arrendamiento y en razón de la compraventa celebrada, dicho FONDO INMOBILIARIO asumió en su doble condición de propietario y arrendante, todos los contratos de arrendamiento que afectan a las fincas que por esa escritura le fueron cedidos y entregados, lo cual fue debidamente notificado al ARRENDATARIO.</p> <p>TERCERO</p> <p>Ante la notificación realizada de la cesión efectuada, por parte de ZONA FRANCA COYOL S.A., el FONDO INMOBILIARIO reconoce y acepta a APOLLO ENDOSURGERY COSTA RICA S.R.L., como el INQUILINO o ARRENDATARIO del inmueble descrito; y este último reconoció y aceptó al FONDO INMOBILIARIO como el PROPIETARIO, o el ARRENDANTE del inmueble objeto del contrato en este acto adicionado.</p>	<p>PREAMBLE:</p> <p>FIRST</p> <p>WHEREAS, LESSEE, executed a Lease with ZONA FRANCA COYOL S.A. with legal entity identification number 3-101-420512 on the 7nd day of August, 2014, lease which comprehends along with its amendments, a leased area of 1.694,00 m² within the property duly registered with the Real Estate Register of the National Registry, under Real Estate registration number 2-175348-F-000 formerly 2-68504-F-000, located in district 13, La Garita, of Canton 1, Alajuela, of the Province of Alajuela.</p> <p>SECOND</p> <p>WHEREAS, by means of instrument executed in the city of San José, at ten hours and thirty minutes on September 29, 2016, before Notary Karla Villalobos Alpizar, by means of which BCR FONDO DE INVERSIÓN INMOBILIARIO acquired from ZONA FRANCA COYOL S.A. the property subject matter of the Lease, and in view of such purchase and sale, the aforesaid REAL ESTATE INVESTMENT FUND assumed, in its dual capacity as owner and Lessor, all leases of the properties assigned and delivered to it under such instrument, a situation that was duly communicated by notice to LESSEE.</p> <p>THIRD</p> <p>WHEREAS, in view of the notice of assignment made by ZONA FRANCA COYOL S.A., the REAL ESTATE INVESTMENT FUND recognizes and accepts APOLLO ENDOSURGERY COSTA RICA S.R.L. as the TENANT or LESSEE of the property described above, and the latter recognizes and accepts the REAL ESTATE INVESTMENT FUND as the OWNER or LESSOR of the property subject matter of the Agreement hereby added.</p>
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<p>Por lo tanto, celebramos el presente Addendum, que se regirá por las siguientes cláusulas que aprobamos de común acuerdo:</p> <p>CLAUSULADO</p> <p>1. <u>DEL TIA BRINDADO POR PARTE DEL ARRENDANTE:</u></p> <p>El arrendante brindará al arrendatario un TIA de hasta SESENTA MIL DOLARES EXACTOS (USD\$ 60.000,00) moneda de curso legal de los Estados Unidos de América, para que el arrendatario realice por cuenta y costo de éste, todas las gestiones y obtención de permisos que resulten suficientes y necesarios para la construcción de un mezanine y acabados bajo las especificaciones indicadas en el anexo A de esta adenda. En caso de que, durante la obtención de permisos ante las autoridades o instituciones pertinentes, se solicite realizar algún trabajo de modificación de las condiciones actuales del inmueble, éstos correrán por cuenta y costo del arrendatario. El arrendatario deberá remitir al arrendante los planos, especificaciones y documentos necesarios para la construcción de la obra a fin de ser revisados y aprobados por el propietario, de previo al inicio de la construcción. La cancelación del aporte del TIA se realizará contra avance de obra y aprobación del equipo técnico del arrendante, para lo cual el arrendatario deberá presentar los documentos que respalden las erogaciones, como lo son: Copias de contratos de construcción, facturas, submital y cualquier otro documento que requiera el arrendante. Una vez presentada la documentación para el avance de obra el arrendante tendrá 8 días naturales para su análisis y aprobación.</p> <p>Una vez aprobado el pago por el equipo técnico del arrendante, el desembolso se realizará durante los 8 días naturales posteriores.