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

FORM 10-Q

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

For the quarterly period ended March 31, 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 0-19437

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

Delaware	**11-2962080**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

635 Davis Drive, Suite 300, Morrisville, NC 27560
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (919) 765-8400

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

Indicate by check mark whether the registrant has submitted electronically 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, a smaller reporting company, or an emerging growth 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.

Large accelerated filer	☐	Accelerated Filer	☒
Non-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 ☒

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock $0.001 par value per share	**TRXC**	**NYSE American**

The number of shares outstanding of the registrant's common stock, as of May 11, 2020 was 51,839,157.

TRANSENTERIX, INC.

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EXPLANATORY NOTE

As previously disclosed in a Current Report on Form 8-K filed by TransEnterix, Inc. with the Securities and Exchange Commission, or SEC, on May 11, 2020, the Company delayed the filing of this Quarterly Report on Form 10-Q for the fiscal year ended March 31, 2020, or this Quarterly Report, due to the impact of the coronavirus (COVID-19) pandemic on the Company's operations in reliance on an order issued by the SEC (Release No. 34-88465) issued by the SEC on March 25, 2020.

The COVID-19 pandemic caused unexpected disruptions to the Company's operations and required that the Company conduct further analyses and assessments to determine the impact of such disruptions on the Company's financial statements for the preparation of this Quarterly Report. Furthermore, the Company has experienced a significant disruption of its personnel. All of the Company's facilities are in locations that are subject to, or have been subject to, stay-at-home or shelter-in-place orders and the Company's office-based employees have been primarily working from home. Due to these disruptions, the Company could not timely file this Quarterly Report by the original deadline of May 11, 2020.

FORWARD-LOOKING STATEMENTS

In addition to historical financial information, this report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that concern matters that involve risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact contained in this report, including statements regarding future events, our future financial performance, our future business strategy and the plans and objectives of management for future operations, are forward-looking statements. We have attempted to identify forward-looking statements by terminology including "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "in the event that," "may," "plans," "potential," "predicts," "should" or "will" or the negative of these terms or other comparable terminology. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements, including the impact of the coronavirus (COVID-19) pandemic on our operating results. Readers are urged to carefully review and consider the various disclosures made by us, which attempt to advise interested parties of the risks, uncertainties, and other factors that affect our business, operating results, financial condition and stock price, including without limitation the disclosures made under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Financial Statements," "Notes to Consolidated Financial Statements "and "Risk Factors" in this report, as well as the disclosures made in the TransEnterix, Inc. Annual Report on Form 10-K for the year ended December 31, 2019 filed on March 16, 2020, or the Fiscal 2019 Form 10-K, and other filings we make with the SEC. Furthermore, such forward-looking statements speak only as of the date of this report. We expressly disclaim any intent or obligation to update any forward-looking statements after the date hereof to conform such statements to actual results or to changes in our opinions or expectations except as required by applicable law. To the extent that our business is negatively impacted due to a variety of factors, including the impact of COVID-19 on our operating results, we may implement longer-term cost reduction efforts in order to mitigate such impact. References in this report to "we," "our," "us," or the "Company" refer to TransEnterix, Inc., including its subsidiaries, TransEnterix Surgical, Inc., SafeStitch LLC, TransEnterix International Inc.; TransEnterix Italia S.r.l.; TransEnterix Europe S.à.R.L; TransEnterix Asia Pte. Ltd.; TransEnterix Taiwan Ltd; TransEnterix Japan KK; TransEnterix Israel Ltd. and TransEnterix Netherlands B.V.

Any disclosure in this report regarding the receipt of CE Mark or Section 510(k) clearance for any of the Company's products does not mean or infer any endorsement of the Company's products by any government agency including, without limitation, the U.S. Food and Drug Administration, or FDA.

TransEnterix, Inc.
Consolidated Statements of Operations and Comprehensive Loss
(in thousands except per share amounts)
(Unaudited)

	Three Months Ended March 31,			
	2020		**2019**	
Revenue				
Product		242		1,829
Service		358		352
Total revenue	$	600	$	2,181
Cost of revenue				
Product		913		1,273
Service		825		1,194
Total cost of revenue		1,738		2,467
Gross loss		(1,138)		(286)
Operating Expenses				
Research and development		3,934		5,655
Sales and marketing		4,253		7,674
General and administrative		3,349		4,560
Amortization of intangible assets		2,564		2,611
Change in fair value of contingent consideration		1,056		998
Restructuring and other charges		858		—
Acquisition related costs		—		45
Loss from sale of SurgiBot assets, net		—		97
Total Operating Expenses		16,014		21,640
Operating Loss		(17,152)		(21,926)
Other Income (Expense)				
Change in fair value of warrant liabilities		(155)		(106)
Interest income		27		318
Interest expense		—		(1,116)
Other expense		(15)		(305)
Total Other Income (Expense), net		(143)		(1,209)
Loss before income taxes		(17,295)		(23,135)
Income tax benefit		697		610
Net loss	$	(16,598)	$	(22,525)
Deemed dividend related to beneficial conversion feature of preferred stock		(412)		—
Net loss attributable to common stockholders		(17,010)		(22,525)
Comprehensive loss				
Net loss		(16,598)		(22,525)
Foreign currency translation loss		(872)		(1,949)
Comprehensive loss	$	(17,470)	$	(24,474)
Net loss per common share attributable to common stockholders - basic and diluted	$	(0.59)	$	(1.35)
Weighted average number of shares used in computing net loss per common share - basic and diluted		28,906		16,677

See accompanying notes to consolidated financial statements.

TransEnterix, Inc.
Consolidated Balance Sheets
(in thousands, except share amounts)

	March 31, 2020 (unaudited)	December 31, 2019
Assets		
Current Assets		
Cash and cash equivalents	$ 21,816	$ 9,598
Accounts receivable, net	951	620
Inventories	9,829	10,653
Other current assets	7,341	7,084
Total Current Assets	39,937	27,955
Restricted cash	925	969
Inventories, net of current portion	7,201	7,594
Property and equipment, net	6,060	4,706
Intellectual property, net	27,939	28,596
In-process research and development	—	2,470
Other long term assets	2,168	2,489
Total Assets	$ 84,230	$ 74,779
Liabilities and Stockholders’ Equity		
Current Liabilities		
Accounts payable	$ 4,047	$ 3,579
Accrued expenses	8,026	8,553
Deferred revenue – current portion	903	818
Contingent consideration – current portion	72	73
Total Current Liabilities	13,048	13,023
Long Term Liabilities		
Deferred revenue – less current portion	13	27
Contingent consideration – less current portion	2,068	1,011
Warrant liabilities	73	2,388
Net deferred tax liabilities	649	1,392
Other long term liabilities	1,217	1,403
Total Liabilities	17,068	19,244
Commitments and Contingencies (Note 18)		
Stockholders’ Equity		
Common stock $0.001 par value, 750,000,000 shares authorized at March 31, 2020 and December 31, 2019; 47,078,314 and 20,691,301 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively	47	21
Preferred stock, $0.01 par value, 25,000,000 shares authorized, including 7,937,057 and 0 shares of Series A Convertible Preferred Stock at March 31, 2020 and December 31, 2019, and 4,884,117 and 0 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively	49	—
Additional paid-in capital	749,506	720,484
Accumulated deficit	(680,198)	(663,600)
Accumulated other comprehensive loss	(2,242)	(1,370)
Total Stockholders’ Equity	67,162	55,535
Total Liabilities and Stockholders’ Equity	$ 84,230	$ 74,779

See accompanying notes to consolidated financial statements.

TransEnterix, Inc.
Consolidated Statements of Stockholders' Equity
(in thousands)
(Unaudited)

	Common Stock		Preferred Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, December 31, 2019	20,691	$ 21	—	—	—	—	$ 720,484	$ (663,600)	$ (1,370)	$ 55,535
Stock-based compensation	—	—	—	—	—	—	1,923	—	—	1,923
Issuance of common stock, preferred stock and warrants under 2020 financing, net of issuance costs	14,122	14	7,937	79	—	—	13,432	—	—	13,525
Issuance of common stock, net of issuance costs	7,030	7	—	—	—	—	11,205	—	—	11,212
Conversion of preferred stock to common stock	3,053	3	(3,053)	(30)	—	—	27	—	—	—
Exchange of shares for Series B Warrants	2,041	2	—	—	—	—	2,468	—	—	2,470
Award of restricted stock units	141	—	—	—	—	—	—	—	—	—
Return of common stock to pay withholding taxes on restricted stock	—	—	—	—	28	—	(33)	—	—	(33)
Cancellation of treasury stock	—	—	—	—	(28)	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	—	—	—	(872)	(872)
Net loss	—	—	—	—	—	—	—	(16,598)	—	(16,598)
Balance, March 31, 2020	**47,078**	**$ 47**	**4,884**	**49**	**—**	**—**	**$ 749,506**	**$ (680,198)**	**$ (2,242)**	**$ 67,162**

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2018	**16,642**	**$ 17**	**—**	**$ —**	**$ 676,572**	**$ (509,406)**	**$ 1,338**	**$ 168,521**
Stock-based compensation	—	—	—	—	2,981	—	—	2,981
Exercise of stock options and warrants	12	—	—	—	236	—	—	236
Award of restricted stock units	47	—	—	—	1	—	—	1
Return of common stock to pay withholding taxes on restricted stock	—	—	15	—	(499)	—	—	(499)
Cancellation of treasury stock	—	—	(15)	—	—	—	—	—
Cumulative effect of change in accounting principle	—	—	—	—	(7)	7	—	—
Other comprehensive income	—	—	—	—	—	—	(1,949)	(1,949)
Net loss	—	—	—	—	—	(22,525)	—	(22,525)
Balance, March 31, 2019	**16,701**	**$ 17**	**—**	**$ —**	**$ 679,284**	**$ (531,924)**	**$ (611)**	**$ 146,766**

See accompanying notes to consolidated financial statements.

TransEnterix, Inc.
Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
Operating Activities		
Net loss	$ (16,598)	$ (22,525)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Loss from sale of SurgiBot assets, net	—	97
Depreciation	570	563
Amortization of intangible assets	2,564	2,611
Amortization of debt discount and debt issuance costs	—	330
Amortization of short-term investment discount	—	(220)
Stock-based compensation	1,923	2,981
Interest expense on deferred consideration - MST acquisition	—	204
Deferred tax benefit	(697)	(610)
Change in fair value of warrant liabilities	155	106
Change in fair value of contingent consideration	1,056	998
Changes in operating assets and liabilities:		
Accounts receivable	(340)	(129)
Inventories	(1,063)	(4,621)
Other current and long term assets	(76)	(2,663)
Accounts payable	509	286
Accrued expenses	(433)	(2,518)
Deferred revenue	83	(197)
Other long term liabilities	(130)	1,112
Net cash and cash equivalents used in operating activities	$ (12,477)	$ (24,195)
Investing Activities		
Purchase of short-term investments	—	(10,894)
Proceeds from maturities of short-term investments	—	40,000
Purchase of property and equipment	(2)	(118)
Net cash and cash equivalents (used in) provided by investing activities	(2)	28,988
Financing Activities		
Proceeds from issuance of common stock, preferred stock and warrants under 2020 financing, net of issuance costs	13,525	—
Proceeds from issuance of common stock and warrants, net of issuance costs	11,212	—
Taxes paid related to net share settlement of vesting of restricted stock units	(33)	(499)
Proceeds from exercise of stock options and warrants	—	236
Net cash and cash equivalents provided by (used in) financing activities	24,704	(263)
Effect of exchange rate changes on cash and cash equivalents	(51)	(58)
Net increase in cash, cash equivalents and restricted cash	12,174	4,472
Cash, cash equivalents and restricted cash, beginning of period	10,567	21,651
Cash, cash equivalents and restricted cash, end of period	$ 22,741	$ 26,123
Supplemental Disclosure for Cash Flow Information		
Interest paid	$ —	$ 750
Supplemental Schedule of Non-cash Investing and Financing Activities		
Transfer of inventories to property and equipment	$ 1,958	$ 86
Exchange of common stock for Series B Warrants	$ 2,470	$ —
Transfer of in-process research and development to intellectual property	$ 2,425	$ —
Conversion of preferred stock to common stock	$ 30	$ —

See accompanying notes to consolidated financial statements.

TransEnterix, Inc.

Notes to Consolidated Financial Statements (Unaudited)

1. Organization and Capitalization

TransEnterix, Inc. is a medical device company that is digitizing the interface between the surgeon and the patient in laparoscopy to increase control and reduce surgical variability in today's value-based healthcare environment. It is focused on the market development for and commercialization of the Senhance® Surgical System, which digitizes laparoscopic minimally invasive surgery, or MIS. The Senhance Surgical System is the first and only digital, multi-port laparoscopic platform designed to maintain laparoscopic MIS standards while providing digital benefits such as haptic feedback, robotic precision, comfortable ergonomics, advanced instrumentation including 3 millimeter microlaparoscopic instruments, eye-sensing camera control and fully-reusable standard instruments to help maintain per-procedure costs similar to traditional laparoscopy.

The Company believes that future outcomes of minimally invasive surgery will be enhanced through its combination of more advanced tools and robotic functionality, which are designed to empower surgeons with improved precision, ergonomics, dexterity and visualization; offer high patient satisfaction and enable a desirable post-operative recovery; and provide a cost-effective robotic system, compared to existing alternatives today, for a wide range of clinical applications and operative sites within the healthcare system.

The Senhance System is commercially available in Europe, the United States, Japan, Taiwan and select other countries.

- The Senhance System has a CE Mark in Europe for adult and pediatric laparoscopic abdominal and pelvic surgery, as well as limited thoracic surgeries excluding cardiac and vascular surgery.

- In the United States, the Company has received 510(k) clearance from the FDA for use of the Senhance System in laparoscopic colorectal and gynecologic surgery in a total of 28 indicated procedures, including benign and oncologic procedures, laparoscopic inguinal hernia and laparoscopic cholecystectomy (gallbladder removal) surgery.

- In Japan, the Company has received regulatory approval and reimbursement for 98 laparoscopic procedures.

During 2018 and 2019, the Company successfully obtained FDA clearance and CE Mark for its 3 millimeter diameter instruments, its Senhance ultrasonic system, its 3 millimeter and 5 millimeter hooks, and the Senhance articulating system. The 3 millimeter instruments enable the Senhance System to be used for microlaparoscopic surgeries, allowing for tiny incisions. The ultrasonic system is an advanced energy device used to deliver controlled energy to ligate and divide tissue, while minimizing thermal injury to surrounding structures. The Senhance articulating system was launched in Europe in November 2019 and the Company is evaluating its pathway forward to launch such a system in the United States with a planned submission for U.S. clearance at the end of 2020, although the Company estimates that this timing may shift to the first quarter of 2021 due to delays related to the COVID-19 pandemic.

In January 2020, the Company submitted an application to the FDA seeking clearance of the first machine vision system for its robotic surgery unit named Intelligent Surgical Unit (ISU™). The Intelligent Surgical Unit was developed using the image analytics technology acquired from MST in the fourth quarter of 2018. The Company believes it is the first such FDA submission seeking clearance for machine vision technology in abdominal robotic surgery. On March 13, 2020, the Company announced that it has received FDA clearance for the Intelligent Surgical Unit.

Restructuring and COVID-19 Impact

Despite the number of advances and regulatory clearances received from late 2017 through 2019, Senhance System sales in 2019 were disappointing. Adoption of new technologies, particularly for capital intensive devices such as the Senhance System can be slow and uneven as market development and commercial development is time-consuming and expensive. The Company has determined to refocus its resources and efforts in 2020 on market development activities to increase awareness of: the benefits of the use of the Senhance System in laparoscopic surgery; the digitization of high volume procedures using the Senhance System; the indications for use, including pediatric indications of use in CE Mark territories; and the overall cost efficiency of the Senhance System.

The Company intends to focus on markets with high utilization of laparoscopic techniques, including Japan, Western Europe and the United States. Its focus will be on (1) increasing the number of placements of the Senhance System, not necessarily through sales, but through leasing arrangements, (2) increasing the number of procedures conducted using the Senhance System quarter over quarter, and (3) solidifying key opinion leader support and publications related to the use of the Senhance System in laparoscopic procedures. During this period the Company will not focus on revenue targets.

During the fourth quarter of 2019, the Company announced the implementation of a restructuring plan to reduce operating expenses as it continues the global market development of the Senhance platform. Under the restructuring plan, it reduced headcount primarily in the sales and marketing functions and determined that the carrying value of its inventory exceeded the net realizable value due to a decrease in expected sales. The restructuring charges amounted to $8.8 million, of which $7.4 million was an inventory write down and was included in cost of product revenue and $1.4 million related to employee severance costs and was included as restructuring and other charges in the consolidated statements of operations and comprehensive loss, during the fourth quarter of 2019. During March 2020, the Company continued its restructuring with additional headcount reductions which resulted in $0.9 million related to severance costs which are expected to be paid in 2020.

