

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020

OR

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

For the transition period from _____ to _____

Commission File Number 1-11388

VIVEVE MEDICAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

04-3153858

(I.R.S. Employer Identification No.)

345 Inverness Drive South

Building B, Suite 250

Englewood, CO 80112

(Address of principal executive offices)

(Zip Code)

(720) 696-8100

(Registrant's telephone number, including area code)

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

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|---------------------|-------------------|---|
| Common Stock | VIVE | Nasdaq Capital Market |

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, smaller reporting company or an emerging growth company. See definition of "accelerated filer," "large accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

As of November 10, 2020, the issuer had 21,653,782 shares of common stock, par value \$0.0001 per share, outstanding.

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (the "Quarterly Report") contains forward-looking statements that involve substantial risks and uncertainties. All statements contained in this Quarterly Report other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A. "Risk Factors" in this Quarterly Report. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Quarterly Report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should read this Quarterly Report on Form 10-Q and the documents that we have filed as exhibits to this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results, performance or achievements may be materially different from what we expect. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Unless expressly indicated or the context requires otherwise, the terms "Viveve Medical," the "Company," "we," "us," and "our" in this document refer to Viveve Medical, Inc., a Delaware corporation, and, where appropriate, its wholly owned subsidiaries.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited)

VIVEVE MEDICAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

| | September 30, 2020 | December 31, 2019 |
|--|-----------------------|----------------------|
| | | (1) |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 9,200 | \$ 13,308 |
| Accounts receivable, net of allowance for doubtful accounts of \$566 and \$407 as of September 30, 2020 and December 31, 2019, respectively | 689 | 1,573 |
| Inventory | 4,591 | 4,861 |
| Prepaid expenses and other current assets | 1,764 | 2,447 |
| Total current assets | 16,244 | 22,189 |
| Property and equipment, net | 2,507 | 3,046 |
| Investment in limited liability company | 893 | 1,216 |
| Other assets | 282 | 526 |
| Total assets | \$ 19,926 | \$ 26,977 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 695 | \$ 1,608 |
| Accrued liabilities | 1,990 | 4,698 |
| Paycheck Protection Program loan, current portion | 664 | - |
| Total current liabilities | 3,349 | 6,306 |
| Note payable, noncurrent portion | 4,377 | 3,983 |
| Paycheck Protection Program loan, noncurrent portion | 679 | - |
| Other noncurrent liabilities | 432 | 167 |
| Total liabilities | 8,837 | 10,456 |
| Commitments and contingences (Note 9) | | |
| Stockholders' equity: | | |
| Convertible preferred stock; 10,000,000 shares authorized as of September 30, 2020 and December 31, 2019; | | |
| Series A preferred stock, \$0.0001 par value; 0 and 1,852,173 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively | - | - |
| Series B preferred stock, \$0.0001 par value; 34,735 and 31,678 shares and outstanding as of September 30, 2020 and December 31, 2019, respectively | - | - |
| Common stock, \$0.0001 par value; 75,000,000 shares authorized as of September 30, 2020 and December 31, 2019; 21,653,782 and 7,075,684 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively | 2 | 1 |
| Additional paid-in capital | 226,158 | 214,431 |
| Accumulated deficit | (215,071) | (197,911) |
| Total stockholders' equity | 11,089 | 16,521 |
| Total liabilities and stockholders' equity | \$ 19,926 | \$ 26,977 |

(1) The condensed consolidated balance sheet as of December 31, 2019 has been derived from the audited consolidated financial statements as of that date.

The accompanying notes are an integral part of these condensed consolidated financial statements.

VIVEVE MEDICAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)
(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2020 | 2019 | 2020 | 2019 |
| Revenue | \$ 1,524 | \$ 1,052 | \$ 3,532 | \$ 5,116 |
| Cost of revenue | 1,283 | 1,099 | 3,483 | 3,981 |
| Gross profit (loss) | 241 | (47) | 49 | 1,135 |
| Operating expenses: | | | | |
| Research and development | 884 | 1,449 | 3,745 | 6,831 |
| Selling, general and administrative | 2,761 | 5,032 | 10,476 | 17,188 |
| Restructuring costs | - | - | - | 742 |
| Total operating expenses | 3,645 | 6,481 | 14,221 | 24,761 |
| Loss from operations | (3,404) | (6,528) | (14,172) | (23,626) |
| Modification of Series A and B warrants | - | - | (1,838) | - |
| Interest expense, net | (235) | (1,209) | (668) | (3,519) |
| Other expense, net | (41) | (51) | (159) | (133) |
| Net loss from consolidated companies | (3,680) | (7,788) | (16,837) | (27,278) |
| Loss from minority interest in limited liability company | (55) | (168) | (323) | (431) |
| Comprehensive and net loss | (3,735) | (7,956) | (17,160) | (27,709) |
| Series B convertible preferred stock dividends | (1,053) | - | (3,064) | - |
| Net loss attributable to common stockholders | \$ (4,788) | \$ (7,956) | \$ (20,224) | \$ (27,709) |
| Net loss per share of common stock: | | | | |
| Basic and diluted | \$ (0.26) | \$ (13.51) | \$ (1.47) | \$ (54.73) |
| Weighted average shares used in computing net loss per common share: | | | | |
| Basic and diluted | 18,079,200 | 588,976 | 13,747,913 | 506,329 |

Note: All share and per share data has been adjusted to reflect the 1-for-100 reverse stock split which became effective after market close on September 18, 2019, as discussed in Note 2.

The accompanying notes are an integral part of these condensed consolidated financial statements.

VIVEVE MEDICAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands, except share and per share data)
(unaudited)

| | Series A Convertible Preferred Stock, \$0.0001 par value | | Series B Convertible Preferred Stock, \$0.0001 par value | | Common Stock, \$0.0001 par value | | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Equity |
|---|--|--------|--|--------|----------------------------------|--------|----------------------------|---------------------|----------------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balances as of January 1, 2020 | 1,852,173 | \$ - | 31,678 | \$ - | 7,075,684 | \$ 1 | \$ 214,431 | \$ (197,911) | \$ 16,521 |
| Issuance costs in connection with November 2019 Offering | - | - | - | - | - | - | (30) | - | (30) |
| Conversion of Series A convertible preferred stock into common stock | (1,852,173) | - | - | - | 1,852,173 | - | - | - | - |
| Issuance of common shares in connection with Series A warrant exercises | - | - | - | - | 1,026,240 | - | 1,591 | - | 1,591 |
| Issuance of common shares in connection with Series B warrant exercises | - | - | - | - | 45,473 | - | 70 | - | 70 |
| Series B convertible preferred stock dividends | - | - | - | - | - | - | (990) | - | (990) |
| Series B convertible preferred stock dividends paid in PIK shares | - | - | 989 | - | - | - | 989 | - | 989 |
| Stock-based compensation expense | - | - | - | - | - | - | 686 | - | 686 |
| Issuance of common shares from employee stock purchase plan | - | - | - | - | 320 | - | - | - | - |
| Issuance of restricted common shares in connection with consulting agreement | - | - | - | - | 28,313 | - | 24 | - | 24 |
| Net loss | - | - | - | - | - | - | - | (6,310) | (6,310) |
| Balances as of March 31, 2020 | - | - | 32,667 | - | 10,028,203 | 1 | 216,771 | (204,221) | 12,551 |
| Issuance costs in connection with November 2019 Offering | - | - | - | - | - | - | (3) | - | (3) |
| Issuance of common shares in connection with Series A warrant exercises | - | - | - | - | 4,852,284 | 1 | 2,959 | - | 2,960 |
| Issuance of common shares in connection with Series B warrant exercises | - | - | - | - | 293,490 | - | 179 | - | 179 |
| Modification of Series A warrants in connection with 2020 Warrant Offering | - | - | - | - | - | - | 997 | - | 997 |
| Modification of Series B warrants in connection with 2020 Warrant Offering | - | - | - | - | - | - | 841 | - | 841 |
| Issuance of Series A-2 and B-2 warrants in connection with 2020 Warrant Offering | - | - | - | - | - | - | 1,838 | - | 1,838 |
| Issuance costs for Series A-2 and B-2 warrants in connection with 2020 Warrant Offering | - | - | - | - | - | - | (1,838) | - | (1,838) |
| Transaction costs in connection with 2020 Warrant Offering | - | - | - | - | - | - | (326) | - | (326) |
| Issuance of initial purchase common shares under the Purchase Agreement with LPC | - | - | - | - | 525,000 | - | 341 | - | 341 |
| Issuance costs in connection with Purchase Agreement with LPC | - | - | - | - | - | - | (452) | - | (452) |
| Series B convertible preferred stock dividends | - | - | - | - | - | - | (1,021) | - | (1,021) |
| Series B convertible preferred stock dividends paid in PIK shares | - | - | 1,018 | - | - | - | 1,018 | - | 1,018 |
| Stock-based compensation expense | - | - | - | - | - | - | 632 | - | 632 |
| Issuance of common shares from employee stock purchase plan | - | - | - | - | 300 | - | - | - | - |
| Issuance of common shares for vesting of restricted stock award granted to consultant | - | - | - | - | 250 | - | - | - | - |
| Issuance of restricted common shares in connection with consulting agreement | - | - | - | - | 34,531 | - | 25 | - | 25 |
| Net loss | - | - | - | - | - | - | - | (7,115) | (7,115) |
| Balances as of June 30, 2020 | - | - | 33,685 | - | 15,734,058 | 2 | 221,961 | (211,336) | 10,627 |
| Issuance of common shares in connection with Series A common warrant exercises | - | - | - | - | 1,117,020 | - | 681 | - | 681 |
| Issuance of common shares in connection with Series B common warrant exercises | - | - | - | - | 3,824,104 | - | 2,333 | - | 2,333 |
| Issuance of common shares in connection with Series A-2 common warrant exercises | - | - | - | - | 892,300 | - | 568 | - | 568 |
| Issuance of common shares in connection with Series B-2 common warrant exercises | - | - | - | - | 38,990 | - | 25 | - | 25 |
| Transaction costs in connection with 2020 Warrant Offering | - | - | - | - | - | - | (7) | - | (7) |
| Transaction costs in connection with Purchase Agreement with LPC | - | - | - | - | - | - | (42) | - | (42) |
| Series B convertible preferred stock dividends | - | - | - | - | - | - | (1,053) | - | (1,053) |
| Series B convertible preferred stock dividends paid in PIK shares | - | - | 1,050 | - | - | - | 1,050 | - | 1,050 |
| Stock-based compensation expense | - | - | - | - | - | - | 617 | - | 617 |
| Issuance of common shares from employee stock purchase plan | - | - | - | - | 220 | - | - | - | - |
| Issuance of common shares in connection with restricted stock award to employee | - | - | - | - | 47,090 | - | 25 | - | 25 |
| Net loss | - | - | - | - | - | - | - | (3,735) | (3,735) |
| Balances as of September 30, 2020 | - | \$ - | 34,735 | \$ - | 21,653,782 | 2 | \$ 226,158 | \$ (215,071) | \$ 11,089 |