</p>	<p>Therefore, we do hereby execute this Addendum, which shall be governed by the following clauses, approved by the parties by mutual agreement:</p> <p>CLAUSES</p> <p>1. <u>FROM THE TIA PROVIDED BY THE LESSOR:</u></p> <p>The lessor will provide the lessee with a TIA limited to the maximum amount of exactly SIXTY THOUSAND DOLLARS (USD \$ 60,000.00), legal tender of the United States of America, for the lessee to carry out, to his costs and expenses, all the paperwork and permit related issues necessary to build a mezzanine and finishes; according to the specifications stated in Annex A of this addendum. If during the obtaining of permits with the pertinent authorities or institutions, a modification of the current conditions of the property is requested, these modifications will also be at the cost and expense of the lessee. Prior to any construction works, the necessary blueprints and documents must be submitted to Lessor in order to be reviewed and approved. The payment of the TIA investments will made accordingly to the works progress and pending the Landlord's technical team's approval, for which the Lessee is required to present the evidence that backs any expenses made, such as but not limited to construction contracts, bills, submittals and any other document required by the Lessor.</p> <p>Once the documentation has been presented, the Lessor will have 8 days to review it and approve it.</p> <p>After payment has been approved by the technical team, the actual payment will be made during the 8 days following the approval.</p>
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<p>2. DEL PLAZO:</p> <p>Las partes de común acuerdo manifiestan que extienden el plazo del contrato por un periodo adicional de siete (7) años u ochenta y cuatro meses (84) contados a partir del 1 de octubre de 2021 y hasta el 30 de septiembre del 2028.</p> <p>El contrato se tendrá renovado de forma automática al vencimiento del plazo antes dicho, por un período de Cinco (5) años, excepto en el caso que el Arrendatario comunique por escrito con por lo menos seis (6) meses de anticipación al vencimiento, su deseo de no renovar el plazo. Las mismas condiciones aplicarán en eventuales renovaciones.</p> <p>El arrendatario podrá hacer terminación unilateral del contrato, en el tanto brinde un preaviso de seis (6) meses de anticipación, así como cancelar la suma total de las rentas complementarias faltantes al 30 de septiembre del 2028, además de la comisión la cual corresponde a VEINTINUEVE MIL SEISCIENTOS CUARENTA Y CINCO DÓLARES por real por correduría de bienes raíces, misma que será amortizada en línea recta calculada a siete años.</p> <p>3. DE LA RENTA:</p> <p>La renta que pagará la ARRENDATARIA al ARRENDANTE, a partir del 1 de octubre del año 2020 hasta el 30 de septiembre del año 2021 será la suma de TREINTA Y CINCO MIL DOSCIENTOS OCHO DÓLARES CON NOVENTA Y SEIS CENTAVOS (USD\$ 35.208,96) moneda del curso legal de los Estados Unidos de América, los cuales serán pagaderos por mes adelantado. Del 1 de octubre del año 2021 al 30 de setiembre del 2022 la renta será de la suma de VEINTINUEVE MIL SEISCIENTOS CUARENTA Y CINCO DÓLARES, monto al cual se le aplicará un incremento anual del tres por ciento (3%) los días 01 de octubre de los años siguientes según se detalla en el "Anexo B" del presente documento.</p> <p>Por otra parte, una vez desembolsado el monto del TIA y para el periodo comprendido del 1 de octubre del año 2021 y hasta el 30 de septiembre del 2028 se deberá cancelar una renta mensual completaría de MIL CINCUENTA Y NUEVE DOLARES EXACTOS (USD\$ 1.059,00) moneda del curso legal de los</p>	<p>2. TERM:</p> <p>By common agreement, the parties state that they hereby extend the term of the Agreement for an additional period of seven (7) years or eighty-four months (84), counted from the 1st day of October, 2021, and to expire on the 30th day of September, 2028.</p> <p>The contract will be renewed automatically at the expiration of the aforementioned term, for a period of Five (5) years, except in the case that the Tenant gives a six (6) month written notice prior to the expiration is given, expressing his wish to not renew the term. The same conditions will apply in eventual renovations.</p> <p>The Lessee may terminate the contract unilaterally, as long as a six (6) month written notice is given in advance, as well as cancel the total amount of the missing complementary income as of September 30th, 2028, in addition to the commission which corresponds to TWENTY-NINE THOUSAND SIX HUNDRED FORTY-FIVE DOLLARS per real estate brokerage, which will be amortized in a straight line at seven years.