In addition, in December 2019, a novel strain of coronavirus (“COVID-19”) was reported in Wuhan, China and has since extensively impacted the global health and economic environment. In March 2020, the World Health Organization characterized COVID-19 as a pandemic. The Company has taken steps, and will continue to take further actions, in its approach to minimizing the impact of the COVID-19 pandemic on its business. As a result of the COVID-19 pandemic, in March 2020, to ensure the health and well-being of its employees, the Company implemented work from home at all of its facilities. The Company has also implemented cost containment strategies across all areas of the organization, including continued curtailment of Company travel, canceling of trade shows for 2020 and salary reductions for its senior management and certain groups of its field-based employees. Our Senhance Systems are manufactured at a contract manufacturing facility in Milan. With the quarantine in Northern Italy, the assembly of new units has been disrupted. A variety of travel restrictions, have caused a delay in our product installation and training activities in recent weeks, and are expected to continue. Elective surgeries have been halted in the United States and Europe and only limited procedures are being done in Japan. This has significantly impacted our ability to implement our market development activities to place our Senhance Systems, provide training, and increase the use of the Senhance Systems in place. In addition, compliance with “stay-at-home” orders in all of its locations have led to disruptions and delays in the completion of the Company’s financial reporting.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was passed in the United States. In April 2020, the Company received funding under a promissory note dated April 18, 2020 evidencing an unsecured non-recourse loan under the Paycheck Protection Program (“PPP”). See Note 19.

The Company continues to review the CARES Act and other applicable government-related legislation aimed at assisting businesses during the COVID-19 pandemic. Given the dynamic nature of this health emergency, the full impact of the COVID-19 pandemic on the Company’s ongoing business, results of operations and overall financial performance cannot be reasonably estimated at this time.

Recent Financing Transaction

On March 10, 2020, the Company closed a firm commitment underwritten public offering, or the 2020 Public Offering, pursuant to which it sold an aggregate of 14,121,766 Class A Units at a public offering price of $0.68 per Class A Unit and 7,937,057 Class B Units at a public offering price of $0.68 per Class B Units. Each Class A Unit consists of one share of the Company’s common stock, one warrant to purchase one share of common stock that expires on the first anniversary of the date of issuance, or collectively, the Series C Warrants, and one warrant to purchase one share of common stock that expires on the fifth anniversary of the date of issuance, or collectively, the Series D Warrants. Each Class B Unit consists of one share of Series A Convertible Preferred Stock, par value $0.01 per share, or the Series A Preferred Stock, convertible into one share of common stock, a Series C Warrant to purchase one share of common stock and a Series D Warrant to purchase one share of common stock. The Class A Units and Class B Units have no stand-alone rights and were not certificated or issued as stand-alone securities. The shares of common stock, Series A Preferred Stock, Series C Warrants and Series D Warrants are immediately separable. In addition, the underwriter for the 2020 Public Offering exercised its overallotment option to purchase 3,308,823 Series C Warrants and 3,308,823 Series D Warrants for an aggregate purchase price of $60,000. The net proceeds to the Company were $13.5 million. Issuance costs totaled $1.5 million and consisted of underwriting discounts, commissions, and legal fees.

As used herein, the term “Company” refers to the Company and its subsidiaries TransEnterix Surgical, Inc., SafeStitch LLC, TransEnterix International, Inc.; TransEnterix Italia S.r.l.; TransEnterix Europe S.à.R.L; TransEnterix Asia Pte. Ltd.; TransEnterix Taiwan Ltd.; TransEnterix Japan KK; TransEnterix Israel Ltd. and TransEnterix Netherlands B.V.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company has prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with the instructions to Form 10-Q and the standards of accounting measurement set forth in the Interim Reporting Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Consequently, the Company has not necessarily included in this Form 10-Q all information and footnotes required for audited financial statements. In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements in this Form 10-Q contain all adjustments, consisting only of normal recurring adjustments, except as otherwise indicated, necessary for a fair statement of its financial position, results of operations, and cash flows of the Company for all periods presented. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for any subsequent period or for the entire year. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the Company's audited financial statements and the notes thereto included in the Fiscal 2019 Form 10-K. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with generally accepted accounting principles in the U.S. ("U.S. GAAP") have been condensed or omitted in the accompanying interim consolidated financial statements. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The accompanying Consolidated Financial Statements include the accounts of the Company and its direct and indirect wholly owned subsidiaries, SafeStitch LLC, TransEnterix Surgical, Inc., TransEnterix International, Inc., TransEnterix Italia S.r.l., TransEnterix Europe S.à.R.L; TransEnterix Asia Pte. Ltd.; TransEnterix Taiwan Ltd.; TransEnterix Japan KK; TransEnterix Israel Ltd. and TransEnterix Netherlands B.V. All material inter-company accounts and transactions have been eliminated in consolidation.

On December 11, 2019, following receipt of approval from stockholders at a special meeting of stockholders held on the same day, the Company filed an amendment to its Amended and Restated Certificate of Incorporation to effect a reverse stock split of the Company's common stock at a ratio of one-for-thirteen, or the Reverse Stock Split. The Company's common stock began trading on a split-adjusted basis on NYSE American on the morning of December 12, 2019. No fractional shares were issued in connection with the Reverse Stock Split. Instead, the Company rounded up each fractional share resulting from the reverse stock split to the nearest whole share. As a result of the Reverse Stock Split, the Company's outstanding common stock decreased from approximately 261.9 million shares to approximately 20.2 million shares (without giving effect to the rounding up for each fractional share).

Unless otherwise noted, all share and per share data referenced in the condensed consolidated financial statements and the notes thereto have been retroactively adjusted to reflect the Reverse Stock Split. As a result of the Reverse Stock Split, certain amounts in the consolidated financial statements and the notes thereto may be slightly different than previously reported due to rounding of fractional shares, and certain amounts within the consolidated balance sheets were reclassified between common stock and additional paid-in capital.

Going Concern

The Company's consolidated financial statements are prepared using U.S. GAAP applicable to a going concern, which contemplate the realization of assets and liquidation of liabilities in the normal course of business. The Company had an accumulated deficit of $680.2 million as of March 31, 2020, and working capital of $26.9 million as of March 31, 2020. The Company has not established sufficient sales revenues to cover its operating costs and requires additional capital to proceed with its operating plan. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. In order to continue as a going concern, the Company will need, among other things, additional capital resources.

Traditionally, the Company has raised additional capital through equity offerings. Management's plan to obtain such resources for the Company may include additional sales of equity, traditional financing, such as loans, entry into a strategic collaboration, entry into an out-licensing arrangement or provision of additional distribution rights in some or all of our markets. In addition, the Company may consider fundamental business combination transactions. If the Company is unable to obtain adequate capital through one of these methods, or if expected capital from existing agreements is not received when due, or at all, it would need to reduce its sales and marketing and administrative expenses and delay research and development projects, including the purchase of equipment and supplies, until it is able to obtain sufficient funds. If such sufficient funds are not received on a timely basis, the Company would then need to pursue a plan to license or sell its assets, seek to be acquired by another entity, cease operations and/or seek bankruptcy protection. However, management cannot provide any assurance that the Company will be successful in accomplishing any or all of its plans. The Company believes the COVID-19 pandemic will continue to negatively impact its operations and ability to implement its market development efforts, which will have a negative effect on its financial condition. The ability to successfully resolve these factors raise substantial doubt about the Company's ability to meet its existing obligations, and to continue as a going concern within one year from the date that these financial statements are issued. The consolidated financial statements of the Company do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include identifiable intangible assets and goodwill, contingent consideration, warrant liabilities, stock compensation expense, revenue recognition, accounts receivable reserves, excess and obsolete inventory reserves, inventory classification between current and non-current, and deferred tax asset valuation allowances.

The COVID-19 pandemic has caused significant social and economic restrictions that have been imposed in the United States and abroad, which has resulted in significant volatility in the global economy and led to reduced economic activity. In the preparation of these financial statements and related disclosures, the Company has assessed the impact that COVID-19 has had on its estimates, assumptions, forecasts, and accounting policies. The Company continues to monitor closely the COVID-19 pandemic impact on its estimates, assumptions and forecasts used in the preparation of its financial statements. As the COVID-19 situation is unprecedented and ever evolving, future events and effects related to COVID-19 cannot be determined with precision, and actual results could significantly differ from estimates or forecasts.

Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with original maturities of 90 days or less at the time of purchase to be cash equivalents.

Restricted cash at March 31, 2020 and December 31, 2019 includes $0.9 million and $1.0 million, respectively, in cash accounts held as collateral primarily under the terms of an office operating lease, credit cards, automobile leases, and a performance guarantee required by the government of a country in which a Senhance System was sold in 2018.

Concentrations and Credit Risk

The Company’s principal financial instruments subject to potential concentration of credit risk are cash and cash equivalents, including amounts held in money market accounts. The Company places cash deposits with a federally insured financial institution. The Company maintains its cash at banks and financial institutions it considers to be of high credit quality; however, the Company’s domestic cash deposits may at times exceed the Federal Deposit Insurance Corporation’s insured limit. Balances in excess of federally insured limitations may not be insured. The Company has not experienced losses on these accounts, and management believes that the Company is not exposed to significant risks on such accounts.

The Company’s accounts receivable are derived from sales to customers located throughout the world. The Company evaluates its customers’ financial condition and, generally, requires no collateral from its customers. The Company provides reserves for potential credit losses and recorded a bad debt charge totaling $1.6 million during the year ended December 31, 2019. The Company had eight customers who constituted 80% of the Company’s net accounts receivable at March 31, 2020. The Company had eight customers who constituted 85% of the Company’s net accounts receivable at December 31, 2019. The Company had eleven customers who accounted for 80% of sales for the three months ended March 31, 2020 and five customers who accounted for 81% of sales for the three months ended March 31, 2019.

Accounts Receivable

Accounts receivable are recorded at net realizable value, which includes an allowance for estimated uncollectible accounts. The allowance for uncollectible accounts was determined on a customer specific basis based on deemed collectability.

Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or net realizable value. Inventory costs include direct materials, direct labor, and normal manufacturing overhead. The Company records reserves, when necessary, to reduce the carrying value of inventory to its net realizable value. Management considers forecast demand in relation to the inventory on hand, competitiveness of product offerings, market conditions and product life cycles when determining excess and obsolescence and net realizable value adjustments. At the point of loss recognition, a new, lower-cost basis for that inventory is established, and any subsequent improvements in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Any inventory on hand at the measurement date in excess of the Company's current requirements based on anticipated levels of sales is classified as long-term on the Company's consolidated balance sheets. The Company's classification of long-term inventory requires it to estimate the portion of on hand inventory that can be realized over the upcoming twelve months.

Identifiable Intangible Assets and Goodwill

Identifiable intangible assets are recorded at cost, or when acquired as part of a business acquisition, at estimated fair value. Certain intangible assets are amortized over 5 to 10 years. Similar to tangible personal property and equipment, the Company periodically evaluates identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Intellectual property consists of purchased patent rights and developed technology acquired as part of a business acquisition. Amortization of the patent rights is recorded using the straight-line method over the estimated useful life of the patents of 10 years. Amortization of the developed technology is recorded using the straight-line method over the estimated useful life of 5 to 7 years.

The Company continues to operate in one segment, which is considered to be the sole reporting unit and therefore, goodwill, prior to being fully impaired during the year ended December 31, 2019, was tested for impairment at the enterprise level. Indefinite-lived intangible assets, such as goodwill, are not amortized.

During the third quarter of 2019, the Company determined that the goodwill associated with the business was impaired, and recorded impairment charges of $79.0 million. The impairment charge resulted from decreased sales and estimated cash flows and a significant decline in the Company's stock price.

The Company also performed a recoverability test on the intellectual property and concluded that there was no impairment as of December 31, 2019.

No impairment of intellectual property existed at March 31, 2020.

In-Process Research and Development

In-process research and development ("IPR&D") assets represent the fair value assigned to technologies that were acquired, which at the time of acquisition have not reached technological feasibility and have no alternative future use. IPR&D assets are considered to be indefinite-lived until the completion or abandonment of the associated research and development projects. During the period that the IPR&D assets are considered indefinite-lived, they are tested for impairment on an annual basis, or more frequently if the Company becomes aware of any events occurring or changes in circumstances that indicate that the fair value of the IPR&D assets are less than their carrying amounts. If and when development is complete, which generally occurs upon regulatory approval, and the Company is able to commercialize products associated with the IPR&D assets, these assets are then deemed definite-lived and are amortized based on their estimated useful lives at that point in time. If development is terminated or abandoned, the Company may have a full or partial impairment charge related to the IPR&D assets, calculated as the excess of carrying value of the IPR&D assets over fair value.

The IPR&D for the Senhance System was acquired on September 21, 2015. On October 13, 2017, upon receiving FDA clearance and the ability to commercialize the products associated with the IPR&D assets, the assets were deemed definite-lived, reclassified to intellectual property and are now amortized based on their estimated useful lives.

The IPR&D from MST was acquired on October 31, 2018. On March 13, 2020, upon receiving FDA clearance and the ability to commercialize the products associated with the MST IPR&D assets, the assets were deemed definite-lived, reclassified to intellectual property and are now amortized based on their estimated useful lives.

The Company performed an impairment test of its IPR&D at the end of the third quarter 2019 as recent events and changes in market conditions indicated that the asset might be impaired.

The impairment test consisted of a comparison of the fair value of the IPR&D with its carrying amount. If the carrying amount of the IPR&D exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Significant judgment is applied when testing for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, and incorporating general economic and market conditions.

During the third quarter of 2019, the Company concluded that the fair value determined by the market value approach was lower than the carrying value. As a result, the Company recognized a $7.9 million impairment charge to its IPR&D. The company performed its annual impairment assessment at December 31, 2019 and no additional impairment was required.

Property and Equipment

Property and equipment consists primarily of machinery, manufacturing equipment, demonstration equipment, computer equipment, furniture, and leasehold improvements, which are recorded at cost.

Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Machinery, manufacturing and demonstration equipment	3-5 years
Computer equipment	3 years
Furniture	5 years
Leasehold improvements	Lesser of lease term or 3 to 10 years

Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited or charged to operations. Repairs and maintenance costs are expensed as incurred.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine the recoverability of its long-lived assets, the Company evaluates the probability that future estimated undiscounted net cash flows will be less than the carrying amount of the assets. If such estimated cash flows are less than the carrying amount of the long-lived assets, then such assets are written down to their fair value. The Company's estimates of anticipated cash flows and the remaining estimated useful lives of long-lived assets could be reduced in the future, resulting in a reduction to the carrying amount of long-lived assets.

Contingent Consideration

Contingent consideration is recorded as a liability and is the estimate of the fair value of potential milestone payments related to business acquisitions. Contingent consideration is measured at fair value using a discounted cash flow model utilizing significant unobservable inputs including the probability of achieving each of the potential milestones, future Euro-to-USD exchange rates, and an estimated discount rate associated with the risks of the expected cash flows attributable to the various milestones. Significant increases or decreases in any of the probabilities of success or changes in expected achievement of any of these milestones would result in a significantly higher or lower fair value of these milestones, respectively, and commensurate changes to the associated liability. The contingent consideration is revalued at each reporting period and changes in fair value are recognized in the consolidated statements of operations and comprehensive loss.

Warrant Liabilities

The Company's Series B Warrants (see Note 14) are measured at fair value using a simulation model which takes into account, as of the valuation date, factors including the current exercise price, the expected life of the warrant, the current price of the underlying stock, its expected volatility, holding cost and the risk-free interest rate for the term of the warrant (see Note 5). The warrant liability is revalued at each reporting period and changes in fair value are recognized in the consolidated statements of operations and comprehensive loss. The selection of the appropriate valuation model and the inputs and assumptions that are required to determine the valuation requires significant judgment and requires management to make estimates and assumptions that affect the reported amount of the related liability and reported amounts of the change in fair value. Actual results could differ from those estimates, and changes in these estimates are recorded when known. As the warrant liability is required to be measured at fair value at each reporting date, it is reasonably possible that these estimates and assumptions could change in the near term.

Translation of Foreign Currencies

The functional currency of the Company's operational foreign subsidiaries is predominantly the Euro. The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the period. The cumulative translation effect for a subsidiary using a functional currency other than the U.S. dollar is included in accumulated other comprehensive income or loss as a separate component of stockholders' equity.

The Company's intercompany accounts are denominated in the functional currency of the foreign subsidiary. Gains and losses resulting from the remeasurement of intercompany receivables that the Company considers to be of a long-term investment nature are recorded as a cumulative translation adjustment in accumulated other comprehensive income or loss as a separate component of stockholders' equity, while gains and losses resulting from the remeasurement of intercompany receivables from a foreign subsidiary for which the Company anticipates settlement in the foreseeable future are recorded in the consolidated statements of operations and comprehensive loss. The net gains and losses included in net loss in the consolidated statements of operations and comprehensive loss for the three months ended March 31, 2020 and 2019 were not significant.

Risk and Uncertainties

The Company is subject to a number of risks similar to other similarly-sized companies in the medical device industry. These risks include, without limitation, potential negative impacts on the Company's operations caused by the COVID-19 pandemic, the Company's ability to continue as a going concern, the historical lack of profitability; the Company’s ability to raise additional capital; the liquidity and capital resources of its partners; its ability to successfully develop, clinically test and commercialize its products; the timing and outcome of the regulatory review process for its products; changes in the health care and regulatory environments of the United States, the European Union, Japan, Taiwan and other countries in which the Company operates or intends to operate; its ability to attract and retain key management, marketing and scientific personnel; its ability to successfully prepare, file, prosecute, maintain, defend and enforce patent claims and other intellectual property rights; its ability to successfully transition from a research and development company to a marketing, sales and distribution concern; competition in the market for robotic surgical devices; and its ability to identify and pursue development of additional products.

Revenue Recognition

The Company’s revenue consists of product revenue resulting from the sale of systems, system components, instruments and accessories, and service revenue. The Company accounts for a contract with a customer when there is a legally enforceable contract between the Company and the customer, the rights of the parties are identified, the contract has commercial substance, and collectability of the contract consideration is probable. The Company's revenues are measured based on consideration specified in the contract with each customer, net of any sales incentives and taxes collected from customers that are remitted to government authorities.