| | Series A Convertible Preferred Stock, \$0.0001 par value | | Series B Convertible Preferred Stock, \$0.0001 par value | | Common Stock, \$0.0001 par value | | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Equity (Deficit) |
|---|--|--------|--|--------|----------------------------------|--------|----------------------------|---------------------|--------------------------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balances as of January 1, 2019 | - | \$ - | - | \$ - | 463,630 | \$ - | \$ 160,297 | \$ (155,385) | \$ 4,912 |
| Stock-based compensation expense | - | - | - | - | - | - | 470 | - | 470 |
| Issuance of common shares from employee stock purchase plan | - | - | - | - | 429 | - | 35 | - | 35 |
| Issuance of restricted common shares in connection with consulting agreement | - | - | - | - | 274 | - | 25 | - | 25 |
| Issuance of common shares in connection with restricted stock award to employee | - | - | - | - | 6 | - | 1 | - | 1 |
| Net loss | - | - | - | - | - | - | - | (10,029) | (10,029) |
| Balances as of March 31, 2019 | - | - | - | - | 464,339 | - | 160,828 | (165,414) | (4,586) |
| Stock-based compensation expense | - | - | - | - | - | - | 562 | - | 562 |
| Issuance of common shares from employee stock purchase plan | - | - | - | - | 602 | - | 20 | - | 20 |
| Restricted stock awards issued to directors for quarterly compensation | - | - | - | - | 525 | - | 48 | - | 48 |
| Issuance of common shares for vesting of restricted stock award granted to consultant | - | - | - | - | 250 | - | 11 | - | 11 |
| Issuance of common shares in connection with restricted stock award to employee | - | - | - | - | 6 | - | - | - | - |
| Net loss | - | - | - | - | - | - | - | (9,724) | (9,724) |
| Balances as of June 30, 2019 | - | - | - | - | 465,722 | - | 161,469 | (175,138) | (13,669) |
| August 2019 ATM Facility, net of issuance cost | - | - | - | - | 1,004,171 | - | 6,322 | - | 6,322 |
| Stock-based compensation expense | - | - | - | - | - | - | 503 | - | 503 |
| Issuance of common shares from employee stock purchase plan | - | - | - | - | 200 | - | 1 | - | 1 |
| Restricted stock awards issued to directors for quarterly compensation | - | - | - | - | 378 | - | 14 | - | 14 |
| Issuance of common shares in connection with restricted stock award to employee | - | - | - | - | 4 | - | - | - | - |
| Reverse stock split - cancellation and payout of fractional shares | - | - | - | - | (686) | - | (5) | - | (5) |
| Net loss | - | - | - | - | - | - | - | (7,956) | (7,956) |
| Balances as of September 30, 2019 | - | \$ - | - | \$ - | 1,469,789 | \$ - | \$ 168,304 | \$ (183,094) | \$ (14,790) |

The accompanying notes are an integral part of these consolidated financial statements

Note: All share and per share data has been adjusted to reflect the 1-for-100 reverse stock split which became effective after market close on September 18, 2019, as discussed in Note 2.

The accompanying notes are an integral part of these condensed consolidated financial statements.

VIVEVE MEDICAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

| | Nine Months Ended September 30, | |
|---|------------------------------------|-------------|
| | 2020 | 2019 |
| Cash flows from operating activities: | | |
| Net loss | \$ (17,160) | \$ (27,709) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Provision for doubtful accounts and write off of accounts receivable | 335 | 260 |
| Depreciation and amortization | 965 | 819 |
| Stock-based compensation | 2,009 | 1,634 |
| Non-cash interest expense | 394 | 1,266 |
| Amortization of operating lease right-of-use assets and accretion of operating lease liabilities | 3 | 4 |
| Loss from minority interest in limited liability company | 323 | 431 |
| Loss on disposal of property and equipment | 14 | 93 |
| Modification of Series A and B warrants | 1,838 | - |
| Changes in assets and liabilities: | | |
| Accounts receivable | 549 | 2,638 |
| Inventory | 233 | (236) |
| Prepaid expenses and other current assets | 683 | (493) |
| Other noncurrent assets | 444 | 40 |
| Accounts payable | (913) | (2,203) |
| Accrued and other liabilities | (2,918) | (2,566) |
| Other noncurrent liabilities | 265 | 160 |
| Net cash used in operating activities | (12,936) | (25,862) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (403) | (848) |
| Net cash used in investing activities | (403) | (848) |
| Cash flows from financing activities: | | |
| Transaction costs in connection with November 2019 Offering | (33) | - |
| Proceeds from exercise of common warrants | 8,407 | - |
| Transaction costs in connection with 2020 Warrant Offering | (333) | - |
| Proceeds from Paycheck Protection Program loan | 1,343 | - |
| Proceeds from initial purchase of common shares under Purchase Agreement with LPC | 341 | - |
| Transaction costs in connection with Purchase Agreement with LPC | (494) | - |
| Proceeds from sale of common shares, net of issuance cost | - | 6,322 |
| Proceeds from issuance of common shares from employee stock purchase plan | - | 56 |
| Transaction costs in connection with note payable | - | (100) |
| Reverse stock split - cancellation and payout of fractional shares | - | (5) |
| Net cash provided by financing activities | 9,231 | 6,273 |
| Net decrease in cash and cash equivalents | (4,108) | (20,437) |
| Cash and cash equivalents - beginning of period | 13,308 | 29,523 |
| Cash and cash equivalents - end of period | \$ 9,200 | \$ 9,086 |
| Supplemental disclosure: | | |
| Cash paid for interest | \$ - | \$ 2,067 |
| Cash paid for income taxes | \$ - | \$ - |
| Supplemental disclosure of cash flow information as of end of period: | | |
| Issuance of Series B convertible preferred stock in settlement of dividends | \$ 3,057 | \$ - |
| Issuance of note payable in settlement of accrued interest | \$ 392 | \$ 973 |
| Net transfer of equipment between inventory and property and equipment | \$ 37 | \$ 214 |
| Supplemental cash flow information related to leases was as follows: | | |
| Operating cash outflows from operating leases | \$ 226 | \$ 220 |
| Right-of-use assets obtained in exchange for operating lease liabilities (upon adoption of ASC 842) | \$ - | \$ 629 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

VIVEVE MEDICAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Basis of Presentation

Viveve Medical, Inc. (“Viveve Medical”, the “Company”, “we”, “our”, or “us”) designs, develops, manufactures and markets a platform medical technology, which we refer to as *Cryogen-cooled Monopolar RadioFrequency*, or CMRF. Our proprietary CMRF technology is delivered through a radiofrequency generator, handpiece and treatment tip, which collectively, we refer to as the Viveve® System. Viveve Medical competes in the women’s intimate health industry in some countries by marketing the Viveve System as a way to improve the overall well-being and quality of life of women suffering from vaginal introital laxity, for improved sexual function, or stress urinary incontinence, or SUI, depending on the relevant country-specific clearance or approval. In the United States, the Viveve System is currently indicated for use in general surgical procedures for electrocoagulation and hemostasis.