</p> <p>3. RENT:</p> <p>The rent to be paid by LESSEE to LESSOR, from the 1st day of October, 2020 to the 30th day of September, 2021 shall be the amount of THIRTY-FIVE THOUSAND TWO HUNDRED AND EIGHT DOLLARS WITH NINETY SIX CENTS (USD\$ 35.208,96), legal tender of the United States of America, payable on a monthly basis and in advance. From October 1st 2021 to September 30th 2022, the rent amount will be TWENTY-NINE THOUSAND SIX HUNDRED FORTY FIVE DOLLARS, amount to be applied an annual increase of three percent (3%) starting on October 1st of the following years as detailed in "Exhibit B " of this document.</p> <p>On the other hand, as of October 1, 2021 and until September 30, 2028, a monthly rent must be paid in the amount of ONE THOUSAND FIFTY-NINE EXACT DOLLARS (USD \$ 1,059.00) currency of the legal tender of the United</p>
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<p>Estados Unidos de América, producto del aporte de TIA para remodelaciones brindado por el propietario.</p> <p>Adicionalmente, la ARRENDATARIA pagará al ARRENDANTE, el importe correspondiente al servicio de mantenimiento privativo del inmueble "Park Services Provision Agreement", por lo que a partir del 1 de octubre del año 2020 hasta el 30 de septiembre del año 2021 será la suma de SETECIENTOS VEINTIOCHO DÓLARES CON OCHENTA Y TRES CENTAVOS (USD\$ 728,83) moneda del curso legal de los Estados Unidos de América, los cuales serán pagaderos por mes adelantado, monto al cual se le aplicará un incremento anual del tres por ciento (3%) los días 01 de octubre de los años siguientes según se detalla en el "Anexo C" del presente documento</p>	<p>States of America, product of the contribution of TIA for remodeling provided by the owner.</p> <p>In addition, LESSEE shall pay to LESSOR the sum required to cover the private services of maintenance of the property under the "Park Services Provision Agreement", which, starting from the 1st day of October, 2020 and until the 30st day of September, 2021, shall be the sum of SEVEN HUNDRED TWENTY-EIGHT DOLLARS WITH EIGHTY-THREE CENTS (USD\$ 728,83), legal tender of the United States of America, payable on a monthly basis and in advance, amount to which an annual increase of three percent (3%) will be applied on October 1 of the following years as detailed in "Exhibit C" of this document.</p>
<p>4 . DE LA ENTREGA DE LA NAVE INDUSTRIAL AL FINALIZAR EL CONTRATO:</p> <p>El propietario acepta que la nave industrial se entregue con todas las mejoras realizadas y equipos propiedad del arrendante a la finalización del contrato de arrendamiento.</p> <p>5. MEJORAS</p> <p>El propietario se compromete a revisar y en caso de ser necesario las siguientes mejoras y mantenimientos al inmueble</p> <ul style="list-style-type: none">a. Filtración el piso de bodega (shipping área) se enviará a un ingeniero civil, para valorar y conforme a su criterio se procederá.b. Reparación general de techo industrial (goteras y filtraciones).c . Realizar una inspección con el ingeniero electromecánico para identificar el origen de las variaciones de presión de agua y con base en ellos definir el plan de acción para corregirlod. Reemplazo de luminaria del lateral del edificioe. Revisión del drenaje del andénf. Colocación de parrillas de los caños exteriores	<p>4 . OF THE DELIVERY OF THE INDUSTRIAL WAREHOUSE AT THE END OF THE CONTRACT:</p> <p>The owner agrees that the industrial warehouse is delivered with all the improvements made and equipment owned by the lessor at the end of the lease.</p> <p>5. IMPROVEMENTS</p> <p>The owner will carry out the following improvements and maintenance to the property:</p> <ul style="list-style-type: none">a. Floor filtration in the Warehouse (Shipping area) the LESSOR will send a civil engineer to do an assessment and based on his conclusions, the LESSOR will proceedb. General repair of the industrial Floor (leaks)c. Water pressure corrections. The LESSOR will carry out and inspection with the electromechanical engineer to identify the origin of the water pressure variations and based on them define the action plan to fix itd. Illumination replacement on the right side of the buildinge. Drainage Improvement (Andén area)f. Placement of grills in the external pipes