The Company’s system sale arrangements generally contain multiple products and services. For these consolidated sale arrangements, the Company accounts for individual products and services as separate performance obligations if they are distinct, which is if a product or service is separately identifiable from other items in the consolidated package, and if a customer can benefit from it on its own or with other resources that are readily available to the customer. The Company’s system sale arrangements include a combination of the following performance obligations: system(s), system components, instruments, accessories, and system service. The Company’s system sale arrangements generally include a five years period of service. The first year of service is generally free and included in the system sale arrangement and the remaining four years are generally included at a stated service price. The Company considers the service terms in the arrangements that are legally enforceable to be performance obligations. Other than service, the Company generally satisfies all of the performance obligations up-front. System components, system accessories, instruments, accessories, and service are also sold on a standalone basis.

The Company has begun entering into lease arrangements with certain qualified customers. Thus far, all leases have been operating lease arrangements. Revenue related to multiple-element arrangements are allocated to lease and non-lease elements based on their relative standalone selling prices as prescribed by the Company’s revenue recognition policy. Lease elements generally include a system, while non-lease elements generally include service, instruments, and accessories. For some lease arrangements, the customers are provided with the right to purchase the leased system at some point during and/or at the end of the lease term. For some leases, lease payments are based on the usage of the system.

In determining whether a transaction should be classified as a sales-type or operating lease, the Company considers the following terms at lease commencement: (1) whether title of the system transfers automatically or for a nominal fee by the end of the lease term, (2) whether the present value of the minimum lease payments equals or exceeds substantially all of the fair value of the leased system, (3) whether the lease term is for the major part of the remaining economic life of the leased system, (4) whether the lease grants the lessee an option to purchase the leased system that the lessee is reasonably certain to exercise, and (5) whether the underlying system is of such a specialized nature that it is expected to have no alternative use to the Company at the end of the lease term.

The Company recognizes revenues as the performance obligations are satisfied by transferring control of the product or service to a customer. The Company generally recognizes revenue for the performance obligations as follows:

- System sales. For systems and system components sold directly to end customers, revenue is recognized when the Company transfers control to the customer, which is generally at the point when acceptance occurs that indicates customer acknowledgment of delivery or installation, depending on the terms of the arrangement. For systems sold through distributors, for which distributors are responsible for installation, revenue is recognized generally at the time of shipment. The Company’s system arrangements generally do not provide a right of return. The systems are generally covered by a one-year warranty. Warranty costs were not material for the periods presented.

- Lease arrangements. Revenue related to lease elements from operating lease arrangements is generally recognized on a straight-line basis over the lease term or based upon system usage and is presented as product revenue.

- Instruments and accessories. Revenue from sales of instruments and accessories is recognized when control is transferred to the customers, which generally occurs at the time of shipment, but also occurs at the time of delivery depending on the customer arrangement. Accessory products include sterile drapes used to help ensure a sterile field during surgery, vision products such as replacement endoscopes, camera heads, light guides, and other items that facilitate use of the Senhance System.

- Service. Service revenue is recognized ratably over the term of the service period as the customers benefit from the service throughout the service period. Revenue related to services performed on a time-and-materials basis is recognized when performed.

For multiple-element arrangements, revenue is allocated to each performance obligation based on its relative standalone selling price. Standalone selling prices are based on observable prices at which the Company separately sells the products or services. Due to limited sales to date, standalone selling prices are not directly observable. The Company estimates the standalone selling price using the market assessment approach considering market conditions and entity-specific factors including, but not limited to, features and functionality of the products and services, geographies, type of customer, and market conditions. The Company regularly reviews standalone selling prices and updates these estimates if necessary.

The following table presents revenue disaggregated by type and geography:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(in thousands) (unaudited)	
U.S.		
Systems	$ 30	$ —
Instruments and accessories	60	—
Services	69	133
Total U.S. revenue	159	133
Outside of U.S. ("OUS")		
Systems	39	1,283
Instruments and accessories	113	546
Services	289	219
Total OUS revenue	441	2,048
Total		
Systems	69	1,283
Instruments and accessories	173	546
Services	358	352
Total revenue	$ 600	$ 2,181

The Company recognizes sales by geographic area based on the country in which the customer is based.

Operating lease revenue was approximately $0.1 million for the three months ended March 31, 2020.

Transaction price allocated to remaining performance obligations relates to amounts allocated to products and services for which the revenue has not yet been recognized. A significant portion of this amount relates to service obligations performed under the Company's system sales contracts that will be invoiced and recognized as revenue in future periods. Transaction price allocated to remaining performance obligations was approximately $3.5 million as of March 31, 2020.

The Company invoices its customers based on the billing schedules in its sales arrangements. Contract assets for the periods presented primarily represent the difference between the revenue that was recognized based on the relative selling price of the related performance obligations and the contractual billing terms in the arrangements. Contract assets are included in accounts receivable and totaled $0.2 million and $0.2 million as of March 31, 2020 and December 31, 2019, respectively. Deferred revenue for the periods presented was primarily related to service obligations, for which the service fees are billed up-front, generally annually. The associated deferred revenue is generally recognized ratably over the service period. The Company did not have any significant impairment losses on its contract assets for the periods presented. Revenue recognized for the three months ended March 31, 2020 and 2019, that was included in the deferred revenue balance at the beginning of each reporting period was $0.2 million and $0.3 million, respectively.

In connection with assets recognized from the costs to obtain a contract with a customer, the Company determined that the sales incentive programs for its sales team do not meet the requirements to be capitalized as the Company does not expect to generate future economic benefits from the related revenue from the initial sales transaction.

Cost of Revenue

Cost of revenue consists of contract manufacturing, materials, labor and manufacturing overhead incurred internally to produce the products. Shipping and handling costs incurred by the Company are included in cost of revenue.

Research and Development Costs

Research and development expenses primarily consist of engineering, product development and regulatory expenses, incurred in the design, development, testing and enhancement of our products. Research and development costs are expensed as incurred.

Stock-Based Compensation

The Company follows ASC 718 “Stock Compensation”, which provides guidance in accounting for share-based awards exchanged for services rendered and requires companies to expense the estimated fair value of these awards over the requisite service period. The Company recognizes compensation expense for stock-based awards based on estimated fair values on the date of grant for awards. The Company uses the Black-Scholes-Merton option pricing model to determine the fair value of stock options. The fair value of restricted stock units is determined by the market price of the Company’s common stock on the date of grant. The expense associated with stock-based compensation is recognized on a straight-line basis over the requisite service period of each award.

The Company records as expense the fair value of stock-based compensation awards, including stock options and restricted stock units. Compensation expense for stock-based compensation was approximately $1.9 million and $3.0 million for the three months ended March 31, 2020 and 2019, respectively.

Income Taxes

The Company accounts for income taxes using the asset and liability method, which requires the recognition of deferred tax assets or liabilities for the temporary differences between financial reporting and tax basis of the Company’s assets and liabilities, and for tax carryforwards at enacted statutory rates in effect for the years in which the asset or liability is expected to be realized. The effect on deferred taxes of a change in tax rates is recognized in income during the period that includes the enactment date. In addition, valuation allowances are established when necessary to reduce deferred tax assets and liabilities to the amounts expected to be realized.

The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income (“GILTI”), states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or to provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. The Company has elected to account for GILTI as a period expense in the year the tax is incurred.

In a referendum held on May 19, 2019, Swiss voters adopted the Federal Act on Tax Reform and AVS Financing (TRAF). TRAF introduces major changes in the Swiss tax system by abolishing certain current preferential tax regimes and replacing them with new measures that are in line with international standards. The referendum did not have a material impact on the Company for the quarter ended March 31, 2020 or 2019 tax provision. The Company will continue to evaluate the impact of these provisions in future periods as the enactment process in completed.

Comprehensive (Loss) Income

Comprehensive (loss) income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources.

Segments

The Company operates in one business segment—the research, development and sale of medical device robotics to improve minimally invasive surgery. The Company’s chief operating decision maker (determined to be the Chief Executive Officer) does not manage any part of the Company separately, and the allocation of resources and assessment of performance are based on the Company’s consolidated operating results. Approximately 29% and 19% of the Company's total consolidated assets are located within the U.S. as of March 31, 2020 and December 31, 2019, respectively. The remaining assets are mostly located in Europe and are primarily related to the Company's facility in Italy, and include intellectual property, in-process research and development, other current assets, property and equipment, cash, accounts receivable, other long-term assets and inventory of $59.7 million and $60.5 million at March 31, 2020 and December 31, 2019, respectively. Total assets outside of the U.S. amounted to 71% and 81% of total consolidated assets at March 31, 2020 and December 31, 2019, respectively. The Company recognizes sales by geographic area based on the country in which the customer is based. For the three months ended March 31, 2020 and 2019, 27% and 6%, respectively, of net revenue were generated in the United States; while 48% and 35%, respectively, were generated in Europe; and 25% and 59% were generated in Asia.

Impact of Recently Issued Accounting Standards

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.* This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The standard is effective for all entities for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this ASU did not have a material impact on the consolidated financial statements.

3. Acquisitions

MST Medical Surgery Technologies Ltd. Acquisition

On September 23, 2018, the Company entered into an Asset Purchase Agreement (the "MST Purchase Agreement") with MST Medical Surgery Technologies Ltd., an Israeli private company ("MST"), and two of the Company's wholly owned subsidiaries, as purchasers of the assets of MST (collectively, the "Buyers"). The closing of the transactions occurred on October 31, 2018, pursuant to which the Company acquired MST's assets consisting of intellectual property and tangible assets related to surgical analytics with its core image analytics technology designed to empower and automate the surgical environment, with a focus on medical robotics and computer-assisted surgery. The core technology acquired under the MST Purchase Agreement is a software-based image analytics information platform powered by advanced visualization, scene recognition, artificial intelligence, machine learning and data analytics.

Under the terms of the MST Purchase Agreement, at the closing the Buyers purchased substantially all of the assets of MST. The acquisition price consisted of two tranches. At or prior to the closing of the transaction the Buyers paid $5.8 million in cash and the Company issued approximately 242,310 shares of the Company's common stock (the "Initial Shares"). A second tranche of $6.6 million in additional consideration was payable in cash, stock or cash and stock, at the discretion of the Company, within one year after the closing date. On August 7, 2019, the Company notified MST that the Company would satisfy the additional consideration payment of $6.6 million by issuing shares of TransEnterix common stock. The number of shares issued to MST was 370,423 (the "Additional Consideration Shares" and, together with the Initial Shares, the "Securities Consideration").

The MST Purchase Agreement contains customary representations and warranties of the parties and the parties have customary indemnification obligations, which are subject to certain limitations described further in the MST Purchase Agreement.

In connection with the closing under the MST Purchase Agreement (the "MST Acquisition"), the Company and the Seller entered into a Lock-Up Agreement, dated October 31, 2018, pursuant to which the Seller agreed, subject to certain exceptions, not to sell, transfer or otherwise convey any of the Initial Shares for six months following the Closing Date. As of the date of this report, all of the Initial Shares are free from the lock-up restrictions. The Additional Consideration Shares were released from the lock-up restrictions on February 7, 2020.

On July 3, 2019 the Company entered into a System Sale Agreement with GBIL to sell certain assets related to the AutoLap technology. On October 15, 2019, the Company amended the prior AutoLap Sale Agreement with GBIL. Pursuant to the amended agreement the Company sold the AutoLap laparoscopic vision system, or AutoLap, and related assets to GBIL. The assets include inventory, spare parts, production equipment, testing equipment and certain intellectual property specifically related to the AutoLap. The purchase price was $17.0 million, all of which was received in 2019 in the form of $16 million in cash and a commitment by GBIL to pay $1.0 million to settle certain Company obligations in China. GBIL subsequently paid the obligation. Under the amended AutoLap Agreement, the Company entered into a cross-license agreement with GBIL to retain rights to use any AutoLap-related intellectual property sold to GBIL, and to non-exclusively license additional intellectual property to GBIL. The Company recorded a $16.0 million gain on the sale of the AutoLap assets during the year ended December 31, 2019, which represented the proceeds received in excess of the carrying value of the assets, less contract costs.

Senhance Surgical Robotic System

On September 21, 2015, the Company completed the strategic acquisition, through its wholly owned subsidiary TransEnterix International, from Sofar, of all of the assets, employees and contracts related to the advanced robotic system for minimally invasive laparoscopic surgery now known as the Senhance System.

Under the terms of the Purchase Agreement, the consideration consisted of the issuance of (i) 1,195,647 shares of the Company's common stock (the "Securities Consideration") and (ii) approximately $25.0 million U.S. Dollars and €27.5 million Euro in cash consideration (the "Cash Consideration").

On December 30, 2016, the Company and Sofar entered into an Amendment to the Purchase Agreement (the "Amendment") to restructure the terms of the second tranche of the Cash Consideration (the "Second Tranche"). The initial Securities Consideration was issued in full at the closing of the Senhance Acquisition; under the Amendment, the second tranche of the Cash Consideration was restructured, and an additional issuance of 286,360 shares of the Company's common stock with an aggregate fair market value of €5.0 million occurred in January 2017. Following the Amendment, the total Cash Consideration was $25.0 million U.S. Dollars and approximately €22.5 million Euro, of which all but €15.1 million Euro has been paid as of March 31, 2020. The majority of the remaining Cash Consideration to be paid is the third tranche of the Cash Consideration (the "Third Tranche") of €15.0 million which shall be payable upon achievement of trailing revenues from sales or services contracts of the Senhance System of at least €25.0 million over a calendar quarter.

The fourth tranche of the Cash Consideration of €2.5 million was payable in installments by December 31 of each year as reimbursement for certain debt payments made by Sofar under an existing Sofar loan agreement in such year, with payments beginning as of December 31, 2017. As of March 31, 2020, the Company had paid €2.4 million of the fourth tranche.

The Third Tranche payments will be accelerated in the event that (i) the Company or TransEnterix International is acquired, (ii) the Company significantly reduces or suspends selling efforts of the Senhance System, or (iii) the Company acquires a business that offers alternative products that are directly competitive with the Senhance System. The remaining amounts due to Sofar are included in contingent consideration as of March 31, 2020 and December 31, 2019.

The Purchase Agreement contains customary representations and warranties of the parties and the parties have customary indemnification obligations, which are subject to certain limitations described further in the Purchase Agreement.

4. Cash, Cash Equivalents, and Restricted Cash

Restricted cash at March 31, 2020 and December 31, 2019 includes $0.9 million and $1.0 million respectively, in cash accounts held as collateral primarily under the terms of an office operating lease, credit cards, automobile leases, and a performance guarantee required by the government of a country in which a Senhance System was sold in 2018.

5. Fair Value

The Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis. These assets and liabilities include cash and cash equivalents, restricted cash, contingent consideration and warrant liabilities. ASC 820-10 ("Fair Value Measurement Disclosure") requires the valuation using a three-tiered approach, which requires that fair value measurements be classified and disclosed in one of three tiers. These tiers are: Level 1, defined as quoted prices in active markets for identical assets or liabilities; Level 2, defined as valuations based on observable inputs other than those included in Level 1, such as quoted prices for similar assets and liabilities in active markets, or other inputs that are observable or can be corroborated by observable input data; and Level 3, defined as valuations based on unobservable inputs reflecting the Company's own assumptions, consistent with reasonably available assumptions made by other market participants. The Company did not have any transfers of assets and liabilities between Level 1, Level 2, and Level 3 of the fair value hierarchy during the three months ended March 31, 2020 and the year ended December 31, 2019.

For assets and liabilities recorded at fair value, it is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data and therefore, are based primarily upon estimates, are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values. The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

As prescribed by U.S. GAAP, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures and based on various factors, it is possible that an asset or liability may be classified differently from period to period. However, the Company expects changes in classifications between levels will be rare.

The carrying values of accounts receivable, interest receivable, accounts payable, and certain accrued expenses at March 31, 2020 and December 31, 2019, approximate their fair values due to the short-term nature of these items.

The following are the major categories of assets and liabilities measured at fair value on a recurring basis as of March 31, 2020 and December 31, 2019, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	March 31, 2020 (In thousands) (unaudited)			
Description	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets measured at fair value				
Cash and cash equivalents	$ 21,816	$ —	$ —	$ 21,816
Restricted cash	925	—	—	925
Total Assets measured at fair value	$ 22,741	$ —	$ —	$ 22,741
Liabilities measured at fair value				
Contingent consideration	—	—	2,140	2,140
Warrant liabilities	—	—	73	73
Total liabilities measured at fair value	$ —	$ —	$ 2,213	$ 2,213

	December 31, 2019 (In thousands)			
Description	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets measured at fair value				
Cash and cash equivalents	$ 9,598	$ —	$ —	$ 9,598
Restricted cash	969	—	—	969
Total Assets measured at fair value	$ 10,567	$ —	$ —	$ 10,567
Liabilities measured at fair value				
Contingent consideration	$ —	$ —	$ 1,084	$ 1,084
Warrant liabilities	—	—	2,388	2,388
Total liabilities measured at fair value	—	—	3,472	3,472

The Company’s financial liabilities consisted of contingent consideration potentially payable to Sofar related to the Senhance Acquisition in September 2015 (Note 3). This liability is reported as Level 3 as estimated fair value of the contingent consideration related to the acquisition requires significant management judgment or estimation and is calculated using the income approach, using various revenue and cost assumptions and applying a probability to each outcome. The increase in fair value of the contingent consideration of $1.1 million for the three months ended March 31, 2020 was primarily due to a change in the Company's long-term forecast. The increase in fair value of the contingent consideration of $1.0 million for the three months ended March 31, 2019 was primarily due to the passage of time. Adjustments associated with the change in fair value of contingent consideration are included in the Company’s consolidated statements of operations and comprehensive loss.