Purchase Agreement with Lincoln Park Capital, LLC

On June 8, 2020, the Company entered into a purchase agreement (the “Purchase Agreement”) with Lincoln Park Capital Fund, LLC (“LPC”), pursuant to which the Company has the right to sell to LPC, and LPC has committed to purchase from us, from time to time, up to \$10,000,000 of our common stock, subject to certain limitations, during the 30 months term of the Purchase Agreement.

On June 9, 2020, LPC purchased 525,000 shares of common stock at a price per share of \$0.65 (the “Initial Purchase Shares”) under the Purchase Agreement. Thereafter, under the Purchase Agreement, on any business day selected by us, the Company may direct LPC to purchase up to 250,000 shares (and in certain circumstances up to 500,000 shares) of our common stock. (See Note 11 – Common Stock.) LPC has no right to require the Company to sell any shares of common stock to LPC, but LPC is obligated to make purchases as the Company directs, subject to certain conditions. The purchase price per share for each such Regular Purchase will be based off of prevailing market prices of our common stock immediately preceding the time of sale without any fixed discount.

Other than as described above and Note 11 – Common Stock, there are no trading volume requirements or restrictions under the Purchase Agreement, and the Company will control the timing and amount of any sales of our common stock to LPC.

2020 Warrant Offering

On April 15, 2020, the Company reduced the exercise price of the outstanding Series A warrants and Series B warrants from \$1.55 per share to \$0.61 per share. On April 16, 2020, the Company entered into inducement letter agreements with certain institutional and accredited holders of Series A warrants and Series B warrants pursuant to which such holders agreed to exercise Series A warrants to purchase 4,820,584 shares of common stock and Series B warrants to purchase 242,790 shares of common stock for aggregate exercise proceeds to the Company of approximately \$3,089,000. In conjunction, the Company also agreed to issue new Series A-2 warrants to purchase up to 4,820,584 shares of common stock as an inducement for the exercise of Series A warrants, and new Series B-2 warrants to purchase up to 242,790 shares of common stock as an inducement for the exercise of Series B warrants, in each case at an exercise price of \$0.6371 per share and for a term of five years. The transaction closed on April 20, 2020. Transaction costs in connection with the 2020 Warrant Offering totaled approximately \$333,000. (See Note 11 – Common Stock for the calculation of the modification expense for the Series A and B warrants and the issuance of Series A-2 and B-2 warrants.) As of September 30, 2020, there were Series A-2 warrants to purchase a total of 3,928,284 shares of common stock and Series B-2 warrants to purchase a total of 203,800 shares of common stock still remaining and outstanding.

2019 Public Offering and CRG Debt Conversion

In November 2019, the Company closed an underwritten public offering of units (the “November 2019 Offering”) for gross proceeds of approximately \$11,500,000, which included the full exercise of the underwriter’s overallotment option to purchase additional shares and warrants. The net proceeds to the Company, after deducting underwriting discounts and commissions and other offering expenses and payable by the Company, were approximately \$9,922,000.

A total of 1,945,943 shares of common stock, 5,473,410 shares of Series A convertible preferred stock, Series A warrants to purchase up to 7,419,353 shares of common stock, and Series B warrants to purchase up to 7,419,353 shares of common stock were issued in the offering, including the full exercise of the over-allotment option. As of September 30, 2020, all Series A convertible preferred stock had been converted into common stock and there were no remaining shares of Series A preferred stock outstanding. As of September 30, 2020, there were Series A warrants to purchase a total of 423,809 shares of common stock and Series B warrants to purchase a total of 3,256,286 shares of common stock still remaining and outstanding. (See Note 10 – Preferred Stock; and Note 11 – Common Stock.)

In connection with the closing of the November 2019 Offering, the Company's secured lender, affiliates of CRG LP ("CRG"), converted approximately \$28,981,000 of the outstanding principal amount under its term loan with CRG (plus accrued interest, the prepayment premium and the back-end facility fee applicable thereto), for an aggregate amount of converted debt obligations of approximately \$31,300,000, into 31,300 shares of the newly authorized Series B convertible preferred stock and issued warrants to purchase up to 9,893,776 shares of common stock. As of September 30, 2020, there were 34,735 shares of Series B convertible preferred stock outstanding and warrants to purchase 9,893,776 shares of common stock. (See Note 6 – Note Payable.)

Interim Unaudited Financial Information

The accompanying unaudited condensed consolidated financial statements of Viveve Medical have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and pursuant to the instructions to Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the condensed consolidated financial statements have been included.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the Securities and Exchange Commission on March 19, 2020. The results of operations for the nine months ended September 30, 2020 are not necessarily indicative of the results for the year ending December 31, 2020 or any future interim period.

Liquidity and Management Plans

The Company has adopted the Financial Accounting Standards Board's ("FASB") Accounting Standard Codification ("ASC") Topic 205-40, Presentation of Financial Statements – Going Concern, which requires that management evaluate whether there are relevant conditions and events that, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern and to meet its obligations as they become due within one year after the date that the financial statements are issued.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. However, since inception, the Company has sustained significant operating losses and such losses are expected to continue for the foreseeable future. As of September 30, 2020, the Company had an accumulated deficit of \$215,071,000, cash and cash equivalents of \$9,200,000 and working capital of \$12,895,000. Additionally, the Company used \$12,936,000 in cash for operations in the nine months ended September 30, 2020. The Company's financing activities provided cash of \$9.2 million during the nine months ended September 30, 2020, including \$3.6 million in the three months ended September 30, 2020, which was primarily due to the exercise of common warrants. The Company will require additional cash funding to fund operations through November 2021. Accordingly, the Company concluded there was substantial doubt about the Company's ability to continue as a going concern. However, due to the cost-cutting actions that the Company has taken and the remaining equity financing commitment of \$9.7 million from LPC, management believes that this substantial doubt has been alleviated in the current period.

To fund further operations, the Company will need to raise additional capital. The Company may obtain additional financing in the future through the issuance of its common stock, or through other equity or debt financings. The Company's ability to continue as a going concern or meet the minimum liquidity requirements in the future is dependent on its ability to raise significant additional capital, of which there can be no assurance. If the necessary financing is not obtained or achieved, the Company will likely be required to reduce its planned expenditures, which could have an adverse impact on the results of operations, financial condition and the Company's ability to achieve its strategic objective. There can be no assurance that financing will be available on acceptable terms, or at all.

2. Summary of Significant Accounting Policies

Financial Statement Presentation

The condensed consolidated financial statements include the accounts of the Company and our wholly-owned subsidiaries, Viveve, Inc. and Viveve BV. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reverse Stock Split

The Company effected a 1-for-100 reverse stock split of its common stock that became effective after market close on September 18, 2019. The reverse stock split uniformly affected all issued and outstanding shares of the Company's common stock. The reverse stock split did not alter any stockholder's percentage ownership interest in the Company, except to the extent that the reverse stock split resulted in fractional shares. No fractional shares were issued in connection with the reverse stock split. Any fractional shares that resulted from the reverse stock split were rounded down, and stockholders were issued cash in lieu of such fractional share interest.

The par value of the Company's common stock remained unchanged at \$0.0001 per share after the reverse stock split.

The number of authorized shares of common stock remained at 75,000,000.

The reverse stock split proportionately affected the number of shares of common stock available for issuance under the Company's equity incentive plans. All stock options, warrants and restricted stock awards of the Company outstanding shares immediately prior to the reverse stock split were adjusted in accordance with their terms.

On the effective date of the reverse stock split, (i) each 100 shares of outstanding common stock were reduced to one share of common stock; (ii) the number of shares of common stock into which each outstanding stock option or warrant to purchase common stock is exercisable were proportionately reduced on a 100-to-1 basis; (iii) the exercise price of each outstanding stock option or warrant to purchase common stock were proportionately increased on a 1-to-100 basis; and (iv) the number of shares of common stock each outstanding restricted stock award will be issued upon vesting were proportionately reduced on a 100-to-1 basis.