<p>g. Reparación o cambio de lámina de policarbonato de la entrada principal</p> <p>6. CONFIDENCIALIDAD:</p> <p>Las partes, sus directores, representantes legales, personeros, mandatarios, autorizados, asesores, y funcionarios en general, se comprometen a guardar estricta y absoluta confidencialidad, acerca de las cuestiones de fondo aquí convenidas, que se materializan en los términos y condiciones de la presente adenda, de no cumplir con esta cláusula de confidencialidad el Arrendante estaría con toda la facultad para revocar el acuerdo firmado entre las partes.</p> <p>7. DEL RESPETO DE LAS ESTIPULACIONES ANTERIORES:</p> <p>Lo que las partes expresamente no hubiesen modificado en este addendum, con respecto al Contrato de Arrendamiento del 7 de agosto del año 2014 y sus modificaciones, se mantendrán igual, por lo que las partes, se comprometen a respetar los derechos y a cumplir con las obligaciones y compromisos que fueron asumidos entre ZONA FRANCA COYOL S.A. y APOLLO ENDOSURGERY COSTA RICA S.R.L., originalmente; y que se derivan, existen y tienen vigencia al amparo del arrendamiento suscrito, y sus reformas.</p> <p>En fe de lo anterior, firmamos en dos tantos originales, prevaleciendo para cualquier interpretación la versión en español, el día 28 de Agosto del año 2020 en San José de Costa Rica.</p>	<p>g. Main entrance roof replacement or repair</p> <p>6. CONFIDENTIALITY</p> <p>The parties, their directors, legal representatives, representatives, agents, authorized persons, advisers, and officials in general, undertake to keep strict and absolute confidentiality, on the substantive issues agreed upon here, which are materialized in the terms and conditions of the In this addendum, if this confidentiality clause is not complied with, the Lessor would be fully empowered to revoke the agreement signed between the parties.</p> <p>7. RESPECT TO PREVIOUS PROVISIONS:</p> <p>Anything not expressly modified by the parties in this Addendum with regard to the Lease executed on August 7, 2014, as amended, shall remain the same, reason for which the parties undertake to respect the rights and comply with the obligations and undertakings that were assumed originally by and between ZONA FRANCA COYOL S.A. and APOLLO ENDOSURGERY COSTA RICA S.R.L., and which arise out of and exist and are effective under the executed Lease, as amended.</p> <p>In witness whereof, we have hereunto set our hand on two original, prevailing the version in the Spanish language for interpretation purposes, on this the 28th day of August 2020, in San José, Costa Rica.</p>
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/s/ ROSNNIE DÍAZ MÉNDEZ
EL ARRENDANTE
ROSNNIE DÍAZ MÉNDEZ
**BCR FONDO DE INVERSIÓN
INMOBILIARIO**