On April 28, 2017, the Company sold 24.9 million units (the "Units"), each consisting of approximately 0.077 shares of the Company's common stock, a Series A warrant to purchase approximately 0.077 shares of common stock with an exercise price of $13.00 per share (the "Series A Warrants"), and a Series B warrant to purchase approximately 0.058 shares of common stock with an exercise price of $13.00 per share (the "Series B Warrants," together with the Series A Warrants, the "Warrants"), at an offering price of $1.00 per Unit. All of the Series A Warrants were exercised prior to the expiration date of October 31, 2017. Each Series B Warrant may be exercised at any time beginning on the date of issuance and from time to time thereafter through and including the fifth anniversary of the issuance date.

The exercise prices and the number of shares issuable upon exercise of each of the Series B Warrants are subject to adjustment upon the occurrence of certain events, including, but not limited to, stock splits or dividends, business combinations, sale of assets, similar recapitalization transactions, or other similar transactions. The Series B warrants contain provisions, often referred to as "down-round protection," that leads to adjustment of the exercise price and number of underlying warrant shares if the Company issues securities, including its common stock or convertible securities or debt securities, in the future at sale prices below the then-current exercise price. As a result of this adjustment feature and after giving effect to the Company's reverse stock split at a ratio of one-for-thirteen shares effective December 11, 2019, or the Reverse Stock Split, the exercise price of all outstanding Series B Warrants has been adjusted to $0.37 per share.

The change in fair value of all outstanding Series B Warrants for the three months ended March 31, 2020 and 2019 was an increase of $0.2 million and $0.1 million, respectively, and is included in the Company's consolidated statements of operations and comprehensive loss. The following table presents the inputs and valuation methodologies used for the Company's fair value of the Series B Warrants:

Series B	**March 31, 2020**	**December 31, 2019**
Fair value	$0.1 million	$2.4 million
Valuation methodology	Monte Carlo	Monte Carlo
Term	2.1 years	2.3 years
Risk free rate	0.23%	1.59%
Dividends	—	—
Volatility	85%	109.80%
Share price	$0.35	$1.47
Probability of additional financing	100% in 2020	100% in 2020

The following table presents quantitative information about the inputs and valuation methodologies used for the Company's fair value measurements for contingent consideration as of March 31, 2020 and December 31, 2019:

	Valuation Methodology	**Significant Unobservable Input**	**Weighted Average (range, if applicable)**
Contingent consideration	Probability weighted income approach	Milestone dates	2024 to 2029
		Discount rate	10.75% to 15.75%

The following table summarizes the change in fair value, as determined by Level 3 inputs for the warrants and the contingent consideration for the three months ended March 31, 2020:

	Fair Value Measurement at Reporting Date (Level 3) (In thousands) (unaudited)	
	Common stock warrants	Contingent consideration
Balance at December 31, 2019	$ 2,388	$ 1,084
Exchange of warrants	(2,470)	—
Change in fair value	155	1,056
Balance at March 31, 2020	$ 73	$ 2,140
Current portion	—	72
Long-term portion	73	2,068
Balance at March 31, 2020	$ 73	$ 2,140

6. Accounts Receivable, Net

The following table presents the components of accounts receivable:

	March 31, 2020	December 31, 2019
	(In thousands)	
	(unaudited)	
Gross accounts receivable	$ 2,575	$ 2,274
Allowance for uncollectible accounts	(1,624)	(1,654)
Total accounts receivable, net	$ 951	$ 620

The Company recorded $1.6 million in bad debt expense during the year ended December 31, 2019.

7. Inventories

The components of inventories are as follows:

	March 31, 2020	December 31, 2019
	(In thousands)	
	(unaudited)	
Finished goods	$ 9,296	$ 9,737
Raw materials	7,734	8,510
Total inventories	$ 17,030	$ 18,247
Current portion	$ 9,829	$ 10,653
Long-term portion	7,201	7,594
Total inventories	$ 17,030	$ 18,247

The Company recorded a write-down of obsolete inventory for the year-ended December 31, 2019 totaling $7.4 million as part of a restructuring plan and a $1.5 million charge for inventory obsolescence related to certain system components. There were no such write-downs or charges for the three months ended March 31, 2020 and 2019.

8. Other Current Assets

The following table presents the components of other current assets:

	March 31, 2020	December 31, 2019
	(In thousands)	
	(unaudited)	
Advances to vendors	$ 3,294	$ 2,534
Prepaid expenses	1,412	1,834
VAT receivable	2,635	2,716
Total	$ 7,341	$ 7,084

9. Property and Equipment

Property and equipment consisted of the following:

	March 31, 2020	December 31, 2019
	(In thousands)	
	(unaudited)	
Machinery, manufacturing and demonstration equipment	$ 12,398	$ 10,421
Computer equipment	2,317	2,321
Furniture	632	637
Leasehold improvements	2,286	2,295
Total property and equipment	17,633	15,674
Accumulated depreciation and amortization	(11,573)	(10,968)
Property and equipment, net	$ 6,060	$ 4,706

Depreciation expense was approximately $0.6 million and $0.6 million, for the three months ended March 31, 2020 and 2019, respectively.

Operating lease assets are included in machinery, manufacturing and demonstration equipment and are depreciated on a straight-line basis over the greater of the lease term or 5 years.

10. Goodwill, In-Process Research and Development and Intellectual Property

Goodwill

Goodwill of $93.8 million was recorded in connection with a September 2013 merger transaction, goodwill of $38.3 million was recorded in connection with the Senhance Acquisition, as described in Note 3, and goodwill of $9.6 million was recorded in connection with the MST Acquisition, as described in Note 3.

The Company performs an annual impairment test of goodwill at December 31, or more frequently if events or changes in circumstances indicate that the carrying value of the Company’s one reporting unit may not be recoverable. During the third quarter of 2019, the Company's stock price declined significantly as a result of decreased sales.

As of September 30, 2019, goodwill was deemed to be fully impaired, and the Company recorded an impairment charge of $79.0 million.

In-Process Research and Development

As described in Note 3, on October 31, 2018, the Company acquired the MST assets, technology and business from MST and recorded $10.6 million of IPR&D. The estimated fair value of the IPR&D was determined using a probability-weighted income approach, which discounts expected future cash flows to present value. The projected cash flows were based on certain key assumptions, including estimates of future revenue and expenses, taking into account the stage of development of the technology at the acquisition date and the time and resources needed to complete development. The Company used a discount rate of 15% and cash flows that have been probability adjusted to reflect the risks of product integration, which the Company believes are appropriate and representative of market participant assumptions.

The Company performed an impairment test of its IPR&D at the end of the third quarter 2019 as recent events and changes in market conditions indicated that the asset might be impaired. The impairment test consisted of a comparison of the fair value of the IPR&D with its carrying amount. If the carrying amount of the IPR&D exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. Significant judgment is applied when testing for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, and incorporating general economic and market conditions. During the third quarter of 2019, the Company concluded that the fair value determined by the market value approach was lower than the carrying value. As a result, the Company recognized a $7.9 million impairment charge to its IPR&D. The company performed its annual impairment assessment at December 31, 2019 and no additional impairment was required. See Note 2.

On March 13, 2020, upon receipt of regulatory clearance to commercialize the products associated with the IPR&D assets in the United States, the assets were deemed definite-lived, transferred to developed technology and are amortized based on their estimated useful lives.

The carrying value of the Company's IPR&D assets and the change in the balance for the three months ended March 31, 2020 is as follows:

	In-Process Research and Development (In thousands) (unaudited)
Balance at December 31, 2019	$ 2,470
Foreign currency translation impact	(45)
Transfer to developed technology	(2,425)
Balance at March 31, 2020	$ —

Intellectual Property

The components of gross intellectual property, accumulated amortization, and net intellectual property as of March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020 (In thousands) (unaudited)				December 31, 2019 (In thousands)			
	Gross Carrying Amount	Accumulated Amortization	Foreign currency translation impact	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Foreign currency translation impact	Net Carrying Amount
Developed technology	$ 68,838	$ (38,802)	$ (2,389)	$ 27,647	$ 66,413	$ (36,918)	$ (1,208)	$ 28,287
Technology and patents purchased	400	(121)	13	292	400	(112)	21	309
Total intellectual property	$ 69,238	$ (38,923)	$ (2,376)	$ 27,939	$ 66,813	$ (37,030)	$ (1,187)	$ 28,596

The weighted average remaining useful life of the developed technology and technology and patents purchased was 2.9 years and 7.1 years, respectively as of March 31, 2020.

11. Income Taxes

Income taxes have been accounted for using the asset and liability method in accordance with ASC 740 "Income Taxes". The Company computes its interim provision for income taxes by applying the estimated annual effective tax rate method. The Company estimates an annual effective tax rate of 5.7% for the year ending December 31, 2020. This rate does not include the impact of any discrete items. The Company incurred losses for the three month period ended March 31, 2020 and is forecasting additional losses through the year, resulting in an estimated net loss for both financial statement and tax purposes for the year ending December 31, 2020. Due to the Company's history of losses, there is not sufficient evidence to record a net deferred tax asset associated with the U.S., Europe and Asian operations. Accordingly, a full valuation allowance has been recorded related to the net deferred tax assets in those jurisdictions. There is no net deferred tax asset recorded in relation to TransEnterix Italia and accordingly no valuation allowance has been recorded in that jurisdiction. The deferred tax benefit during the three months ended March 31, 2020 and 2019, was approximately $0.7 million and $0.6 million, respectively. The Israeli jurisdiction was profitable through March 31, 2020 and is projected to be profitable for the year ending December 31, 2020. Consequently, the current tax expense during the three months ended March 31, 2020 and 2019, was approximately $0.02 million and$0.02 million, respectively.

The Company's effective tax rate for each of the three month periods ended March 31, 2020 and 2019 was 3.8% and 2.6%, respectively. At March 31, 2020, the Company had no unrecognized tax benefits that would affect the Company's effective tax rate.

The FASB Staff Q&A, Topic 740, No. 5, *Accounting for Global Intangible Low-Taxed Income* ("GILTI"), states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or to provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. The Company has elected to account for GILTI in the year the tax is incurred. The Company does not expect a GILTI inclusion for 2019 or 2020; no GILTI tax has been recorded for the three months ending March 31, 2020 or 2019.

12. Accrued Expenses

The following table presents the components of accrued expenses:

	March 31, 2020	December 31, 2019
	(In thousands)	
	(unaudited)	
Compensation and benefits	$ 4,744	$ 5,061
Restructuring costs	1,379	882
Consulting and other vendors	107	308
Other	197	242
Lease liability	963	1,112
Royalties	106	148
Legal and professional fees	212	474
Taxes and other assessments	318	326
Total	$ 8,026	$ 8,553

13. Notes Payable

On May 23, 2018, the Company and its domestic subsidiaries, as co-borrowers, entered into a Loan and Security Agreement (the "Hercules Loan Agreement") with several banks and other financial institutions or entities from time to time party to the Loan Agreement (collectively, the "Lender") and Hercules Capital, Inc., as administrative agent and collateral agent (the "Agent"). Under the Hercules Loan Agreement, the Lender agreed to make certain term loans to the Company in the aggregate principal amount of up to $40.0 million. Funding of the first $20.0 million tranche occurred on May 23, 2018 (the "Initial Funding Date"). On October 23, 2018, the Lender funded the second tranche of $10.0 million under the Hercules Loan Agreement. The Company was entitled to make interest-only payments until December 1, 2020, and at the end of the interest-only period, the Company would have been required to repay the term loans over an eighteen-month period based on an eighteen-month amortization schedule, with a final maturity date of June 1, 2022. The term loans were required to be repaid if the term loans were accelerated following an event of default.

Effective April 30, 2019, the Hercules Loan Agreement was amended (the "Hercules Amendment") to eliminate the availability of the Tranche III Loan facility, add a new Tranche IV Loan facility of up to $20.0 million, revise certain financial covenants and make other changes. The availability of advances under the Tranche IV Loan was not milestone-based, rather the Company could request advances in minimum $5.0 million increments at any time during the period from July 1, 2019 through December 31, 2020, subject to the funding discretion of the Lender. The monthly trailing six month net revenue financial covenant was amended to be tested quarterly and to change the projected net revenue percentage to be met for the six months ending on the last day of each fiscal quarter. If such quarterly financial covenant was not achieved as of the last day of any fiscal quarter, as tested on the thirtieth day after quarter end, the Company must have complied with the waiver conditions in the Hercules Amendment from such test date until the next quarterly test date. The Hercules Amendment was executed by the parties on May 7, 2019. The Amendment was treated as a debt modification for accounting purposes.

In connection with the entry into the AutoLap Sale Agreement with respect to the AutoLap assets, the Company commenced discussions with the Agent in order to obtain the required consent of the Agent and the Lender with respect to the sale of the AutoLap assets. In connection with obtaining such consent, the Company entered into the Consent and Second Amendment to the Loan and Security Agreement on July 10, 2019 (the "Hercules Second Amendment"). Under the Hercules Second Amendment, in consideration for the consent to the sale of, and the release of the Lender's security interest on, the AutoLap assets, the Company reduced its indebtedness under the Hercules Loan Agreement by repaying $15.0 million of the $30.0 million of outstanding indebtedness thereunder, without any prepayment penalties, amendment fee or acceleration of the end of term charges, and received adjustments to the quarterly financial covenants and related waiver conditions to reflect the decreased outstanding indebtedness. The Amendment was treated as a debt modification for accounting purposes. Under the Hercules Second Amendment, the applicable waiver condition for fiscal year 2019 was changed to maintenance of unrestricted cash equal to $7.0 million.

The term loans bore interest at a rate equal to the greater of (i) 10.05% per annum (the "Fixed Rate") and (ii) the Fixed Rate plus the prime rate (as reported in The Wall Street Journal) minus 5.00%. On the Initial Funding Date, the Company was obligated to pay a facility fee of $0.4 million, recorded as a debt discount. The Company also incurred other debt issuance costs totaling $1.1 million in conjunction with its entry into the Hercules Loan Agreement. In addition, the Company was permitted to prepay the term loans in full at any time, with a prepayment fee of 3.0% of the outstanding principal amount of the loan in the first year after the Initial Funding Date, 2.0% if the prepayment occurred in the second year after the Initial Funding Date and 1.0% thereafter. Upon prepayment of the term loans in full or repayment of the terms loans at the maturity date or upon acceleration, the Company was required to pay a final fee of 6.95% of the aggregate principal amount of term loans funded. The final payment fee was accreted to interest expense over the life of the term loan and included within notes payable on the consolidated balance sheet.

The Company's obligations under the Hercules Loan Agreement were guaranteed by all current and future material foreign subsidiaries of the Company and were secured by a security interest in all of the assets of the Company and their current and future domestic subsidiaries and all of the assets of their current and future material foreign subsidiaries, including a security interest in the intellectual property. The Hercules Loan Agreement contained customary representations and covenants that, subject to exceptions, restricted the Company's and its subsidiaries' ability to do the following, among other things: declare dividends or redeem or repurchase equity interests; incur additional indebtedness and liens; make loans and investments; engage in mergers, acquisitions, and asset sales; transact with affiliates; undergo a change in control; add or change business locations; and engage in businesses that were not related to its existing business. Under the terms of the Hercules Loan Agreement, the Company was required to maintain cash and/or investment property in accounts which perfected the Agent's first priority security interest in such accounts in an amount equal to the lesser of (i) (x) 120% of the then-outstanding principal balance of the term loans, including accrued interest and any other fees payable under the agreement to the extent accrued and payable plus (y) an amount equal to the then-outstanding accounts payable of the Company on a consolidated basis that were more than 90 days past due and (ii) 80% of the aggregate cash of the Company and its consolidated subsidiaries. The Agent was granted the option to invest up to $2.0 million in any future equity offering broadly marketed by the Company to investors on the same terms as the offering to other investors.

On November 4, 2019, the Company entered into a payoff letter with the Agent pursuant to which the Company terminated the Hercules Loan Agreement, as amended. The Company determined it was in the best interests of the Company to pay down the debt and terminate the Hercules Agreement to simplify the Company's balance sheet and provide additional flexibility as the Board of Directors continues to explore strategic and financial alternatives for the Company. Under the payoff letter, the Company repaid all amounts owed under the Hercules Loan Agreement totaling approximately $16.4 million, which included end of term fees of

$1.4 million, and Hercules released all security interests held on the assets of the Company and its subsidiaries, including, without limitation, on the intellectual property assets of the Company. The Company recognized a loss of $1.0 million on the extinguishment of notes payable, which is included in interest expense on the consolidated statement of operations and comprehensive loss for the year ended December 31, 2019.

14. Warrants

The exercise prices and the number of shares issuable upon exercise of each of the Series B Warrants are subject to adjustment upon the occurrence of certain events, including, but not limited to, stock splits or dividends, business combinations, sale of assets, similar recapitalization transactions, or other similar transactions. The Series B warrants contain provisions, often referred to as "down-round protection," that leads to adjustment of the exercise price and number of underlying warrant shares if the Company issues securities, including its common stock or convertible securities or debt securities, in the future at sale prices below the then-current exercise price.

On February 24, 2020, the Company entered into a Series B Warrants Exchange Agreement (the "Exchange Agreement") with holders of its Series B Warrants. Under the terms of the Exchange Agreement, each Series B Warrant was canceled in exchange for 0.61 shares of common stock. The Warrant holders participating in the exchange held 3,373,900 of the 3,638,780 Series B Warrants then outstanding, and received an aggregate of 2,040,757 shares of common stock. As a result, the warrant liability decreased by $2.5 million and the additional paid in capital increased by the same amount.