All of the share numbers, share prices, and exercise prices have been adjusted, on a retroactive basis, to reflect this 1-for-100 reverse stock split.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and the related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe 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. Actual results may differ from these estimates. In addition, any change in these estimates or their related assumptions could have an adverse effect on our operating results.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less, at the time of purchase, to be cash equivalents. The Company's cash and cash equivalents are deposited in demand accounts primarily at one financial institution. Deposits in this institution may, from time to time, exceed the federally insured amounts.

Concentration of Credit Risk and Other Risks and Uncertainties

To achieve profitable operations, the Company must successfully develop, manufacture, and market its products. There can be no assurance that any such products can be developed or manufactured at an acceptable cost and with appropriate performance characteristics, or that such products will be successfully marketed. These factors could have a material adverse effect upon the Company's financial results, financial position, and future cash flows.

Most of the Company's products to date require clearance or approvals from the U.S. Food and Drug Administration ("FDA") or other international regulatory agencies prior to commencing commercial sales. There can be no assurance that the Company's products will receive any of these required clearances or approvals or for the indications requested. If the Company was denied such clearances or approvals or if such clearances or approvals were delayed, it would have a material adverse effect on the Company's financial results, financial position and future cash flows.

The Company is subject to risks common to companies in the medical device industry including, but not limited to, new technological innovations, dependence on key personnel, protection of proprietary technology, compliance with government regulations, uncertainty of market acceptance of products, product liability, and the need to obtain additional financing. The Company's ultimate success is dependent upon its ability to raise additional capital and to successfully develop and market its products.

The Company designs, develops, manufactures and markets a medical device that it refers to as the Viveve System, which is intended for the non-invasive treatment of vaginal introital laxity, for improved sexual function, for vaginal rejuvenation, for use in general surgical procedures for electrocoagulation and hemostasis, and stress urinary incontinence, depending on the relevant country-specific clearance or approval. The Viveve System consists of three main components: a radiofrequency generator housed in a table-top console, a reusable handpiece and a single-use treatment tip. Included with the system are single-use accessories (e.g. return pad, coupling fluid), as well as a cryogen canister that can be used for approximately four to five procedures, and a foot pedal. The Company outsources the manufacture and repair of the Viveve System to a single contract manufacturer. Also, certain other components and materials that comprise the device are currently manufactured by a single supplier or a limited number of suppliers. A significant supply interruption or disruption in the operations of the contract manufacturer or these third-party suppliers would adversely impact the production of our products for a substantial period of time, which could have a material adverse effect on our business, financial condition, operating results and cash flows.

In North America, the Company sells its products primarily through a direct sales force to health care practitioners. Outside North America, the Company sells through an extensive network of distribution partners. During the three months ended September 30, 2020, one distributor accounted for 40% of the Company's revenue. During the three months ended September 30, 2019, two distributors, collectively, accounted for 31% of the Company's revenue. During the nine months ended September 30, 2020, one distributor accounted for 45% of the Company's revenue. During the nine months ended September 30, 2019, one distributor accounted for 17% of the Company's revenue.

There were no direct sales customers that accounted for more than 10% of the Company's revenue during the three and nine months ended September 30, 2020 and 2019.

As of September 30, 2020, one distributor accounted for 16% of total accounts receivable, net. As of December 31, 2019, two distributors, collectively, accounted for 49% of total accounts receivable, net.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and are not interest bearing. Our typical payment terms vary by region and type of customer (distributor or physician). Occasionally, payment terms of up to six months may be granted to customers with an established history of collections without concessions. Should we grant payment terms greater than six months or terms that are not in accordance with established history for similar arrangements, revenue would be recognized as payments become due and payable assuming all other criteria for revenue recognition have been met. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company makes ongoing assumptions relating to the collectability of its accounts receivable in its calculation of the allowance for doubtful accounts. In determining the amount of the allowance, the Company makes judgments about the creditworthiness of customers based on ongoing credit evaluations and assesses current economic trends affecting its customers that might impact the level of credit losses in the future and result in different rates of bad debts than previously seen. The Company also considers its historical level of credit losses. The allowance for doubtful accounts was \$566,000 as of September 30, 2020 and \$407,000 as of December 31, 2019.

There were no write-offs of customers' accounts receivable during the three months ended September 30, 2020. During the nine months ended September 30, 2020, the Company wrote-off accounts receivable totaling approximately \$173,000 primarily related to Latin America distributors in connection with the Company's shift in its international business model and the withdrawal from certain countries in Latin America. There were no write-offs of customers' accounts receivable during the three and nine months ended September 30, 2019.

Revenue from Contracts with Customers

Revenue consists primarily of the sale of the Viveve System, single-use treatment tips and ancillary consumables. The Company applies the following five steps: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied. The Company considers customer purchase orders to be the contracts with a customer. Revenues, net of expected discounts, are recognized when the performance obligations of the contract with the customer are satisfied and when control of the promised goods are transferred to the customer, typically when products, which have been determined to be the only distinct performance obligations, are shipped to the customer. Expected costs of assurance warranties and claims are recognized as expense. Revenue is recognized net of any sales taxes from the sale of the products.

Rental revenue is generated through the lease of the Viveve System. The Company's operating leases for the Viveve System generally have a rental period of six to nine months and can be extended or terminated by the customer after that time or the Viveve System can be purchased by the customer. Rental revenue on those operating leases is recognized on a straight-line basis over the terms of the underlying leases. The Company began this rental program in the quarter ended June 30, 2019. For the three months ended September 30, 2020 and 2019, rental revenue recognized during the period was \$471,000 and \$177,000, respectively. For the nine months ended September 30, 2020 and 2019, rental revenue recognized during the period was \$829,000 and \$177,000, respectively. As of September 30, 2020 and December 31, 2019, the Company had deferred revenue in the amounts of \$617,000 and \$662,000, respectively, related to its rental program, which is included in accrued liabilities on the condensed consolidated balance sheets. During the three and nine months ended September 30, 2020, the Company recognized revenue of \$197,000 and \$499,000, respectively, which was deferred revenue as of December 31, 2019.

Late in the first quarter of 2020, the negative impact of the COVID-19 pandemic on medical facilities and practitioners was in full effect in the United States. Federal, regional, and local government and public health agencies issued directives halting performance of non-essential medical treatments and elective procedures in an effort to combat the spread of the coronavirus and protect public health and safety. As a result, an estimated 70-80% of Viveve's U.S. customers either temporarily closed their medical practices or dramatically reduced services and staff. The consequence has been both a public health and economic crisis that is continuing for existing and prospective Viveve customers. In a supportive partnership response, Viveve contacted all of its subscription customers and provided them with a three-month deferral of the rental payment. Although clinics in various regions are beginning to re-open and provide limited services, we anticipate that until the COVID-19 pandemic abates, more practices begin to re-open and elective patient's safety concerns are reduced, that we will continue to experience reduced revenue from existing subscription customers, as well as a greatly reduced number of new and prospective customers.

In connection with the lease of the Viveve System, the Company offers single-use treatment tips and ancillary consumables that are considered non-lease components. In the contracts with lease and non-lease components, the Company follows the relevant guidance in ASC 606, Revenue from Contracts with Customers, to determine how to allocate contractual consideration between the lease and non-lease components.

Sales of our products are subject to regulatory requirements that vary from country to country. The Company has regulatory clearance for differing indications, or can sell its products without a clearance, in many countries throughout the world, including countries within the following regions: North America, Latin America, Europe, the Middle East and Asia Pacific. In North America, we market and sell primarily through a direct sales force. Outside of North America, we market and sell primarily through distribution partners.

The Company does not provide its customers with a right of return.

Customer Advance Payments

From time to time, customers will pay for a portion of the products ordered in advance. Upon receipt of such payments, the Company records the customer advance payment as a component of accrued liabilities. The Company will remove the customer advance payment from accrued liabilities when revenue is recognized upon shipment of the products.

Contract Assets and Liabilities

The Company continually evaluates whether the revenue generating activities and advanced payment arrangements with customers result in the recognition of contract assets or liabilities. No such assets existed as of September 30, 2020 or December 31, 2019. The Company had customer contract liabilities in the amount of \$0 and \$108,000, primarily related to marketing programs that performance had not yet been delivered to its customers as of September 30, 2020 and December 31, 2019, respectively. Contract liabilities are recorded in accrued liabilities on the condensed consolidated balance sheet. During the three and nine months ended September 30, 2020, the Company recognized revenue for these marketing programs of \$21,000 and \$108,000, respectively, which was deferred as of December 31, 2019.