/s/ FELIX NIEVES
EL ARRENDATARIO
FELIX NIEVES
**APOLLO ENDOSURGERY COSTA RICA
S.R.L.**

ANEXO A
EXHIBIT A

Alcance del trabajo:

- P Construcción en obra gris de un mezanine para oficinas de aproximadamente 200m2 con sus respectivas gradas, sobre área de oficinas existente y ciertos acabados.
- P Mezanine para uso de oficinas.
- P No incluye movimiento de ductos del sistema actual de aire acondicionado.
- P La estructura consiste en piso, paredes laterales, cielorraso, divisiones internas.
- P No incluye ningún equipo.
- P El monto máximo será de \$60,000

Scope of work:

- P Construction in gray work of a mezzanine for 200m2 offices with their respective stands, over existing office area.
- P Mezanine for office use.
- P Does not include movement of ducts of the current air conditioning system.
- P The structure sews on the floor, side walls and ceiling, external divisions.
- P Not included any equipment.
- P Maximun amount will be for an amount of Sixty Thousand dollars \$60,000

ANEXO B
EXHIBIT B

Ajustes de Renta de 3% Anual
Rent Adjustments of 3% Per Annum

Periodo / Period		Renta complementaria / Supplementary Rent	Renta / Rent	Total
Desde / From	Hasta / To			
01-10-2020	30-09-2021	USD\$0,00	USD\$35.208,96	USD\$35.208,96
01-10-2021	30-09-2022	USD\$1.059,00	USD\$29.645,00	USD\$30.704,00
01-10-2022	30-09-2023	USD\$1.059,00	USD\$30.534,35	USD\$31.593,35
01-10-2023	30-09-2024	USD\$1.059,00	USD\$31.450,38	USD\$32.509,38
01-10-2024	30-09-2025	USD\$1.059,00	USD\$32.393,89	USD\$33.452,89
01-10-2025	30-09-2026	USD\$1.059,00	USD\$33.365,71	USD\$34.424,71
01-10-2026	30-09-2027	USD\$1.059,00	USD\$34.366,68	USD\$35.425,68
01-10-2027	30-09-2028	USD\$1.059,00	USD\$35.397,68	USD\$36.456,68

* Los montos anteriormente establecidos no incluyen el importe correspondiente al pago de la cuota de mantenimiento del Condominio. Dicha cuota debe ser pagada por el inquilino adicionalmente a los montos aquí expresados.

* The amounts specified above do not include the amount of the Condominium Maintenance Fee. Such fee shall be paid by Lessee in addition to the amounts here in specified.

ANEXO C
EXHIBIT C

Ajustes al contrato de servicios de mantenimiento de 3% Anual
Park Service Agreement Adjustments of 3% Per Annum

Periodo / Period		Servicio de Mantenimiento / Maintenance Fee
Desde / From	Hasta / To	
01-10-2020	30-09-2021	USD\$728,83
01-10-2021	30-09-2022	USD\$750,69
01-10-2022	30-09-2023	USD\$773,21
01-10-2023	30-09-2024	USD\$796,41
01-10-2024	30-09-2025	USD\$820,30
01-10-2025	30-09-2026	USD\$844,91
01-10-2026	30-09-2027	USD\$870,26
01-10-2027	30-09-2028	USD\$896,36

* Los montos anteriormente establecidos no incluyen el importe correspondiente al pago de la cuota de mantenimiento del Condominio. Dicha cuota debe ser pagada por el inquilino adicionalmente a los montos aquí expresados.

* The amounts specified above do not include the amount of the Condominium Maintenance Fee. Such fee shall be paid by Lessee in addition to the amounts herein specified.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Todd Newton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apollo Endosurgery, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision; to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 5, 2020

By: /s/ Todd Newton
Todd Newton
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Stefanie Cavanaugh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apollo Endosurgery, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision; to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 5, 2020

By: /s/ Stefanie Cavanaugh
Stefanie Cavanaugh
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

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

1. The Company's Report on Form 10-Q for the period ended September 30, 2020, to which this Certification is attached as Exhibit 32.2 (the "Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 5, 2020

By: /s/Stefanie Cavanaugh
Stefanie Cavanaugh
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to Apollo Endosurgery, Inc. and will be retained by Apollo Endosurgery, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission, and is not to be incorporated by reference into any filing of Apollo Endosurgery, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.