As a result of the warrant exchange and exercise price adjustment feature the exercise price of all outstanding Series B Warrants has been adjusted to $0.37 per share and the number of shares of common stock reserved for and issuable upon the exercise of outstanding Series B Warrants has been adjusted to 530,381 underlying Series B warrant shares as of March 31, 2020.

On March 10, 2020, the Company closed an underwritten public offering under which it issued, as part of units and the exercise of an over-allotment option, 25,367,646 Series C Warrants, each to acquire one share of common stock at an exercise price of $0.68 per share, and 25,367,646 Series D Warrants, each to acquire one share of common stock at an exercise price of $0.68 per share. See Note 15 for a description of the public offering.

The Company concluded that the Series C Warrants and Series D Warrants are considered equity instruments. The fair value of the Series C Warrants and Series D Warrants on the issuance date was determined using a Black-Scholes Merton model. The unit proceeds were then allocated to the Common Stock, Series A preferred stock, Series C Warrants, and Series D Warrants, respectively, based on their relative fair values. As a result, the Company determined that a beneficial conversion feature was created by the difference between the effective conversion price of the preferred stock and the fair value of the Company's Common Stock as of the issuance date. The Company therefore recorded a beneficial conversion charge of $0.4 million as a deemed dividend included in additional paid-in capital and an immediate charge to earnings available to common stockholders for the three months ended March 31, 2020.

The following table summarizes the change in warrant shares for all outstanding warrants, including the Series B Warrants, the Series C Warrants, and the Series D Warrants for the three months ended March 31, 2020:

	Number of Warrant Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (in years)**	**Weighted Average Fair Value**
Outstanding at December 31, 2019	2,071,172	$2.05	2.4	$ 1.34
Sold or granted	50,735,292	0.68	2.9	0.12
Exercised	—	—	—	—
Exchanged	(2,040,757)	1.24	—	—
Adjustment to number of warrant shares due to down-round adjustment	607,687	0.37	2.1	0.14
Outstanding at March 31, 2020	51,373,394	$0.71	2.9	$ 0.13

15. Equity Offerings

On August 12, 2019, the Company entered into a Controlled Equity Offering Sales Agreement (the "2019 Sales Agreement") with Cantor Fitzgerald & Co. ("Cantor") pursuant to which the Company may sell from time to time, at its option, up to an aggregate of $25.0 million, shares of the Company's common stock, through Cantor, as sales agent (the "2019 ATM Offering"). Pursuant to the Sales Agreement, sales of the common stock were made under the Company's previously filed and currently effective Registration Statement on Form S-3. The aggregate compensation payable to Cantor was 3.0% of the aggregate gross proceeds from each sale of the Company's common stock.

The following table summarizes the total sales under the ATM Offering for the period indicated (in thousands except for share and per share amounts):

		ATM Offering For the Quarter Ended March 31, 2020
Total shares of common stock sold		6,687,846
Average price per share	$	1.73
Gross proceeds	$	11,558
Commissions earned by Cantor	$	346
Net Proceeds	$	11,212

Lincoln Park Capital Purchase Agreement

On February 10, 2020, the Company entered into a Purchase Agreement with Lincoln Park Capital Fund, LLC, an Illinois limited liability company, pursuant to which the Company has the right to sell to Lincoln Park up to an aggregate of $25,000,000 in shares of common stock over the 36-month term of the Purchase Agreement, subject to certain limitations and conditions set forth in the Purchase Agreement. In consideration for entering into the Purchase Agreement, the Company issued to Lincoln Park 343,171 shares of common stock as commitment shares on February 10, 2020. The Company also committed to issue up to an additional 171,585 shares of common stock to Lincoln Park on a pro rata basis based on the number of shares common stock purchased by Lincoln Park pursuant to the LPC 2020 Purchase Agreement. No shares have been sold to Lincoln Park under the Purchase Agreement to date.

Public Offering of Securities

On March 10, 2020, the Company closed an underwritten public offering (the "2020 Public Offering") with Ladenburg Thalmann & Co. Inc. as underwriter and sold an aggregate of 14,121,766 Class A Units at a public offering price of $0.68 per Class A Unit and 7,937,057 Class B Units at a public offering price of $0.68 per Class B Unit. Each Class A Unit consists of one share of the Company’s common stock, one warrant to purchase one share of common stock that expires on the first anniversary of the date of issuance (collectively, the “Series C Warrants”), and one warrant to purchase one share of common stock that expires on the fifth anniversary of the date of issuance (collectively, the “Series D Warrants”). Each Class B Unit consists of one share of Series A Convertible Preferred Stock, par value $0.01 per share (the “Series A Preferred Stock”), convertible into one share of common stock, a Series C Warrant to purchase one share of common stock and a Series D Warrant to purchase one share of common stock. The Class A Units and Class B Units have no stand-alone rights and were not certificated or issued as stand-alone securities. The shares of common stock, Series A Preferred Stock, Series C Warrants and Series D Warrants are immediately separable. In addition, the underwriter for the public offering exercised an overallotment option and purchased 3,308,823 Series C Warrants and 3,308,823 Series D Warrants.

The shares of Series A Preferred Stock rank on par with the shares of the common stock, in each case, as to dividend rights and distributions of assets upon liquidation, dissolution or winding up of the Company. With certain statutory exceptions, as described in the Series A Preferred Stock Certificate of Designation, the shares of Series A Preferred Stock have no voting rights. Each share of Series A Preferred Stock is convertible at any time at the holder’s option into one share of common stock, which conversion ratio will be subject to adjustment for stock splits, stock dividends, distributions, subdivisions and combinations and other similar transactions as specified in the Series A Preferred Stock Certificate of Designation.

The net proceeds to the Company from the 2020 Public Offering were approximately $13.5 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company.

16. Restructuring

During the fourth quarter of 2019, the Company announced the implementation of a restructuring plan to reduce operating expenses as the Company continues the global market development of the Senhance platform. Under the restructuring plan, the Company reduced headcount primarily in the sales and marketing functions and determined that the carrying value of its inventory exceeded the net realizable value due to a decrease in expected sales. The restructuring charges amounted to $8.8 million, of which $7.4 million was an inventory write down and was included in cost of product revenue and $1.4 million related to employee severance costs and was included as restructuring and other charges in the consolidated statements of operations and comprehensive loss, for the year ended December 31, 2019. During March 2020, the Company continued the restructuring efforts with additional headcount reductions which resulted in $0.9 million related to severance costs. These 2020 severance costs are primarily expected to be paid in 2020. See Note 1 for additional information regarding the impact of the COVID-19 pandemic.

Future payments under the restructuring plan are expected to conclude in 2020 and total $1.4 million. During the three months ended March 31, 2020, the activity related to the Company's restructuring liability, which is included in accrued expenses in the consolidated balance sheet, was as follows:

	Restructuring Liability	
	(In thousands)	
Balance at December 31, 2019	$	882
Amount charged to operating expenses		858
Cash payments		(361)
Balance at March 31, 2020	$	1,379

17. Basic and Diluted Net Loss per Share

Basic net loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed giving effect to all dilutive potential common shares that were outstanding during the period. Diluted potential common shares consist of incremental shares issuable upon exercise of stock options, restricted stock units, warrants and preferred stock.

For the three month period ended March 31, 2020, the effect of the beneficial conversion charge related to the Series A preferred stock is included in the calculation of net loss attributable to common stockholders. No adjustments have been made to the weighted average outstanding common shares figures for the three month periods ended March 31, 2020 or March 31, 2019 as the assumed conversion of preferred stock and exercise of outstanding options, warrants and restricted stock units would be anti-dilutive.

As of March 31, 2020, there were 4,884,117 outstanding shares of preferred stock, 1,741,022 outstanding options, 51,373,394 outstanding warrants, and 285,595 unvested restricted stock units that were excluded from the calculation of diluted net loss per common share as the effect of including these instruments would have been anti-dilutive.

18. Commitments and Contingencies

Contingent Consideration

As discussed in Note 3, in September 2015, the Company completed the Senhance Acquisition using a combination of cash, stock and potential post-acquisition milestone payments. These milestone payments may be payable in the future, depending on the achievement of certain commercial milestones. On December 30, 2016, the Company entered into an Amendment to restructure the terms of the Second Tranche of the Cash Consideration. Under the Amendment, the Second Tranche was restructured to reduce the contingent cash consideration by €5.0 million in exchange for the issuance of 286,360 shares of the Company's common stock with an aggregate fair market value of €5.0 million. As of March 31, 2020 and December 31, 2019, the fair value of the contingent consideration was $2.1 million and $1.1 million, respectively.

Legal Proceedings

No liability or related charge was recorded to earnings in the Company's consolidated financial statements for legal contingencies for the three months ended March 31, 2020 or the year ended December 31, 2019.

COVID-19 update

In April 2020, the Company received funding under a promissory note dated April 18, 2020 evidencing an unsecured non-recourse loan under the Paycheck Protection Program. See Note 19.

19. Subsequent Events

Paycheck Protection Program Loan

On April 27, 2020, TransEnterix Surgical, Inc., a wholly owned subsidiary of TransEnterix, Inc. ("TransEnterix Surgical") received funding under a promissory note dated April 18, 2020 (the "Promissory Note") evidencing an unsecured non-recourse loan in the principal amount of $2,815,200 under the Paycheck Protection Program (the "PPP Loan"). The PPP was established as part of the CARES Act, signed into law on March 27, 2020, and is administered by the U.S. Small Business Administration (the "SBA"). The PPP Loan to TransEnterix Surgical is being made through City National Bank of Florida, a national banking association (the "Lender").

The PPP Loan has a two-year term and matures on April 27, 2022. The interest rate on the PPP Loan is 1.00% per annum. Payments shall be deferred for the first six months of the term of the PPP Loan. The SBA has the right to extend the deferment period. The Promissory Note contains customary events of default relating to, among other things, payment defaults, and breach of representations and warranties, or other provisions of the Promissory Note.

The PPP Loan may be forgiven partially or fully if the PPP Loan proceeds are used for covered payroll costs, rent and utility costs incurred during the eight-week period that commenced on the date of funding, and at least 75% of PPP Loan proceeds are used for covered payroll costs. All or a portion of the PPP Loan may be forgiven by the SBA upon application by the Company beginning 60 days but not later than 120 days after loan approval and upon documentation of expenditures in accordance with the SBA requirements.

Any forgiveness of the PPP Loan will be subject to approval by the SBA and the Lender. TransEnterix Surgical will be required to apply for such forgiveness. The Company recognizes that its restructuring activities unrelated to COVID-19 has led to a decrease in the number of employees between the historical measurement period and the period in which the PPP Loan proceeds are used for payroll and other costs and therefore, not all of the PPP Loan may be forgiven.

Although the Company intends to use the proceeds of the PPP Loan for such covered purposes, it can provide no assurance that it will obtain forgiveness of the PPP Loan in whole or in part.

2020 Employee Equity Awards

On April 30, 2020, the Compensation Committee of the Board approved 2020 annual equity awards and additional equity awards (the "Additional Awards") to employees, other than the named executive officers. The Additional Awards were intended to provide additional incentives to these employees due to existing underwater stock option awards. The awards, which aggregated to approximately 3 million shares, were made under the Company's Amended and Restated Incentive Compensation Plan. The awards are subject to forfeiture on a pro rata basis to the extent the requested increase in the number of shares available under the Plan are not approved by stockholders at the 2020 annual meeting on June 8, 2020.

Series A Preferred Stock

Subsequent to March 31, 2020, all outstanding shares of Series A Preferred Stock have been converted by the holders.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes to our consolidated financial statements included in this report. The following discussion contains forward-looking statements. See cautionary note regarding "Forward-Looking Statements" at the beginning of this report.

Overview

TransEnterix, Inc. is a medical device company that is digitizing the interface between the surgeon and the patient in laparoscopy to increase control and reduce surgical variability in today's value-based healthcare environment. The Company is focused on the market development for and commercialization of the Senhance™ Surgical System, which digitizes laparoscopic minimally invasive surgery, or MIS. The Senhance System is the first and only digital, multi-port laparoscopic platform designed to maintain laparoscopic MIS standards while providing digital benefits such as haptic feedback, robotic precision, comfortable ergonomics, advanced instrumentation including 3 millimeter microlaparoscopic instruments, eye-sensing camera control and reusable standard instruments to help maintain per-procedure costs similar to traditional laparoscopy.

The Senhance System is commercially available in Europe, the United States, Japan, Taiwan and select other countries.

- The Senhance System has a CE Mark in Europe for adult and pediatric laparoscopic abdominal and pelvic surgery, as well as limited thoracic surgeries excluding cardiac and vascular surgery.
- In the United States, the Company has received 510(k) clearance from the FDA for use of the Senhance System in laparoscopic colorectal and gynecologic surgery in a total of 28 indicated procedures, including benign and oncologic procedures, laparoscopic inguinal hernia and laparoscopic cholecystectomy (gallbladder removal) surgery.
- In Japan, the Company has received regulatory approval and reimbursement for 98 laparoscopic procedures.

During 2018 and 2019, we successfully obtained FDA clearance and CE Mark for our 3 millimeter diameter instruments, our Senhance ultrasonic system, our 3 millimeter and 5 millimeter hooks, and the Senhance articulating system. The 3 millimeter instruments enable the Senhance System to be used for microlaparoscopic surgeries, allowing for tiny incisions. The ultrasonic system is an advanced energy device used to deliver controlled energy to ligate and divide tissue, while minimizing thermal injury to surrounding structures. The Senhance articulating system was launched in Europe in November 2019 and we are evaluating our pathway forward to launch such a system in the United States with a planned submission for US clearance at the end of 2020, although the Company estimates that this timing may shift to the first quarter of 2021 due to delays related to the COVID-19 pandemic.

In January 2020, we submitted an application to the FDA seeking clearance of the first machine vision system for robotic surgery (Intelligent Surgical Unit). The Company believes it is the first such FDA submission seeking clearance for machine vision technology in abdominal robotic surgery. On March 13, 2020, the Company announced that it has received FDA clearance for the Intelligent Surgical Unit.

In February 2020, we received CE Mark for the Senhance System and related instruments for pediatric use indications in CE Mark territories.

From our inception, we devoted a substantial percentage of our resources to research and development and start-up activities, consisting primarily of product design and development, clinical studies, manufacturing, recruiting qualified personnel and raising capital. We expect to continue to invest in research and development and market development as we implement our strategy.

Since inception, we have been unprofitable. As of March 31, 2020, we had an accumulated deficit of $680.2 million.

Due to a decline in market conditions and changes in our forecast, the Company tested its goodwill and in-process research & development ("IPR&D") for potential impairment as of September 30, 2019. During the third quarter of 2019, the Company determined that the carrying value of both its goodwill and IPR&D were impaired, and recorded impairment charges of $79.0 million and $7.9 million, respectively. We operate in one business segment.

On December 11, 2019, following receipt of approval from stockholders at a special meeting of stockholders held on the same day, the Company filed an amendment to our Amended and Restated Certificate of Incorporation to effect a reverse stock split of the Company’s common stock at a ratio of one-for-thirteen, or the Reverse Stock Split. The Company’s common stock began trading on a split-adjusted basis on NYSE American on the morning of December 12, 2019. No fractional shares were issued in connection with the Reverse Stock Split. Instead, the Company rounded up each fractional share resulting from the reverse stock split to the nearest whole share. As a result of the Reverse Stock Split, the Company’s outstanding common stock decreased from approximately 261.9 million shares to approximately 20.2 million shares (without giving effect to the rounding up for each fractional share). Unless otherwise noted, all share and per share data referenced in this Quarterly Report have been retroactively adjusted to reflect the Reverse Stock Split. Certain amounts in the financial statements, the notes thereto, and elsewhere in this Quarterly Report, may be slightly different than previously reported due to rounding of fractional shares as a result of the Reverse Stock Split.

Restructuring and COVID 19 Impact

Despite the number of advances and regulatory clearances received in 2018 and 2019, the Company’s Senhance System sales in 2019 were disappointing. Adoption of new technologies, particularly for capital intensive devices such as the Senhance System can be slow and uneven as market development and commercial development is time-consuming and expensive. The Company has determined to refocus its resources and efforts in 2020 on market development activities to increase awareness of:

- the benefits of the use of the Senhance System in laparoscopic surgery;
- the digitization of high volume procedures using the Senhance System;
- the indications for use, including pediatric indications of use in CE Mark territories;
- the overall cost efficiency of the Senhance System

We intend to focus on markets with high utilization of laparoscopic technique, including Japan, Western Europe and the United States. Our focus will be on (1) increasing the number of placements of the Senhance System, not necessarily through sales, but through leasing arrangements, (2) increasing the number of procedures conducted using the Senhance System quarter over quarter, and (3) solidifying key opinion leader support and publications related to the use of the Senhance System in laparoscopic procedures. During this period we will not focus on revenue targets, especially in the United States.

During the fourth quarter of 2019, we announced the implementation of a restructuring plan to reduce operating expenses as we continue the global market development of the Senhance platform. Under the restructuring plan, we reduced headcount primarily in the sales and marketing functions and determined that the carrying value of our inventory exceeded the net realizable value due to a decrease in expected sales. The restructuring charges amounted to $8.8 million, of which $7.4 million was an inventory write down and was included in cost of product revenue and $1.4 million related to employee severance costs and was included as restructuring and other charges in the consolidated statements of operations and comprehensive loss, during the fourth quarter of 2019. During March 2020, we continued our restructuring with additional headcount reductions which resulted in $0.9 million related to severance costs which are expected to be paid in 2020. In addition, as a result of the COVID-19 pandemic, in March 2020, to ensure the health and well-being of its employees, the Company implemented a work-from-home policy at all of its facilities. The Company has implemented cost containment strategies across all areas of the organization, including continued curtailment of Company travel, canceling of trade shows for 2020 and salary reductions for its senior management and certain groups of its field-based employees.