The following table reflects the changes in our customer contract liabilities for the nine months ended September 30, 2020:

| | <u>September 30,</u> <u>2020</u> | <u>December 31,</u> <u>2019</u> | <u>Change</u> |
|---------------------------------|-------------------------------------|------------------------------------|-----------------|
| Customer contracts liabilities: | | | |
| Marketing programs | \$ - | \$ 108 | \$ (108) |
| Total | <u>\$ -</u> | <u>\$ 108</u> | <u>\$ (108)</u> |

Separately, accounts receivable, net represents receivables from contracts with customers.

Significant Financing Component

The Company applies the practical expedient to not make any adjustment for a significant financing component if, at contract inception, the Company does not expect the period between customer payment and transfer of control of the promised goods or services to the customer to exceed one year. During the three and nine months ended September 30, 2020 and 2019, the Company did not have any contracts for the sale of its products with its customers with a significant financing component.

Contract Costs

The Company began its rental program in the quarter ended June 30, 2019. The Company expects that commissions paid to obtain subscriptions are recoverable and has therefore capitalized them as a contract costs in the amount of \$55,000 and \$337,000 at September 30, 2020 and December 31, 2019, respectively. Capitalized commissions are amortized based on the subscription periods to which the assets relate and are included in selling, general and administrative expenses. For the three months ended September 30, 2020 and 2019, the amount of amortization was \$58,000 and \$30,000, respectively. For the nine months ended September 30, 2020 and 2019, the amount of amortization was \$538,000 and \$30,000, respectively. There was no impairment loss in relation to the costs capitalized. The Company has elected the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the Company otherwise would have recognized is one year or less.

Shipping and Handling

Shipping costs billed to customers are recorded as revenue. Shipping and handling expense related to costs incurred to deliver product are recognized within cost of goods sold. The Company accounts for shipping and handling activities that occur after control has transferred as a fulfillment cost as opposed to a separate performance obligation, and the costs of shipping and handling are recognized concurrently with the related revenue.

Revenue by Geographic Area

Management has determined that the sales by geography is a key indicator for understanding the Company's financials because of the different sales and business models that are required in the various regions of the world (including regulatory, selling channels, pricing, customers and marketing efforts). The following table presents the revenue from unaffiliated customers disaggregated by geographic area for the three and nine months ended September 30, 2020 and 2019 (in thousands):

| | <u>Three Months Ended</u> <u>September 30,</u> | | <u>Nine Months Ended</u> <u>September 30,</u> | |
|------------------------|---|-----------------|--|-----------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| United States | \$ 844 | \$ 652 | \$ 1,648 | \$ 3,106 |
| Asia Pacific | 680 | 373 | 1,865 | 1,684 |
| Europe and Middle East | - | 27 | 5 | 316 |
| Latin America | - | - | 14 | 10 |
| Total | <u>\$ 1,524</u> | <u>\$ 1,052</u> | <u>\$ 3,532</u> | <u>\$ 5,116</u> |

The Company determines geographic location of its revenue based upon the destination of the shipments of its products.

Investments in Unconsolidated Affiliates

The Company uses the equity method to account for its investments in entities that it does not control but have the ability to exercise significant influence over the investee. Equity method investments are recorded at original cost and adjusted periodically to recognize (1) the proportionate share of the investees' net income or losses after the date of investment, (2) additional contributions made and dividends or distributions received, and (3) impairment losses resulting from adjustments to net realizable value. The Company eliminates all intercompany transactions in accounting for equity method investments. The Company records the proportionate share of the investees' net income or losses in equity in earnings of unconsolidated affiliates on the condensed consolidated statements of operations. The Company utilizes a three-month lag in reporting equity income from its investments, adjusted for known amounts and events, when the investee's financial information is not available timely or when the investee's reporting period differs from our reporting period.

The Company assesses the potential impairment of the equity method investments when indicators such as a history of operating losses, a negative earnings and cash flow outlook, and the financial condition and prospects for the investee's business segment might indicate a loss in value. The carrying value of the investments is reviewed annually for changes in circumstances or the occurrence of events that suggest the investment may not be recoverable. No impairment charges have been recorded in the condensed consolidated statements of operations during the three and nine months ended September 30, 2020 and 2019.

Product Warranty

The Company's products sold to customers are generally subject to warranties between one and three years, which provides for the repair, rework or replacement of products (at the Company's option) that fail to perform within stated specifications. The Company has assessed the historical claims and, to date, product warranty claims have not been significant.

Accounting for Stock-Based Compensation

Share-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the employee's service period. The Company recognizes compensation expense on a straight-line basis over the requisite service period of the award.

The Company determined that the Black-Scholes option pricing model is the most appropriate method for determining the estimated fair value for stock options and purchase rights under the employee stock purchase plan. The Black-Scholes option pricing model requires the use of highly subjective and complex assumptions which determine the fair value of share-based awards, including the option's expected term and the price volatility of the underlying stock.

Equity instruments issued to nonemployees are recorded in the same manner as similar instruments issued to employees.

Comprehensive Loss

Comprehensive loss represents the changes in equity of an enterprise, other than those resulting from stockholder transactions. Accordingly, comprehensive loss may include certain changes in equity that are excluded from net loss. For the three and nine months ended September 30, 2020 and 2019, the Company's comprehensive loss is the same as its net loss.

Net Loss per Share

The Company's basic net loss per share is calculated by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding for the period. The diluted net loss per share is computed by giving effect to all potentially dilutive common stock equivalents outstanding during the period. For purposes of this calculation, stock options and warrants to purchase common stock and restricted common stock awards are considered common stock equivalents. For periods in which the Company has reported net losses, diluted net loss per share is the same as basic net loss per share since dilutive common shares are not assumed to have been issued if their effect is anti-dilutive.

The following securities were excluded from the calculation of net loss per share because the inclusion would be anti-dilutive:

| | Nine Months Ended September 30, | |
|--|------------------------------------|--------|
| | 2020 | 2019 |
| Series B convertible preferred stock | 22,702,614 (a) | - |
| Warrants to purchase common stock | 17,710,876 | 5,549 |
| Stock options to purchase common stock | 9,755,454 | 50,471 |
| Restricted common stock awards | 2,217 | 3,432 |

- (a) As of September 30, 2020, a total of 34,735 shares of Series B convertible preferred stock were outstanding and are convertible into 22,702,614 shares of common stock. Each share of Series B convertible preferred stock is convertible at the holder's option into shares of common stock at a conversion ratio of 1-for-653.59 per share determined by dividing the Series B liquidation amount of \$1,000 per share by the Series B conversion price of \$1.53 per share. However, under the terms of the Series B Preferred Stock and Warrant Purchase Agreement, as amended, CRG will not convert the Series B preferred stock or exercise the CRG warrants until the Company's stockholders act to authorize additional number of shares of common stock sufficient to cover the conversion shares.

Recently Issued and Adopted Accounting Standards

In November 2019, the FASB issued ASU 2019-08, "Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606). The amendments in this Update require measurement and classification of share-based payment awards granted to a customer by applying the guidance in Topic 718. This guidance is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period, with early adoption permitted. We adopted this guidance as of January 1, 2020 and the adoption of the guidance did not have a significant impact on the condensed consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740). The amendments in this Update provide further simplification of accounting standards for the accounting for income taxes. Certain exceptions for are removed and requirements regarding the accounting for franchise taxes, tax basis of goodwill, and tax law rate changes are made. This guidance is effective for annual reporting periods beginning after December 15, 2020, including interim periods within that reporting period, with early adoption permitted. We will adopt this guidance as of January 1, 2021, and the adoption of the guidance is not expected to have a significant impact on the consolidated financial statements.

We have reviewed other recent accounting pronouncements and concluded they are either not applicable to the business, or no material effect is expected on the condensed consolidated financial statements as a result of future adoption.

3. Fair Value Measurements

The Company recognizes and discloses the fair value of its assets and liabilities using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (Level 3 measurements). Each level of input has different levels of subjectivity and difficulty involved in determining fair value.

- | | |
|---------|---|
| Level 1 | Inputs used to measure fair value are unadjusted quoted prices that are available in active markets for the identical assets or liabilities as of the reporting date. Therefore, determining fair value for Level 1 investments generally does not require significant judgment, and the estimation is not difficult. |
| Level 2 | Pricing is provided by third party sources of market information obtained through investment advisors. The Company does not adjust for or apply any additional assumptions or estimates to the pricing information received from its advisors. |
| Level 3 | Inputs used to measure fair value are unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions. The determination of fair value for Level 3 instruments involves the most management judgment and subjectivity. |

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability.

There were no financial instruments that were measured at fair value on a recurring basis as of September 30, 2020 and December 31, 2019.

The carrying amounts of the Company's financial assets and liabilities, including cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses as of September 30, 2020, and December 31, 2019 approximate fair value because of the short maturity of these instruments. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of the note payable approximates fair value.

There were no changes in valuation techniques from prior periods.