In addition, in December 2019, a novel strain of coronavirus ("COVID-19") was reported in Wuhan, China and has since extensively impacted the global health and economic environment. In March 2020, the World Health Organization characterized COVID-19 as a pandemic. The Company has taken steps, and will continue to take further actions, in its approach to minimizing the impact of the COVID-19 pandemic on its business. As a result of the COVID-19 pandemic, in March 2020, to ensure the health and well-being of its employees, the Company implemented work from home at all of its facilities. The Company has also implemented cost containment strategies across all areas of the organization, including continued curtailment of Company travel, canceling of trade shows for 2020 and salary reductions for its senior management and certain groups of its field-based employees. In March 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was passed in the United States. In April 2020, the Company received funding under a promissory dated April 18, 2020 evidencing an unsecured non-recourse loan under the Paycheck Protection Program ("PPP"). See "Liquidity" for more information about the PPP Loan.

The Company continues to review the CARES Act and other applicable government-related legislation aimed at assisting businesses during the COVID-19 pandemic. Given the dynamic nature of this health emergency, the full impact of the COVID-19 pandemic on the Company's ongoing business, results of operations and overall financial performance cannot be reasonably estimated at this time.

Financing Transactions in 2019/2020

The Company has been financing its operations through equity financings and asset sales, including the following transactions during 2019 and 2020. In addition, it procured a loan under the CARES Act PPP. See "Liquidity" for a description of the Company's financing activities in 2019 and 2020 to date.

Series B Warrants Exchange

On February 24, 2020, the Company entered into a Series B Warrants Exchange Agreement, or the Exchange Agreement, with holders of Series B Warrants. Under the terms of the Exchange Agreement, each Series B Warrant was canceled in exchange for 0.61 of a share of common stock. The Warrant holders participating in the exchange held 3,373,900 of the 3,638,780 Series B Warrants then outstanding, and received an aggregate of 2,040,757 shares of common stock, leaving 264,880 Series B Warrants outstanding to acquire 530,381 shares of common stock at an exercise price of $0.3746 per share.

On December 15, 2017, we filed a registration statement on Form S-3 (File No. 333-222103) to register shares of common stock underlying outstanding Series B Warrants previously issued as part of the Company's May 3, 2017 public offering. The new registration statement replaced the registration statement on Form S-3 that expired on December 19, 2017 with respect to these securities. On January 26, 2018, we filed an Amendment No. 1 to such registration statement on Form S-3 to update the information in the registration statement. The registration statement covers up to 736,914 shares of common stock underlying the then-outstanding Series B Warrants. This registration statement on Form S-3 was declared effective on January 29, 2018. On February 7, 2020, we filed a new registration statement (File No. 333-236337) to register 2,500,000 additional shares of common stock to cover the "down-round protection" adjustments made to the Series B Warrant Shares pursuant to sale prices below the then-current exercise price. This registration statement on Form S-3 was declared effective on February 13, 2020.

Notable Acquisitions and Asset Sale

Senhance Acquisition and Related Transactions

Membership Interest Purchase Agreement and Amendment

On September 21, 2015, the Company announced that it had entered into a Membership Interest Purchase Agreement, dated September 18, 2015, or the Purchase Agreement, with Sofar S.p.A., or Sofar, as the Seller, Vulcanos S.r.l., as the acquired company, and TransEnterix International, Inc., a wholly owned subsidiary of the Company as the Buyer. The closing of the transactions contemplated by the Purchase Agreement occurred on September 21, 2015. The Buyer acquired all of the membership interests of the acquired company from Sofar, and changed the name of the acquired company to TransEnterix Italia S.r.l. On the closing date, pursuant to the Purchase Agreement, the Company completed the strategic acquisition from Sofar of all of the assets, employees and contracts related to the advanced robotic system for minimally invasive laparoscopic surgery now known as the Senhance System, or the Senhance Acquisition.

Under the terms of the Purchase Agreement, the consideration consisted of the issuance of 1,195,647 shares of the Company's common stock, or the Sofar Consideration, and approximately $25.0 million U.S. Dollars and €27.5 million Euro in cash consideration, or the Cash Consideration. The Sofar Consideration was issued in full at closing of the acquisition; the Cash Consideration was or will be paid in four tranches, with U.S. $25.0 million paid at closing and the remaining Cash Consideration of €27.5 million to be paid in three additional tranches based on achievement of negotiated milestones.

As of March 31, 2020, the Company has paid all Cash Consideration due under the second tranche and approximately €2.4 million of the €2.5 million due under the fourth tranche. The third tranche, consisting of €15.0 million, has not yet been paid and is subject to certain sales revenue milestones. The fourth tranche of the Cash Consideration is payable in installments by December 31 of each year as reimbursement for certain debt payments made by Sofar under an existing Sofar loan agreement in such year.

The Purchase Agreement contains customary representations and warranties of the parties and the parties have customary indemnification obligations, which are subject to certain limitations described further in the Purchase Agreement.

MST Acquisition

On October 31, 2018, the Company acquired the assets, intellectual property and highly experienced multidisciplinary personnel of MST Medical Surgical Technologies, Inc., or MST, an Israeli-based medical device company. Through this acquisition, the Company acquired MST's AutoLap™ technology, one of the only image-guided robotic scope positioning systems with FDA clearance and CE Mark. The Company believes MST's image analytics technology will accelerate and drive meaningful Senhance System developments, and allow it to expand the Senhance System to add augmented, intelligent vision capability.

Sale of AutoLap Assets

On July 3, 2019 the Company entered into a System Sale Agreement with GBIL to sell certain assets related to the AutoLap technology. On October 15, 2019, the Company amended the prior AutoLap Sale Agreement with GBIL. Pursuant to the amended agreement the Company sold the AutoLap laparoscopic vision system, or AutoLap, and related assets to GBIL. The assets include inventory, spare parts, production equipment, testing equipment and certain intellectual property specifically related to the AutoLap. The purchase price was $17.0 million, all of which was received in 2019 in the form of $16 million in cash and a commitment by GBIL to pay $1.0 million to settle certain Company obligations in China. GBIL subsequently paid the obligation. Under the amended AutoLap Agreement, the Company entered into a cross-license agreement with GBIL to retain rights to use any AutoLap-related intellectual property sold to GBIL, and to non-exclusively license additional intellectual property to GBIL. The Company recorded a $16.0 million gain on the sale of the AutoLap assets during the year ended December 31, 2019, which represented the proceeds received in excess of the carrying value of the assets, less contract costs.

Results of Operations

Revenue

In the first quarter of 2020, our revenue consisted of system leasing, instruments, accessories and services for systems sold in in Europe, Asia and the U.S. in prior periods. The COVID-19 pandemic contributed to a decrease in demand for instruments, leases, accessories and services during the latter part of the quarter ended March 31, 2020 as elective surgeries were canceled globally.

Product revenue for the three months ended March 31, 2020 decreased to $0.2 million compared to $1.8 million for the three months ended March 31, 2019. The $1.6 million decrease was the result of no system sales during the three months ended March 31, 2020 as compared to one system sold during the three months ended March 31, 2019. The revenue for the three months ended March 31, 2020 consisted primarily of leasing arrangement revenues as well as instrument and accessory sales for previously installed Senhance systems.

Service revenue was $0.4 million for the three months ended March 31, 2020 and March 31, 2019.

Cost of Revenue

Cost of revenue consists primarily of costs related to contract manufacturing, materials, and manufacturing overhead. We expense all inventory obsolescence provisions related to normal manufacturing changes as cost of revenue. The manufacturing overhead costs include the cost of quality assurance, material procurement, inventory control, facilities, equipment depreciation and operations supervision and management. We expect overhead costs as a percentage of revenues to become less significant as our production volume increases. We expect cost of revenue to increase in absolute dollars to the extent our revenues grow and as we continue to invest in our operational infrastructure to support anticipated growth.

Product cost for the three months ended March 31, 2020 decreased to $0.9 million as compared to $1.3 million for the three months ended March 31, 2019. Changes year-over-year include $0.2 million in higher product costs, $0.3 million in reduced personnel costs, $0.1 million in reduced travel costs, $0.1 million in reduced freight costs, and $0.1 million in reduced other costs.

Service cost for the three months ended March 31, 2020 decreased to $0.8 million as compared to $1.2 million for the three months ended March 31, 2019. This $0.4 million decrease primarily relates to $0.3 million in reduced product demonstration costs as well as $0.1 million in reduced travel expenses for field service engineers driven by the COVID-19 pandemic. Cost of revenue exceeds revenue primarily due to part replacements under maintenance plans, which are expensed when incurred, along with salaries for the field service teams.

Research and Development

Research and development, or R&D, expenses primarily consist of engineering, product development and regulatory expenses incurred in the design, development, testing and enhancement of our products and legal services associated with our efforts to obtain and maintain broad protection for the intellectual property related to our products. In future periods, we expect R&D expenses to increase moderately, but at a reduced rate due to the restructuring, as we continue to invest in additional regulatory approvals as well as new products, instruments and accessories to be offered with the Senhance System. R&D expenses are expensed as incurred.

R&D expenses for the three months ended March 31, 2020 decreased 32% to $3.9 million as compared to $5.7 million for the three months ended March 31, 2019. The $1.8 million decrease primarily relates to decreased personnel related costs of $0.4 million, decreased technology fees of $0.6 million, decreased consulting fees of $0.3 million, decreased supplies expense of $0.2 million, decreased testing costs of $0.1 million, decreased travel costs of $0.1 million, and decreased other costs of $0.1 million. These decreases were primarily the result of the restructuring plan implemented in the fourth quarter of 2019.

Sales and Marketing

Sales and marketing expenses include costs for sales and marketing personnel, travel, demonstration product, market development, physician training, tradeshows, marketing clinical studies and consulting expenses. We expect sales and marketing expenses to remain lower compared to prior years as we refocus our resources and efforts on market development activities pursuant to our restructuring plan.

Sales and marketing expenses for the three months ended March 31, 2020 decreased 44% to $4.3 million compared to $7.7 million for the three months ended March 31, 2019. The $3.4 million decrease was primarily related to decreased personnel costs of $1.6 million, decreased travel related costs of $0.8 million, decreased consulting costs of $0.6 million, decreased supplies expense of $0.2 million, and decreased other costs of $0.2 million. These decreases were primarily the result of the restructuring plan implemented in the fourth quarter 2019 together with reductions in travel and cancellation of tradeshows beginning in the first quarter of 2020 in response to the COVID-19 pandemic.

General and Administrative

General and administrative expenses consist of personnel costs related to the executive, finance, legal and human resource functions, as well as professional service fees, legal fees, accounting fees, insurance costs, and general corporate expenses. As the Company has implemented a restructuring plan, we expect general and administrative costs to decrease in future periods.

General and administrative expenses for the three months ended March 31, 2020 decreased 28% to $3.3 million compared to $4.6 million for the three months ended March 31, 2019. The $1.3 million decrease was primarily due to decreased personnel costs of $1.4 million, decreased supplies expense of $0.1 million, decreased travel costs of $0.1 million, and decreased other expenses of $0.1 million, offset by increased facilities costs of $0.1 million and increased consulting and outside services costs of $0.3 million.

Restructuring Charge

During the fourth quarter of 2019, we announced the implementation of a restructuring plan to reduce operating expenses as we continue the global market development of the Senhance platform. Under the restructuring plan, we reduced headcount primarily in the sales and marketing functions and determined that the carrying value of our inventory exceeded the net realizable value due to a decrease in expected sales. The restructuring charges amounted to $8.8 million, of which $7.4 million was an inventory write down and was included in cost of product revenue and $1.4 million related to employee severance costs and was included as restructuring and other charges in the consolidated statements of operations and comprehensive loss, during the fourth quarter of 2019.

During March 2020, we continued our restructuring with additional headcount reductions which resulted in $0.9 million related to severance costs which are expected to be paid in 2020.

Loss from Sale of SurgiBot Assets, Net

The loss from the sale of SurgiBot assets to GBIL of $0.1 million for the three months ended March 31, 2019 was primarily due to additional outside service costs to transfer the assets.

Amortization of Intangible Assets

Amortization of intangible assets for the three months ended March 31, 2020 and March 31, 2019 was $2.6 million.

Change in Fair Value of Contingent Consideration

The change in fair value of contingent consideration in connection with the Senhance Acquisition was a $1.1 million increase for the three months ended March 31, 2020 compared to a $1.0 million increase for the three months ended March 31, 2019. The $0.1 million increase was due to changes in the Company's five-year revenue forecast in response to the market development strategy introduced in the fourth quarter of 2019.

Change in Fair Value of Warrant Liabilities

The change in fair value of Series B Warrants issued in April 2017 was an increase of $0.2 million for the three months ended March 31, 2020 compared to an increase of $0.1 million for the three months ended March 31, 2019. The net $0.1 million increase for the three months ended March 31, 2020 over the three months ended March 31, 2019 includes re-measurement associated with the warrants exchanged during the quarter ended March 31, 2020. The decrease in the fair value of warrant liabilities at March 31, 2020 was primarily the result of the exchange of warrants in return for common stock completed by most of the remaining Series B warrant holders in the quarter ended March 31, 2020.

Interest Income

There was no interest income for the three months ended March 31, 2020 compared to $0.3 million for the three months ended March 31, 2019. The decrease of $0.3 million was due to less cash and no short-term investments on hand at March 31, 2020 earning less interest.

Interest Expense

Interest expense for the three months ended March 31, 2019 was $1.1 million. There was no interest expense for the three months ended March 31, 2020. The decrease in interest expense relates to the payoff of the Hercules Capital debt in the fourth quarter of 2020.

Income Tax Benefit

Income tax benefit consists primarily of taxes related to the amortization of purchase accounting intangibles in connection with the Italian taxing jurisdiction for TransEnterix Italia as a result of the acquisition of the Senhance System. We recognized $0.7 million and $0.6 million of income tax benefit for the three months ended March 31, 2020 and 2019, respectively.

Liquidity and Capital Resources

Going Concern

The Company's consolidated financial statements are prepared using U.S. generally accepted accounting principles ("GAAP") applicable to a going concern, which contemplate the realization of assets and liquidation of liabilities in the normal course of business. The Company had an accumulated deficit of $680.2 million as of March 31, 2020, and working capital of $26.9 million as of March 31, 2020. The Company has not established sufficient sales revenues to cover its operating costs and requires additional capital to proceed with its operating plan. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. In order to continue as a going concern, the Company will need, among other things, additional capital resources. The Company believes that its existing cash and cash equivalents from recent financings, together with cash received from product and instrument sales and leases will be sufficient to meet its anticipated cash needs into the fourth quarter of 2020.

Traditionally, the Company has raised additional capital through equity offerings. Management's plan to obtain such resources for the Company may include additional sales of equity, traditional financing, such as loans, entry into a strategic collaboration, entry into an out-licensing arrangement or provision of additional distribution rights in some or all of our markets. If the Company is unable to obtain adequate capital through one of these methods, it would need to reduce its sales and marketing and administrative expenses, delay research and development projects, including the purchase of equipment and supplies, and take other steps to reduce its expenses until it is able to obtain sufficient funds. If such sufficient funds are not received on a timely basis, the Company would then need to pursue a plan to license or sell its assets, seek to be acquired by another entity, cease operations and/or seek bankruptcy protection. Management cannot provide any assurance that the Company will be successful in accomplishing any or all of its plans. The ability to successfully resolve these factors raise substantial doubt about the Company’s ability to continue as a going concern within one year from the date that these financial statements are issued. The consolidated financial statements of the Company do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

Sources of Liquidity

Our principal sources of cash to date have been proceeds from public offerings of common stock, private placements of common and preferred stock, incurrence of debt, the sale of equity securities held as investments and asset sales.

We have financed our operations from these financing transactions, most notably the following in 2019 and 2020 to date:

Lincoln Park Purchase Agreement

On February 10, 2020, we entered into a purchase agreement, or the LPC 2020 Purchase Agreement, with Lincoln Park, pursuant to which we have the right to sell to Lincoln Park up to an aggregate of $25,000,000 in shares of our common stock, subject to certain limitations and conditions set forth in the LPC 2020 Purchase Agreement, including a limitation on the number of shares of common stock we can put to LPC and the pricing parameters for the sales.   In consideration for entering into the LPC 2020 Purchase Agreement, we issued to Lincoln Park 343,171 shares of common stock as commitment shares. We also committed to issue up to an additional 171,585 shares of common stock to Lincoln Park on a pro rata basis based on the number of shares common stock purchased by Lincoln Park pursuant to the LPC 2020 Purchase Agreement.

At-the-Market Offerings

On August 12, 2019, the Company entered into a Controlled Equity Offering Sales Agreement (the “2019 Sales Agreement”) with Cantor Fitzgerald & Co. (“Cantor”) pursuant to which the Company may sell from time to time, at its option, up to an aggregate of $25.0 million shares of the Company’s common stock, through Cantor, as sales agent (the “2019 ATM Offering”). Pursuant to the 2019 Sales Agreement, sales of the common stock were made under the Company’s previously filed and currently effective Registration Statement on Form S-3. The aggregate compensation payable to Cantor was 3.0% of the aggregate gross proceeds from each sale of the Company’s common stock. The Company raised gross proceeds of $7.2 million under the 2019 ATM Offering and net proceeds of $7.0 million during the year ended December 31, 2019, and an additional $11.6 million of gross proceeds and $11.2 million of net proceeds as of March 31, 2020.