4. Investment in Limited Liability Company

On August 8, 2017, the Company entered into an exclusive Distributorship Agreement (the "Distributorship Agreement") with InControl Medical, LLC ("ICM"), a Wisconsin limited liability company focused on women's health, pursuant to which the Company will directly market, promote, distribute and sell ICM's products to licensed medical professional offices and hospitals in North America.

Under the terms of the Distributorship Agreement, ICM agreed to not directly or indirectly appoint or authorize any third party to market, promote, distribute or sell any of the licensed products to any licensed medical professional offices and hospitals in the United States. In exchange, the Company agreed to not market, promote, distribute or sell (or contract to do so) any product which substantially replicates all or almost all of the key features of the licensed products. The Company has a minimum purchase requirement to purchase a certain quantity of ICM products per month during the term of this Distributorship Agreement. In addition, the parties agreed to certain mutual marketing obligations to promote sales of the licensed products. During the three months ended September 30, 2020 and 2019, the Company has purchased 185 and zero units of ICM products for approximately \$26,000 and \$0, respectively. During the nine months ended September 30, 2020 and 2019, the Company has purchased 425 and 300 units of ICM products for approximately \$46,000 and \$27,000, respectively. As of September 30, 2020, the Company has purchased approximately 5,225 units of ICM products. The Company paid ICM approximately \$10,000 and \$0 for product related costs during the three months ended September 30, 2020 and 2019, respectively. The Company paid ICM approximately \$30,000 and \$27,000 for product-related costs during the nine months ended September 30, 2020 and 2019, respectively. The amount due to ICM as of September 30, 2020, was \$16,000; there were no amounts due to ICM for the accounts payable as of December 31, 2019.

In connection with the Distributorship Agreement, the Company also entered into a Membership Unit Subscription Agreement with ICM and the associated limited liability company operating agreement of ICM, pursuant to which the Company invested \$2,500,000 in, and acquired membership units of, ICM. This investment has been recorded in investment in a limited liability company in the condensed consolidated balance sheets. The Company used the equity method to account for the investment in ICM because the Company does not control it but has the ability to exercise significant influence over it. As of September 30, 2020, the Company owned approximately 7% ownership interest in ICM. The Company recognizes its allocated portion of ICM's results of operations on a three-month lag due to the timing of financial information. For the three months ended September 30, 2020 and 2019, the allocated net loss from ICM's operations was \$55,000 and \$ 168,000, respectively. For the nine months ended September 30, 2020 and 2019, the allocated net loss from ICM's operations was \$323,000 and \$431,000, respectively. The allocated net loss from ICM's operations was recorded as loss from minority interest in limited liability company in the condensed consolidated statements of operations.

In February 2019, the Company executed a mutual termination of the Distributorship Agreement with ICM. As a result, the Company no longer has a minimum purchase requirement to purchase a certain quantity of ICM products per month.

5. Accrued Liabilities

Accrued liabilities consisted of the following as of September 30, 2020 and December 31, 2019 (in thousands):

| | September 30, 2020 | December 31, 2019 |
|--|-----------------------|----------------------|
| Deferred revenue - subscription rental program | \$ 617 | \$ 662 |
| Accrued bonuses | 589 | 726 |
| Accrued payroll and other related expenses | 335 | 839 |
| Current operating lease liabilities | 203 | 268 |
| Accrued professional fees | 133 | 592 |
| Customer advances | 21 | 53 |
| Accrued sales commission | 20 | 281 |
| Accrued inventory | - | 474 |
| Accrued interest | 6 | 440 |
| Customer contracts liabilities | - | 108 |
| Other accruals | 66 | 255 |
| Total accrued liabilities | <u>\$ 1,990</u> | <u>\$ 4,698</u> |

6. Note Payable

On May 22, 2017, the Company entered into a Term Loan Agreement as amended on December 12, 2017 and November 29, 2018 (collectively the “2017 Loan Agreement”) with affiliates of CRG LP (“CRG”). The credit facility consists of \$20,000,000 drawn at closing and access to additional funding of up to an aggregate of \$10,000,000 for a total of \$30,000,000 available under the credit facility. On December 29, 2017, the Company accessed the remaining \$10,000,000 available under the credit facility.

In connection with the 2017 Loan Agreement, the Company issued two 10-year warrants to CRG to purchase a total of 2,220 shares of the Company’s common stock at an exercise price of \$950.00 per share (see Note 11 – Common Stock).

Under the 2017 Loan Agreement, as in effect prior to the November 12, 2019 amendment, the credit facility had a six-year term with four years of interest-only payments after which quarterly principal and interest payments were to be due through the maturity date. Amounts borrowed under the 2017 Loan Agreement accrued interest at an annual fixed rate of 12.5%, 4.0% of which may, at the election of the Company, could be paid in-kind during the interest-only period by adding such accrued amount to the principal loan amount each quarter. During the three and nine months ended September 30, 2019, the Company paid interest in-kind of \$331,000 and \$973,000, respectively, which was added to the total outstanding principal loan amount. The Company was also required to pay CRG a final payment fee upon repayment of the loans in full equal to 5.0% of the sum of the aggregate principal amount plus the deferred interest added to the principal loan amount during the interest-only period.

As security for its obligations under the 2017 Loan Agreement, the Company entered into security agreements with CRG whereby the Company granted CRG a lien on substantially all of the Company’s assets, including intellectual property.

The terms of the 2017 Loan Agreement also required the Company to meet certain financial and other covenants. The 2017 Loan Agreement also contained customary affirmative and negative covenants for a credit facility of this size and type, including covenants that limit or restrict the Company’s ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into transactions with affiliates, pay dividends or make distributions, license intellectual property rights on an exclusive basis or repurchase stock, in each case subject to customary exceptions.

On November 12, 2019, the Company and CRG amended the 2017 Loan Agreement (the “Amendment No. 3”). In connection with the amendment, the Company converted approximately \$28,981,000 of the outstanding principal amount under the term loan plus accrued interest, the prepayment premium and the back-end facility fee for an aggregate amount of converted debt obligations of approximately \$31,300,000. The debt obligations converted into 31,300 shares of the newly authorized Series B convertible preferred stock and warrants to purchase up to 9,893,776 shares of common stock were also issued. The warrants have a term of 5 years and an exercise price equal to 120% of the Series convertible B preferred stock conversion price of \$1.53 or \$1.836 per share (see Note 11 – Common Stock). CRG entered into a one year lock up agreement on all securities that it holds.

The Amendment No. 3 to the 2017 Loan Agreement addressed, among other things:

- repayment provisions were amended such that repayment is permitted only with, or after, the redemption in full of the Series B convertible preferred stock issued to CRG;
- the interest only payment period and the period during which the Company may elect to pay the full interest in PIK interest payments was extended through the 23rd date after the first payment date. Pursuant to the amendment, CRG shall consent to the payment of such interest in the form of PIK loans, provided that (i) as of such payment date, no default shall have occurred and be continuing, and (ii) the principal amount of each PIK loan shall accrue interest in accordance with the provisions of the 2017 Loan Agreement;
- modified certain of the covenants, including (i) to permit issuance of the Series B convertible preferred stock and any preferred stock issued in the equity financing and the exercise and performance by the Company of its rights and obligations in connection with such CRG preferred stock and any preferred stock issued in the equity financing, (ii) eliminate the Company’s ability to enter into permitted acquisitions, (iii) further restrict the incurrence of additional indebtedness and removal of the equity cure right, and (iv) eliminate the minimum revenue requirement; and
- the back-end facility fee on the aggregate remaining principal balance on the term loan shall be increased from 5% to 25%.

During the three and nine months ended September 30, 2020, the Company paid interest in-kind of \$136,000 and \$392,000, respectively, which was added to the total outstanding principal loan amount.

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

As of September 30, 2020 and December 31, 2019, \$4,377,000 and \$3,983,000, respectively, was recorded on the condensed consolidated balance sheets, as note payable, noncurrent portion, which is net of the remaining unamortized debt discount.

The Company accounted for the changes in the 2017 Loan Agreement as a troubled debt restructuring. The Company reduced the amount of the debt obligation by the fair value of the equity interests transferred. The remaining difference was charged to the loss on debt restructuring and reported on the consolidated statements of operations and comprehensive loss. The equity interests transferred included the 31,300 shares of the newly authorized Series B convertible preferred stock and warrants to purchase up to 9,893,776 shares of common stock. The Company determined the fair value of the Series B convertible preferred stock on November 26, 2019 using the option pricing method. The fair value of the Series B convertible preferred stock was determined to be \$1,023.23 for an aggregate fair value amount of approximately \$32,027,000 (see Note 10 – Preferred Stock). The Company determined the fair value of the warrants on the date of issuance to be approximately \$3,502,000 using the Black-Scholes option pricing model (see Note 11 – Common Stock.) After consideration of the fair value of the equity interests transferred and the carrying value of the debt, the remaining difference is the loss on debt restructuring of \$6,705,000, which was recorded in the consolidated statement of operations for the year ended December 31, 2019.

As of September 30, 2020, future minimum payments under the note payable were as follows (in thousands):

| Year Ending December 31, | |
|------------------------------------|-----------------|
| 2020 (remaining 3 months) | \$ - |
| 2021 | - |
| 2022 | - |
| 2023 | 5,992 |
| Total payments | <u>5,992</u> |
| Less: Amount representing interest | <u>(1,605)</u> |
| Present value of obligations | 4,387 |
| Less: Unamortized debt discount | <u>(10)</u> |
| Note payable, noncurrent portion | <u>\$ 4,377</u> |

7. Paycheck Protection Program Loan

The Paycheck Protection Program (“PPP”) was established under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and is administered by the U.S. Small Business Administration (“SBA”). On April 24, 2020, Viveve, Inc. (“Viveve”), a wholly-owned subsidiary of the Company, entered into a promissory note evidencing an unsecured loan in the aggregate amount of approximately \$1,343,000 made to Viveve under the PPP (the “PPP Loan”). The PPP Loan to Viveve is being made through Western Alliance Bank. The interest rate on the PPP Loan is 1.00% and the term is two years. In accordance with the updated Small Business guidance, the PPP Loan was modified so that, beginning ten months from the date of the PPP Loan, Viveve is required to make monthly payments of principal and interest. The promissory note evidencing the PPP Loan contains customary events of default relating to, among other things, payment defaults or breaching the terms of the PPP Loan documents. The occurrence of an event of default may result in the repayment of all amounts outstanding, collection of all amounts owing from Viveve, or filing suit and obtaining judgment against Viveve. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payment of payroll costs and any payments of mortgage interest, rent, and utilities. No assurance is provided that Viveve will obtain forgiveness of the PPP Loan in whole or in part.

As of September 30, 2020, future minimum payments under the PPP loan are as follows (in thousands):

| Year Ending December 31, | |
|--|--------|
| 2020 (remaining 3 months) | \$ - |
| 2021 | 938 |
| 2022 | 426 |
| Total payments | 1,364 |
| Less: Amount representing interest | (20) |
| Present value of obligations | 1,344 |
| Paycheck Protection Program loan, current portion | 664 |
| Paycheck Protection Program loan, noncurrent portion | \$ 679 |

8. Leases

Lessee:

The following information pertains to those operating lease agreements where the Company is the lessee.

On February 1, 2017, the Company entered into a sublease agreement (the "Sublease") for approximately 12,400 square feet of building space for the relocation of the Company's corporate headquarters to Englewood, Colorado (the "Sublease Premises"), which was effective as of January 26, 2017. The lease term commenced on June 1, 2017 and will terminate in May 2021. The Company relocated its corporate headquarters from Sunnyvale, California to Englewood, Colorado in June 2017.

The monthly base rent under the Sublease is equal to \$20.50 per rentable square foot of the Sublease Premises during the first year. The monthly base rent is equal to \$21.12 and \$21.75 per rentable square foot during the second and third years, respectively. In connection with the execution of the Sublease, the Company also agreed to pay a security deposit of approximately \$22,000. The Company was also provided an allowance of approximately \$88,000 for certain tenant improvements relating to the engineering, design and construction of the Sublease Premises which has been reimbursed.

In September 2018, the Company entered into a 36-month noncancelable operating lease agreement for office equipment. The lease commenced on September 20, 2018. The monthly lease payment is approximately \$3,000.

After the adoption of ASU 842 – Leases on January 1, 2019, operating lease rentals are expensed on a straight-line basis over the life of the lease beginning on the date the Company takes possession of the property. At lease inception, the Company determines the lease term by assuming the exercise of those renewal options that are reasonably assured. The lease term is used to determine whether a lease is financing or operating and is used to calculate straight-line rent expense. Additionally, the depreciable life of leasehold improvements is limited by the expected lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet; the Company recognizes lease expense for these leases on a straight-line basis over the lease term.

The following table reflects the Company's lease assets and lease liabilities at September 30, 2020 and December 31, 2019 (in thousands):

| | <u>September 30, 2020</u> | <u>December 31, 2019</u> |
|--|-------------------------------|------------------------------|
| Assets: | | |
| Operating lease right-of-use assets | \$ 200 | \$ 395 |
| Liabilities: | | |
| Current operating lease liabilities | \$ 203 | \$ 268 |
| Noncurrent operating lease liabilities | - | 132 |
| | <u>\$ 203</u> | <u>\$ 400</u> |

The operating lease right-of-use assets are included in other assets on the condensed consolidated balance sheet. The operating lease liabilities are included in accrued liabilities and other noncurrent liabilities on the condensed consolidated balance sheet.

The operating leases expense for the three months ended September 30, 2020 and 2019 was \$77,000 and \$75,000, respectively. The operating leases expense for the nine months ended September 30, 2020 and 2019 was \$226,000 and \$225,000, respectively.

As of September 30, 2020, the maturity of operating lease liabilities was as follows (in thousands):

Year Ending December 31,

| | |
|------------------------------------|---------------|
| 2020 (remaining 3 months) | \$ 76 |
| 2021 | 137 |
| Total lease payments | 213 |
| Less: Amount representing interest | (10) |
| Present value of lease liabilities | <u>\$ 203</u> |

The weighted average remaining lease term was approximately 8 months as of September 30, 2020. The weighted average discount rate for the three months ended September 30, 2020 was 12.5%.

Lessor:

The following information pertains to those operating lease agreements where the Company is the lessor.

As of September 30, 2020, minimum future rentals from customers on non-cancellable operating leases of Viveve Systems were as follows (in thousands):

Year Ending December 31,

| | |
|---------------------------|---------------|
| 2020 (remaining 3 months) | \$ 381 |
| 2021 | 236 |
| Thereafter | - |
| Total | <u>\$ 617</u> |

As of September 30, 2020, \$946,000 of property and equipment is related to these operating lease agreements. The depreciation expense for that property and equipment for the three and nine months ended September 30, 2020 is \$117,000 and \$345,000, respectively.

9. Commitments and Contingencies

Indemnification Agreements

The Company enters into standard indemnification arrangements in the ordinary course of business. Pursuant to these arrangements, the Company indemnifies, holds harmless and agrees to reimburse the indemnified parties for losses suffered or incurred by the indemnified party, in connection with performance of services within the scope of the agreement, breach of the agreement by the Company, or noncompliance of regulations or laws by the Company, in all cases provided the indemnified party has not breached the agreement and/or the loss is not attributable to the indemnified party's negligence or willful malfeasance. The term of these indemnification agreements is generally perpetual any time after the execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these arrangements is not determinable. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal.

Loss Contingencies

The Company is or has been subject to proceedings, lawsuits and other claims arising in the ordinary course of business. The Company evaluates contingent liabilities, including threatened or pending litigation, for potential losses. If the potential loss from any claim or legal proceeding is considered probable and the amount can be estimated, the Company accrues a liability for the estimated loss. Because of uncertainties related to these matters, accruals are based upon the best information available. For potential losses for which there is a reasonable possibility (meaning the likelihood is more than remote but less than probable) that a loss exists, the Company will disclose an estimate of the potential loss or range of such potential loss or include a statement that an estimate of the potential loss cannot be made. As additional information becomes available, the Company reassesses the potential liability related to pending claims and litigation and may revise its estimates, which could materially impact its condensed consolidated financial statements. Management does not believe that the outcome of any outstanding legal matters will have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows.

10. Preferred Stock

In connection with the closing of the public offering in November 2019, the Company filed the Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock (the "Series A Certificate of Designation") with the Secretary of State of the State of Delaware. The Series A Certificate of Designation provides for the issuance of the shares of Series A convertible preferred stock. The shares of Series A convertible 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 exceptions, as described in the Series A Certificate of Designation, the shares of Series A preferred stock have no voting rights.

Each share of Series A convertible 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.

A total of 5,473,410 shares of Series A convertible preferred stock were issued in the offering. The activity of Series A convertible preferred stock during the nine months ended September 30, 2020 is described as follows:

- In January 2020, the holders of Series A convertible preferred stock converted 1,183,151 shares of common stock.
- In February 2020, the holders of Series A convertible preferred stock converted 669,022 shares into common stock.

As of September 30, 2020, all Series A convertible preferred stock had been converted into common stock and there were no remaining shares of Series A convertible preferred stock outstanding.