On September 4, 2019, the Company entered into an Underwriting Agreement (the “Underwriting Agreement”) with Cantor. Subject to the terms and conditions of the 2019 Underwriting Agreement, the Company sold to Cantor, in a firm commitment underwritten offering, 2,153,846 shares of the Company’s common stock, or the Firm Commitment Offering. In addition, the Company granted Cantor a 30-day option to purchase 323,077 of additional shares of common stock. The Company raised $18.8 million in gross proceeds under this offering. The option to purchase additional shares of common stock was not exercised.

The following table summarizes the total sales under the 2019 ATM Offering and Firm Commitment Offering for the period indicated (in thousands except for share and per share amounts):

	2019 ATM Offering For the year ended December 31, 2019	Firm Commitment Offering For the year ended December 31, 2019	Total December 31, 2019
Total shares of common stock sold	1,374,686	2,153,846	3,528,532
Average price per share	$ 5.23	$ 8.73	$ 7.37
Gross proceeds	$ 7,193	$ 18,796	$ 25,989
Commissions earned by Cantor	$ 212	$ —	$ 212
Net Proceeds	$ 6,981	$ 18,796	$ 25,777

Since January 1, 2020, the Company has raised, under the 2019 ATM Offering, net proceeds of $11.2 million through the sale of 6,687,846 shares of common stock.

2020 Public Offering

On March 10, 2020, the Company closed an underwritten public offering (the "2020 Public Offering") with Ladenburg Thalmann & Co. Inc. as underwriter and sold an aggregate of 14,121,766 Class A Units at a public offering price of $0.68 per Class A Unit and 7,937,057 Class B Units at a public offering price of $0.68 per Class B Unit. Each Class A Unit consists of one share of the Company's common stock, one warrant to purchase one share of common stock that expires on the first anniversary of the date of issuance (the "Series C Warrants"), and one warrant to purchase one share of common stock that expires on the fifth anniversary of the date of issuance (the "Series D Warrants"). Each Class B Unit consists of one share of Series A Convertible Preferred Stock, par value $0.01 per share (the "Series A Preferred Stock"), convertible into one share of common stock, a Series C Warrant to purchase one share of common stock and a Series D Warrant to purchase one share of common stock. The Class A Units and Class B Units have no stand-alone rights and were not certificated or issued as stand-alone securities. The shares of common stock, Series A Preferred Stock, Series C Warrants and Series D Warrants are immediately separable. In addition, the underwriter for the public offering exercised an overallotment option and purchased 3,308,823 additional Series C Warrants and 3,308,823 additional Series D Warrants at the closing.

Each Series C Warrant included in the Units has an exercise price of $0.68 per share, and each Series D Warrant included in the Units has an exercise price of $0.68 per share. The Series C Warrants and the Series D Warrants are exercisable at any time on or after the date of issuance until their respective expiration dates.

The exercise prices and the number of shares issuable upon exercise of each of the Series C Warrants and Series D Warrants are subject to adjustment upon the occurrence of stock splits or dividends, business combinations, similar recapitalization transactions, or other similar transactions. The exercisability of the Series C Warrants and Series D Warrants may be limited if, upon exercise, the holder or any of its affiliates would beneficially own more than 4.99% of the common stock. If, at any time Series C Warrants or Series D Warrants are outstanding, any fundamental transaction occurs, as described in the Warrants and generally including any consolidation or merger into another corporation, the consummation of a transaction whereby another entity acquires more than 50% of the Company's outstanding voting stock, or the sale of all or substantially all of its assets, the successor entity must assume in writing all of the obligations to the holders of the Series C Warrants and Series D Warrants. Additionally, in the event of a fundamental transaction that is within the Company's control, each holder of the Series C Warrants and Series D Warrants will have the right to require the Company, or its successor, to repurchase the Series C Warrants and Series D Warrants it holds for an amount of cash equal to the Black-Scholes value of the remaining unexercised portion of such Series C Warrants or Series D Warrants, as applicable.

The shares of Series A Preferred Stock rank on par with the shares of the common stock with regard to dividend rights and distributions of assets upon liquidation, dissolution or winding up of the Company. With certain exceptions, as described in the Series A Certificate of Designation, the shares of Series A Preferred Stock have no voting rights. However, as long as any shares of Series A Preferred Stock remain outstanding, the Series A Certificate of Designation provides that the Company shall not, without the affirmative vote of holders of a majority of the then outstanding shares of Series A Preferred Stock, (a) alter or change adversely the powers, preferences or rights given to the Series A Preferred Stock or alter or amend the Series A Certificate of Designation, (b) amend the Company's certificate of incorporation or other charter documents in any manner that adversely affects any rights of the holders of Series A

Preferred Stock, (c) increase the number of authorized shares of Series A Preferred Stock, or (d) enter into any agreement with respect to any of the foregoing.

Each share of Series A Preferred Stock is convertible at any time at the holder's option into one share of common stock, which conversion ratio will be subject to adjustment for stock splits, stock dividends, distributions, subdivisions and combinations and other similar transactions as specified in the Series A Certificate of Designation. Notwithstanding the foregoing, the Series A Certificate of Designation further provides that the Company shall not effect any conversion of the shares of Series A Preferred Stock, with certain exceptions, to the extent that, after giving effect to an attempted conversion, the holder of shares of Series A Preferred Stock (together with such holder's affiliates and any persons acting as a group together with such holder or any of such holder's affiliates) would beneficially own a number of shares of common stock in excess of 4.99% (or 9.99% at the election of the holder prior to the date of issuance) of the shares of common stock then outstanding. At the holder's option, upon notice to the Company, the holder may increase or decrease this beneficial ownership limitation not to exceed 9.99% of the shares of common stock then outstanding, with any such increase becoming effective upon 61 days' prior notice to the Company.

The net proceeds to the Company from the 2020 Public Offering were approximately $13.5 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company.

On April 27, 2020, TransEnterix Surgical, Inc., a wholly owned subsidiary of TransEnterix, Inc. ("TransEnterix Surgical") received funding under a promissory note dated April 18, 2020 (the "Promissory Note") evidencing an unsecured non-recourse loan in the principal amount of $2,815,200 under the Paycheck Protection Program (the "PPP Loan"). The PPP was established as part of the CARES Act, signed into law on March 27, 2020, and is administered by the U.S. Small Business Administration (the "SBA"). The PPP Loan to TransEnterix Surgical is being made through City National Bank of Florida, a national banking association (the "Lender").

The PPP Loan has a two-year term and matures on April 27, 2022. The interest rate on the PPP Loan is 1.00% per annum. Payments shall be deferred for the first six months of the term of the PPP Loan. The SBA has the right to extend the deferment period. The Promissory Note contains customary events of default relating to, among other things, payment defaults, and breach of representations and warranties, or other provisions of the Promissory Note.

The PPP Loan may be forgiven partially or fully if the PPP Loan proceeds are used for covered payroll costs, rent and utility costs incurred during the eight-week period that commenced on the date of funding, and at least 75% of PPP Loan proceeds are used for covered payroll costs. All or a portion of the PPP Loan may be forgiven by the SBA upon application by the Company beginning 60 days but not later than 120 days after loan approval and upon documentation of expenditures in accordance with the SBA requirements. Any forgiveness of the PPP Loan will be subject to approval by the SBA and the Lender. TransEnterix Surgical will be required to apply for such forgiveness. We recognize that our restructuring activities unrelated to COVID-19 has led to a decrease in the number of our employees between the historical measurement period and the period in which the PPP Loan proceeds are used for payroll and other costs and therefore, not all of the PPP Loan may be forgiven. Although we intend to use the proceeds of the PPP Loan for such covered purposes, we can provide no assurance that we will obtain forgiveness of the PPP Loan in whole or in part.

We currently have two effective shelf registration statements on file with the SEC. The first shelf registration statement was declared effective by the SEC on May 19, 2017 and registered up to $150.0 million of debt securities, common stock, preferred stock, or warrants, or any combination thereof for future financing transactions. The second shelf registration statement was declared effective by the SEC on February 10, 2020, and also registers up to $150.0 million of debt securities, common stock, preferred stock, or warrants, or any combination thereof for future financing transactions. We have raised or have reserved for issuance under such registration statements approximately $170.5 million since 2017. As of March 10, 2020, the Company had approximately $5.5 million available under the first effective shelf registration statement, which is due to expire in May 2020. As of the date of this Annual Report, the Company has approximately $124 million available for future financings under the second shelf registration statement.

At March 31, 2020, we had cash and cash equivalents, excluding restricted cash, of approximately $21.8 million. The Company believes that its existing cash and cash equivalents from recent financings, together with cash received from product and instrument sales and leases and cost cutting measures being implemented, will be sufficient to meet its anticipated cash needs into the fourth quarter of 2020.

Consolidated Cash Flow Data

	Three Months Ended March 31,	
	2020	2019
(in millions)		
Net cash provided by (used in)		
Operating activities	$ (12.5)	$ (24.2)
Investing activities	0.0	29.0
Financing activities	24.7	(0.3)
Effect of exchange rate changes on cash and cash equivalents	(0.0)	(0.1)
Net increase in cash, cash equivalents and restricted cash	$ 12.2	$ 4.4

Operating Activities

For the three months ended March 31, 2020, cash used in operating activities of $12.5 million consisted of a net loss of $16.6 million and cash used for working capital of $1.4 million, offset by non-cash items of $5.6 million. The non-cash items primarily consisted of $1.9 million of stock-based compensation expense, $2.6 million of amortization, $1.1 million change in fair value of contingent consideration, $0.2 million change in fair value of warrant liabilities, and $0.6 million of depreciation. The decrease in cash from changes in working capital primarily relates to $1.1 million in increased inventory, a $0.1 million decrease in other long term liabilities, a $0.4 million decrease in accrued expenses, a $0.3 million increase in accounts receivable, and a $0.1 million increase in other current and long-term assets, which was partially offset by a $0.5 million increase in accounts payable and a $0.1 million increase in deferred revenue.

Investing Activities

For the three months ended March 31, 2020, net cash used in investing activities was $0.0 million.

Financing Activities

For the three months ended March 31, 2020, net cash provided by financing activities was $24.7 million. The net change primarily related to $13.5 million in proceeds from the issuance of common stock, preferred stock, and warrants under the 2020 financing and $11.2 million in proceeds from the issuance of common stock and warrants.

Operating Capital and Capital Expenditure Requirements

We intend to spend substantial amounts on market development and commercial activities, on research and development activities, including continued product development, regulatory and compliance, clinical studies in support of our future product offerings, and the enhancement and protection of our intellectual property. We will need to obtain additional financing to pursue our business strategy, to respond to new competitive pressures or to take advantage of opportunities that may arise. To meet our capital needs, we are considering multiple alternatives, including, but not limited to, additional equity financings, debt financings, strategic collaborations, other funding transactions or a fundamental business combination transaction. There can be no assurance that we will be able to complete any such transaction on acceptable terms or otherwise. If we are unable to obtain the necessary capital, we will need to pursue a plan to license or sell our assets, seek to be acquired by another entity, cease operations and/or seek bankruptcy protection.

Cash and cash equivalents held by our foreign subsidiaries totaled $2.5 million at March 31, 2020, including restricted cash. We do not intend or currently foresee a need to repatriate cash and cash equivalents held by our foreign subsidiaries. If these funds are needed in the United States, we believe that the potential U.S. tax impact to repatriate these funds would be immaterial.

Off-Balance Sheet Arrangements

As of March 31, 2020, we did not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations set forth above under the headings “Results of Operations” and “Liquidity and Capital Resources” have been prepared in accordance with U.S. GAAP and should be read in conjunction with our financial statements and notes thereto appearing in this Form 10-Q and in the Fiscal 2019 Form 10-K. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our critical accounting policies and estimates, including identifiable intangible assets and goodwill, in-process research and development, contingent consideration, warrant liabilities, stock-based compensation, inventory, revenue recognition and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. A more detailed discussion on the application of these and other accounting policies can be found in Note 2 in the Notes to the Financial Statements in this Form 10-Q. Actual results may differ from these estimates under different assumptions and conditions.

While all accounting policies impact the financial statements, certain policies may be viewed as critical. Critical accounting policies are those that are both most important to the portrayal of financial condition and results of operations and that require management’s most subjective or complex judgments and estimates. Our management believes the policies that fall within this category are the policies on accounting for identifiable intangible assets and goodwill, business acquisitions, in-process research and development, contingent consideration, warrant liabilities, stock-based compensation, inventory, revenue recognition and income taxes.

Identifiable Intangible Assets and Goodwill

Identifiable intangible assets consist of purchased patent rights recorded at cost and developed technology acquired as part of a business acquisition recorded at estimated fair value. Intangible assets are amortized over 5 to 10 years. We periodically evaluate identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Indefinite-lived intangible assets, such as goodwill, are not amortized. We test the carrying amounts of goodwill for recoverability on an annual basis or when events or changes in circumstances indicate evidence of potential impairment exists by performing either a qualitative evaluation or a quantitative assessment. The qualitative evaluation is an assessment of factors, including industry, market and general economic conditions, market value, and future projections to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill.

During the third quarter of 2019, the Company's stock price declined significantly as a result of decreased sales and estimated cash flows. As of September 30, 2019, goodwill was deemed to be fully impaired, and the Company recorded an impairment charge of $79.0 million.

In-Process Research and Development

In-process research and development (“IPR&D”) assets represent the fair value assigned to technologies that were acquired, which at the time of acquisition have not reached technological feasibility and have no alternative future use. IPR&D assets are considered to be indefinite-lived until the completion or abandonment of the associated research and development projects. During the period that the IPR&D assets are considered indefinite-lived, they are tested for impairment on an annual basis, or more frequently if the Company becomes aware of any events occurring or changes in circumstances that indicate that the fair value of the IPR&D assets are less than their carrying amounts. If and when development is complete, which generally occurs upon regulatory approval, and the Company is able to commercialize products associated with the IPR&D assets, these assets are then deemed definite-lived and are amortized based on their estimated useful lives at that point in time. If development is terminated or abandoned, the Company may have a full or partial impairment charge related to the IPR&D assets, calculated as the excess of carrying value of the IPR&D assets over fair value.

As of September 30, 2019, the Company also did an impairment analysis related to its IPR&D, and concluded that under the market value approach, the fair value of its IPR&D was lower than the carrying value and recorded an impairment charge of $7.9 million.

The IPR&D from MST was acquired on October 31, 2018.

On March 13, 2020, upon receipt of regulatory clearance to commercialize the products associated with the IPR&D assets in the United States, the assets were deemed definite-lived, transferred to developed technology and are amortized based on their estimated useful lives.

Contingent Consideration

Contingent consideration is recorded as a liability and measured at fair value using a discounted cash flow model utilizing significant unobservable inputs including the probability of achieving each of the potential milestones and an estimated discount rate associated with the risks of the expected cash flows attributable to the various milestones. Significant increases or decreases in any of the probabilities of success or changes in expected timelines for achievement of any of these milestones would result in a significantly higher or lower fair value of these milestones, respectively, and commensurate changes to the associated liability. The fair value of the contingent consideration at each reporting date will be updated by reflecting the changes in fair value in our statements of operations and comprehensive loss.

Warrant Liabilities

For the Series B Warrants, the warrants are recorded as liabilities and are revalued at each reporting period. The change in fair value is recognized in the consolidated statements of operations and comprehensive loss. The selection of the appropriate valuation model and the inputs and assumptions that are required to determine the valuation requires significant judgment and requires management to make estimates and assumptions that affect the reported amount of the related liability and reported amounts of the change in fair value. Actual results could differ from those estimates, and changes in these estimates are recorded when known. As the warrant liability is required to be measured at fair value at each reporting date, it is reasonably possible that these estimates and assumptions could change in the near term.

Stock-Based Compensation

We recognize as expense, the grant-date fair value of stock options and other stock based compensation issued to employees and non-employee directors over the requisite service periods, which are typically the vesting periods. We use the Black-Scholes-Merton model to estimate the fair value of our stock-based payments. The volatility assumption used in the Black-Scholes-Merton model is based on the calculated historical volatility based on an analysis of reported data for a peer group of companies as well as the Company’s historical volatility. The expected term of options granted by us has been determined based upon the simplified method, because we do not have sufficient historical information regarding our options to derive the expected term. Under this approach, the expected term is the mid-point between the weighted average of vesting period and the contractual term. The risk-free interest rate is based on U.S. Treasury rates whose term is consistent with the expected life of the stock options. We have not paid and do not anticipate paying cash dividends on our shares of common stock; therefore, the expected dividend yield is assumed to be zero. We estimate forfeitures based on our historical experience and adjust the estimated forfeiture rate based upon actual experience.

Inventory

Inventory, which includes material, labor and overhead costs, is stated at the lower of cost, determined on a first-in, first-out basis, or net realizable value. We record reserves, when necessary, to reduce the carrying value of inventory to its net realizable value. At the point of loss recognition, a new, lower-cost basis for that inventory is established, and any subsequent improvements in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Any inventory on hand at the measurement date in excess of the Company's current requirements based on anticipated levels of sales is classified as long-term on the Company's consolidated balance sheets. The Company's classification of long-term inventory requires us to estimate the portion of on hand inventory that can be realized over the upcoming twelve months.

Revenue Recognition

Our revenue consists of product revenue resulting from the sale and lease of systems, system components, instruments and accessories, and service revenue. We account for a contract with a customer when there is a legally enforceable contract between the Company and the customer, the rights of the parties are identified, the contract has commercial substance, and collectability of the contract consideration is probable. Our revenues are measured based on consideration specified in the contract with each customer, net of any sales incentives and taxes collected from customers that are remitted to government authorities.

Our system sale arrangements generally contain multiple products and services. For these consolidated sale arrangements, we account for individual products and services as separate performance obligations if they are distinct, which is if a product or service is separately identifiable from other items in the consolidated package, and if a customer can benefit from it on its own or with other resources that are readily available to the customer. Our system sale arrangements include a combination of the following performance obligations: system(s), system components, instruments, accessories, and system service. Our system sale arrangements generally include a five-year period of service. The first year of service is generally free and included in the system sale arrangement and the remaining four years are generally included at a stated service price. We consider the service terms in the arrangements that are legally enforceable to be performance obligations. Other than service, we generally satisfy all of the performance obligations up-front. System components, system accessories, instruments, accessories, and service are also sold on a standalone basis.

The Company has begun entering into lease arrangements with certain qualified customers. Thus far, all leases have been operating lease arrangements. Revenue related to multiple-element arrangements are allocated to lease and non-lease elements based on their relative standalone selling prices as prescribed by the Company's revenue recognition policy. Lease elements generally include a system or system component, while non-lease elements generally include service, instruments, and accessories. For some lease arrangements, the customers are provided with the right to purchase the leased system at some point during and/or at the end of the lease term.. For some leases, lease payments are based on the usage of the system.

In determining whether a transaction should be classified as a sales-type or operating lease, the Company considers the following terms at lease commencement: (1) whether title of the system transfers automatically or for a nominal fee by the end of the lease term, (2) whether the present value of the minimum lease payments equals or exceeds substantially all of the fair value of the leased system, (3) whether the lease term is for the major part of the remaining economic life of the leased system, (4) whether the lease grants the lessee an option to purchase the leased system that the lessee is reasonably certain to exercise, and (5) whether the underlying system is of such a specialized nature that it is expected to have no alternative use to the Company at the end of the lease term.

We recognize revenues as the performance obligations are satisfied by transferring control of the product or service to a customer. We generally recognize revenue for the performance obligations at the following points in time:

- *System sales.* For systems and system components sold directly to end customers, revenue is recognized when we transfer control to the customer, which is generally at the point when acceptance occurs that indicates customer acknowledgment of delivery or installation, depending on the terms of the arrangement. For systems sold through distributors, with the distributors responsible for installation, revenue is recognized generally at the time of shipment. Our system arrangements generally do not provide a right of return. The systems are generally covered by a one-year warranty. Warranty costs were not material for the periods presented.

- *Lease arrangements*. Revenue related to lease elements from operating lease arrangements is generally recognized on a straight-line basis over the lease term or based upon system usage and is presented as product revenue.

- *Instruments and accessories.* Revenue from sales of instruments and accessories is recognized when control is transferred to the customers, which generally occur at the time of shipment, but also occur at the time of delivery depending on the customer arrangement. Accessory products include sterile drapes used to help ensure a sterile field during surgery, vision products such as replacement endoscopes, camera heads, light guides, and other items that facilitate use of the Senhance Surgical System.

- *Service.* Service revenue is recognized ratably over the term *of* the service period as the customers benefit from the service throughout the service period. Revenue related to services performed on a time-and-materials basis is recognized when performed.

For multiple-element arrangements, revenue is allocated to each performance obligation based on its relative standalone selling price. Standalone selling prices are based on observable prices at which we separately sell the products or services. Due to limited sales to date, standalone selling prices are not yet directly observable. We estimate the standalone selling price using the market assessment approach considering market conditions and entity-specific factors including, but not limited to, features and functionality of the products and services, geographies, type of customer, and market conditions. We regularly review standalone selling prices and update these estimates if necessary. Transaction price allocated to remaining performance obligations relates to amounts allocated to products and services for which the revenue has not yet been recognized. A significant portion of this amount relates to service obligations performed under our system sales contracts that will be invoiced and recognized as revenue in future periods.

We invoice our customers based on the billing schedules in our sales arrangements. Contract assets for the periods presented primarily represent the difference between the revenue that was recognized based on the relative selling price of the related performance obligations and the contractual billing terms in the arrangements. Deferred revenue for the periods presented was primarily related to service obligations, for which the service fees are billed up-front, generally annually. The associated deferred revenue is generally recognized ratably over the service period.

In connection with assets recognized from the costs to obtain a contract with a customer, we have determined that sales incentive programs for our sales team do not meet the requirements to be capitalized as we do not expect to generate future economic benefits from the related revenue from the initial sales transaction.

Income Taxes

We account for income taxes using the asset and liability method, which requires the recognition of deferred tax assets or liabilities for the temporary differences between financial reporting and tax basis of our assets and liabilities, and for tax carryforwards at enacted statutory rates in effect for the years in which the asset or liability is expected to be realized. The effect on deferred taxes of a change in tax rates is recognized in income during the period that includes the enactment date. In addition, valuation allowances are established when necessary to reduce deferred tax assets and liabilities to the amounts expected to be realized.

U.S. shareholders are subject to tax on global intangible low-taxed income (GILTI) earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, *Accounting for Global Intangible Low-Taxed Income*, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or to provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. The Company has elected to account for GILTI in the year the tax is incurred. As of March 31, 2020, no GILTI tax has been recorded.

In a referendum held on May 19, 2019, Swiss voters adopted the Federal Act on Tax Reform and AVS Financing (TRAF). TRAF introduces major changes in the Swiss tax system by abolishing certain current preferential tax regimes and replacing them with new measures that are in line with international standards. The referendum did not have a material impact on the Company's 2019 or first quarter 2020 tax provision. The Company will continue to evaluate the impact of these provisions in future periods as the enactment process in completed.

Recent Accounting Pronouncements

See "Note 2. Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in the Company's Fiscal 2019 Form 10-K, as well as the notes to the consolidated financial statements above in this Form 10-Q, for a full description of recent accounting pronouncements including the respective expected dates of adoption and effects on our Consolidated Balance Sheets and Consolidated Statements of Operations and Comprehensive Loss.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this item.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2020. We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, our Chief Executive Officer and interim Chief Financial Officer concluded that, as of March 31, 2020, due to the material weakness in our internal control over financial reporting disclosed in Item 9A of the Company's Fiscal 2019 Form 10-K, our disclosure controls and procedures were ineffective.

Changes in Internal Controls Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1 Legal Proceedings

None.

Item 1A Risk Factors.

Reference is made to the Risk Factors included in our Fiscal 2019 Form 10-K, as supplemented by the following:

We have a history of operating losses, and we may not be able to achieve or sustain profitability. In addition, we may be unable to continue as a going concern.

We have a limited operating history. We are not profitable and have incurred losses since our inception. Management concluded that substantial doubt exists about our ability to continue as a going concern as a result of anticipated capital needs as well as past recurring losses and an accumulated deficit. Our independent registered public accounting firm also included an explanatory paragraph in its report on our consolidated financial statements as of and for the year ended December 31, 2019 with respect to this uncertainty. Our accumulated deficit was $680.2 million as of March 31, 2020, and our working capital was $26.9 million as of March 31, 2020. We believe that our existing cash and cash equivalents, together with cash received from product and instrument sales and leases will be sufficient to meet our anticipated cash needs into the fourth quarter of 2020.

We expect to continue to incur losses for the foreseeable future, and these losses will likely increase as we continue to develop and commercialize our products. We will continue to incur research and development and general and administrative expenses related to our operations, and sales and marketing expenses to support our commercial activities, as restructured. Even if we are successful in reducing our expenses or achieving profitability in the future, we may not be able to sustain profitability in subsequent periods.

The coronavirus (COVID-19) pandemic has negatively impacted our operations.

We have facilities located in the United States, Israel, Japan, and Italy. All of our facilities are in locations that are subject to, or have been subject to, stay-at-home or shelter-in-place orders. Our employees are working from home wherever possible. Our Senhance Systems are manufactured at a contract manufacturing facility in Milan. With the quarantine in Northern Italy, the assembly of new units has been disrupted. A variety of travel restrictions, have caused a delay in our product installation and training activities in recent weeks, and are expected to continue. Elective surgeries have been halted in the United States and Europe and only limited procedures are being done in Japan. This has significantly impacted our ability to place our Senhance Systems, provide training, and increase the use of the Senhance Systems in place.

The global spread of COVID-19 and the various attempts to contain it have created significant volatility, uncertainty and economic disruption. The full extent to which the COVID-19 pandemic and the various responses to it impacts our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict, including: the duration and scope of the pandemic; governmental, business and individuals' actions that have been and continue to be taken in response to the pandemic; the availability and cost to access the capital markets; the effect on our customers and customer demand for Senhance systems and the ability to provide training services; and disruptions or restrictions on our employees' ability to work and travel. In addition, any preventative or protective actions that governments implement or that we take in respect of COVID-19, such as travel restrictions or stay-at-home orders, may interfere with the ability of our employees, vendors and contract manufacturers to perform their respective responsibilities and obligations relative to the conduct of our business. Such results could have a material adverse effect on our operations, business, financial condition, results of operations, or cash flows.

We believe the COVID-19 pandemic will continue to harm our operations and negatively impact our ability to implement our market development efforts, which will have a negative effect on our financial condition.

We announced a restructuring plan to reduce our operating expenses prior to the COVID-19 pandemic, and have instituted additional reductions in response to the COVID-19 pandemic. We may not achieve some or all of the expected benefits of our restructuring plan and the restructuring may adversely affect our business.

Following the disappointing 2019 commercial results, we restructured our organization to focus on market development and increasing use of the Senhance System, rather than focusing on building our sales team. Our restructuring, which included employee reductions is designed to re-align our commercial organization through re-prioritization of certain geographical markets and to implement operational excellence through strategic reallocation of resources. The COVID-19 pandemic has caused, among other things, a global reduction in elective surgery which has had a significant impact on our market development activities. In addition, we have implemented salary reductions, canceled all 2020 trade show participation and significantly reduced our travel expenses in response to the COVID-19 pandemic's impact on our business. We may continue to encounter unexpected costs while implementing our restructuring and may not be successful in reducing our operating expenses as much as needed. We may undertake additional restructurings in the future. Implementation of a restructuring plan is costly and disruptive to our business, and we may not be able to obtain the estimated cost savings and benefits that were initially anticipated in connection with our restructuring in a timely manner or at all. Additionally, as a result of any restructuring, we may experience a loss of continuity, loss of accumulated knowledge and/or inefficiency during transitional periods. Reorganization and restructuring can require a significant amount of management and other employees' time and focus, which may divert attention from operating and growing our business. Any failure to properly execute the restructuring plans could result in total costs that are greater than expected and cause us not to achieve the expected long-term operational benefits and adversely affect our financial condition, operating results and future operations.

Under the restructuring plan, we determined that the carrying value of our inventory exceeded the net realizable value due to a decrease in expected sales. The restructuring charges amounted to $8.8 million for the year ended December 31, 2019, of which $7.4 million was an inventory write down based on management's estimates. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Significant items subject to such estimates and assumptions include identifiable intangible assets, contingent consideration, warrant liabilities, stock compensation expense, revenue recognition, accounts receivable reserves, excess and obsolete inventory reserves, inventory classification between current and non-current, and deferred tax asset valuation allowances. We cannot assure you that additional write downs or other charges related to any management estimates will not be needed.

The exercise of our outstanding warrants will dilute stockholders and could decrease our stock price.

The existence of our outstanding warrants, including the outstanding remaining Series B Warrants and the recently issued Series C Warrants and Series D Warrants, may adversely affect our stock price due to issuances of a large number of shares or the perception that such sales could occur. These factors also could make it more difficult to raise funds through future offerings of common stock or warrants, and could adversely impact the terms under which we could obtain additional equity capital. Exercise of outstanding warrants, or any future issuance of additional shares of common stock or other equity securities, including but not limited to options, warrants or other derivative securities convertible into our common stock, may result in significant dilution to our stockholders and may decrease our stock price.

We identified a material weakness in our internal control over financial reporting related to our preparation, documentation and review of the income tax provision in accordance with GAAP. We may identify additional material weaknesses in the future or otherwise fail to maintain an effective system of internal controls, which may result in material misstatements of our financial statements or cause us to fail to meet our reporting obligations.

In connection with the preparation of our consolidated financial statements for the year ended December 31, 2019, we identified a material weakness in our internal control over financial reporting related to our income tax provision and related accounting and disclosures. A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As of December 31, 2019, we did not maintain effective controls relating to the income tax accounting and disclosures for the significant components of deferred tax assets and liabilities related to a foreign non-recurring transaction, and such material weakness has not yet been remediated as of March 31, 2020.

Based on this finding, management is implementing a remediation plan to address the control deficiency that led to the material weakness. The remediation plan includes implementing specific review procedures, including strengthening our income tax control with improved documentation standards, technical oversight and training.

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. If we are unable to successfully remediate our existing or any future material weakness in our internal control over financial reporting, or identify any additional material weaknesses that may exist, the accuracy and timing of our financial reporting may be adversely affected. Additionally, we may be unable to maintain compliance with securities law requirements regarding timely filing of periodic reports as well as applicable stock exchange listing requirements. We may be unable to prevent fraud, investors may lose confidence in our financial reporting, and our stock price may also decline. Our reporting obligations as a public company could place a significant strain on our management, operational and financial resources and systems for the foreseeable future and may cause us to fail to timely achieve and maintain the adequacy of our internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. Because of its inherent limitations, internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. As a result, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. We cannot assure you that the measures we are currently undertaking or may take in the future will be sufficient to maintain effective internal controls or to avoid potential future deficiencies in internal control, including material weaknesses. In addition, failing to maintain effective disclosure controls and internal controls over financial reporting could have a material and adverse effect on our business and operating results and could cause a decline in the price of our securities.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds.

The following table summarizes the Company's purchases of its common stock for the quarter ended March 31, 2020:

	Issuer Purchases of Equity Securities			
Period	**Total Number of Shares Purchased (1)**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs**
January 1 - 31, 2020	0	$ 0	0	0
February 1 - 28, 2020	28,282	1.28	0	0
March 1 - 31, 2020	0	0	0	0
Total	28,282	$ 1.28	0	0

(1) These amounts consist of 28,282 shares we acquired from employees associated with the withholding of shares to pay certain withholding taxes upon the vesting of stock-based compensation in accordance with the terms of our equity compensation plan that were previously approved by our stockholders and disclosed in our proxy statements. We purchased these shares at their fair market value, as determined by reference to the closing price of our common stock on the day prior to the vesting date.

Item 3 Defaults Upon Senior Securities.

None.

Item 4 Mine Safety Disclosures.

Not applicable.

Item 5 Other Information.

None.

Item 6. EXHIBITS

Exhibit No.	Description
3.1	Form of Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on March 6, 2020)
4.1	Form of Series C/Series D Common Stock Purchase Warrant of the Registrant (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on March 6, 2020)
4.2	Form of Warrant Agency Agreement by and between the Registrant and Continental Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the SEC on March 6, 2020)
10.1	Purchase Agreement dated February 10, 2020 between Transenterix, Inc. and Lincoln Park Capital Fund, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 10, 2020)
10.2	Registration Rights Agreement dated February 10, 2020 between Transenterix, Inc. and Lincoln Park Capital Fund, LLC (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on February 10, 2020)
10.3	Form of Series B Warrants Exchange Agreement dated February 24, 2020, among TransEnterix, Inc. and the Series B Warrant holders signatory thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 25, 2020)
10.4	Promissory Note, dated April 18, 2020, by and between TransEnterix, Inc. and City National Bank, a national banking association (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 28, 2020)
31.1 *	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).
31.2 *	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).
32.1 *	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 *	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS *	XBRL Instance 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.
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase Document.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Inline XBRL (included in Exhibit 101).

\+ A management contract, compensatory plan or arrangement required to be separately identified.
* Filed herewith.

SIGNATURES

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

TransEnterix, Inc.

Date: May 15, 2020	By: /s/ Anthony Fernando
	Anthony Fernando
	President and Chief Executive Officer
	By: /s/ Brett Farabaugh
Date: May 15, 2020	Brett Farabaugh
	Interim Chief Financial Officer

Exhibit 31.1

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13A-14(A)/15D-14(A)

I, Anthony Fernando, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TransEnterix, Inc.;

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

3. Based on my knowledge, the 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 we 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.

May 15, 2020

By: /s/ Anthony Fernando

Anthony Fernando
President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13A-14(A)/15D-14(A)

I, Brett Farabaugh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TransEnterix, Inc.;

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

3. Based on my knowledge, the 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 we 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.

May 15, 2020

By: /s/ Brett Farabaugh

Brett Farabaugh
Interim Chief Financial Officer
(principal financial officer and principal accounting officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Anthony Fernando, hereby certify pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and 18 U.S.C. Section 1350, that the Quarterly Report on Form 10-Q of TransEnterix, Inc. (the "Company") for the quarterly period ended March 31, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Anthony Fernando

Anthony Fernando
President and Chief Executive Officer
(Principal Executive Officer)

May 15, 2020

The certification set forth above is being furnished as an Exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the Report or as a separate disclosure document of TransEnterix, Inc. or the certifying officers.

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Brett Farabaugh, hereby certify pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and 18 U.S.C. Section 1350, that the Quarterly Report on Form 10-Q of TransEnterix, Inc. (the “Company”) for the quarterly period ended March 31, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Brett Farabaugh

Brett Farabaugh
Interim Chief Financial Officer
(principal financial officer and principal accounting officer)

May 15, 2020

The certification set forth above is being furnished as an Exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the Report or as a separate disclosure document of TransEnterix, Inc. or the certifying officers.