As previously reported (see Note 6 – Note Payable), the CRG debt obligations converted into 31,300 shares of the newly authorized Series B convertible preferred stock and warrants to purchase up to 9,893,776 shares of common stock were also issued. In connection with the CRG debt conversion, on November 26, 2019, the Company filed the Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock (the "Series B Certificate of Designation") with the Secretary of State of the State of Delaware. The Series B Certificate of Designation provides for the issuance of the shares of Series B convertible preferred stock. The holders of Series B convertible preferred stock are entitled to receive compounding dividends at a rate of 12.5% per annum payable quarterly at the Company's option through additional paid in-kind shares of Series B convertible preferred stock or in cash. During the year ended December 31, 2019, the Company paid dividend in-kind of an additional 378 shares of Series B convertible preferred stock and a cash dividend of approximately \$2,000 for the remaining fractional shares. During the three months ended September 30, 2020, the Company paid dividend in kind of an additional 1,050 shares of Series B convertible preferred stock and a cash dividend of approximately \$3,000 for the remaining fractional shares. During the nine months ended September 30, 2020, the Company paid dividend in kind of an additional 3,057 shares of Series B convertible preferred stock and a cash dividend of approximately \$7,000 for the remaining fractional shares. As of September 30, 2020, there were 34,735 shares of Series B convertible preferred stock outstanding. The shares of Series B convertible preferred stock have no voting rights and rank senior to all other classes and series of our equity in terms of repayment and certain other rights.

The Series B convertible preferred stock provides that for so long as any shares are outstanding, the consent of the holders of the Series B convertible preferred stockholders would be required to amend the Company's organizational documents, approve any merger, sale of assets, or other major corporate transaction, or incur additional indebtedness, among other items.

The fair value of the Series B convertible preferred stock was determined in connection with the CRG debt conversion as part of the accounting for that transaction as a troubled debt restructuring. Based on our valuation analysis, as of November 26, 2019, the date of issuance, the estimated fair value of the Series B convertible preferred stock was \$1,023.23 per share or a total value of approximately \$32,027,000 for the 31,300 shares of Series B convertible preferred stock that were issued. (See Note 6 – Note Payable.)

Under the terms of the Series B Preferred Stock and Warrant Purchase Agreement, as amended, CRG will not convert the Series B convertible preferred stock or exercise the warrants until the Company's stockholders act to authorize additional number of shares of common stock sufficient to cover the conversion shares.

11. Common Stock

Purchase Agreement with Lincoln Park Capital, LLC

On June 8, 2020, the Company entered into a purchase agreement (the "Purchase Agreement") with Lincoln Park Capital Fund, LLC ("LPC"), pursuant to which the Company has the right to sell to LPC, and LPC has committed to purchase from us, from time to time, up to \$10,000,000 of our common stock, subject to certain limitations, during the 30 months term of the Purchase Agreement.

On June 9, 2020, LPC purchased 525,000 shares of common stock at a price per share of \$0.65 (the "Initial Purchase Shares") under the Purchase Agreement. Thereafter, under the Purchase Agreement, on any business day selected by us (the "Purchase Date"), the Company may direct LPC to purchase up to 250,000 shares of our common stock on such business day (each, a "Regular Purchase"), provided, however, that (i) the Regular Purchase may be increased to up to 300,000 shares, provided that the closing sale price of our common stock is not below \$1.00 on the Purchase Date and (ii) the Regular Purchase may be increased to up to 500,000 shares, provided that the closing sale price of our common stock is not below \$2.00 on the Purchase Date. In each case, LPC's maximum commitment in any single Regular Purchase may not exceed \$1,000,000. LPC has no right to require the Company to sell any shares of common stock to LPC, but LPC is obligated to make purchases as the Company directs, subject to certain conditions. The purchase price per share for each such Regular Purchase will be based off of prevailing market prices of our common stock immediately preceding the time of sale without any fixed discount.

In addition to Regular Purchases described above, the Company may also direct LPC, on any business day following the date on which the Company has properly submitted a Regular Purchase notice directing LPC to purchase the maximum number of shares of our common stock that the Company is then permitted to include in a single Regular Purchase notice (the "Accelerated Purchase Date"), to purchase an additional amount of our common stock (an "Accelerated Purchase"), not to exceed the lesser of (i) three (3) times the number of shares purchased pursuant to such Regular Purchase, and (ii) 30% of the trading volume on the Accelerated Purchase Date at a purchase price equal to the lesser of (a) the closing sale price on the Accelerated Purchase Date, and (b) 95% of the Accelerated Purchase Date's volume weighted average price. The Company shall have the right in its sole discretion to set a minimum price threshold for each Accelerated Purchase.

Under certain circumstances and in accordance with the Purchase Agreement, the Company may direct LPC to purchase shares in multiple Accelerated Purchases on the same trading day, provided that all prior Accelerated Purchases (including those that have occurred earlier on the same day) have been completed and all of the shares to be purchased thereunder (and under the corresponding Regular Purchase) have been properly delivered to LPC in accordance with the Purchase Agreement.

Other than as described above, there are no trading volume requirements or restrictions under the Purchase Agreement, and the Company will control the timing and amount of any sales of our common stock to LPC.

Transaction costs in connection with the Purchase Agreement with LPC totaled approximately \$494,000. Included in these transaction costs was a commitment fee paid by the Company in the amount of \$325,000. While this commitment fee relates to the entire offering and the purchases of common shares that will occur over time, the Company has recorded the entire commitment fee as issuance costs in additional paid-in capital at the time the commitment fee was paid because the offering has been consummated, and there is no guaranteed future economic benefit from this payment.

2019 Public Offering

In November 2019, the Company closed an underwritten public offering of units (the “November 2019 Offering”) for gross proceeds of approximately \$11,500,000, which included the full exercise of the underwriter’s over-allotment option to purchase additional shares and warrants. The net proceeds to the Company, after deducting underwriting discounts and commissions and other offering expenses and payable by the Company, were approximately \$9,922,000.

The offering comprised of: (1) Class A Units, priced at a public offering price of \$1.55 per unit, with each unit consisting of one share of common stock, a Series A warrant to purchase one share of common stock at an exercise price of \$1.55 per share that expires on the first anniversary of the date of issuance and a Series B warrant to purchase one share of common stock at an exercise price of \$1.55 per share that expires on the fifth anniversary of the issuance; and (2) Class B Units, priced at a public offering price of \$1.55 per unit, with each unit consisting of one share of Series A preferred stock, convertible into one share of common stock, a Series A warrant to purchase one share of common stock at an exercise price of \$1.55 per share that expires on the first anniversary of the date of issuance and a Series B warrant to purchase one share of common stock at an exercise price of \$1.55 per share that expires on the fifth anniversary of the issuance.

The securities comprising the units were immediately separable and were issued separately. A total of 1,945,943 shares of common stock, 5,473,410 shares of Series A preferred stock, Series A warrants to purchase up to 7,419,353 shares of common stock, and Series B warrants to purchase up to 7,419,353 shares of common stock were issued in the offering, including the full exercise of the over-allotment option.

As of September 30, 2020, all Series A convertible preferred stock had been converted into common stock and there were no remaining shares of Series A convertible preferred stock outstanding. (See Note 10 – Preferred Stock.)

As of September 30, 2020, there are Series A warrants to purchase a total of 423,809 shares of common stock and Series B warrants to purchase a total of 3,256,286 shares of common stock still remaining and outstanding (See “*Warrants for Common Stock*” below.)

Restricted Common Shares

The activity of restricted common shares during the nine months ended September 30, 2020 is described as follows:

- In September 2020, the Company issued 47,090 restricted shares of its common stock at an aggregate value of approximately \$25,000.
- In June 2020, the Company issued 34,531 restricted shares of its common stock at an aggregate value of approximately \$25,000.
- In March 2020, the Company issued 28,313 restricted shares of its common stock at an aggregate value of approximately \$24,000.

Warrants for Common Stock

As of September 30, 2020, outstanding warrants to purchase shares of common stock were as follows:

| Issuance Date | Exercisable for | Expiration Date | Exercise Price | Shares Outstanding Under Warrants |
|---------------|-----------------|-------------------|----------------|-----------------------------------|
| February 2015 | Common Shares | February 17, 2025 | \$ 400.00 | 754 |
| March 2015 | Common Shares | March 26, 2025 | \$ 272.00 | 14 |
| May 2015 | Common Shares | May 12, 2025 | \$ 424.00 | 362 |
| December 2015 | Common Shares | December 16, 2025 | \$ 560.00 | 267 |
| April 2016 | Common Shares | April 1, 2026 | \$ 608.00 | 250 |
| May 2016 | Common Shares | May 11, 2021 | \$ 774.00 | 50 |
| June 2016 | Common Shares | June 20, 2026 | \$ 498.00 | 1,004 |
| May 2017 | Common Shares | May 25, 2027 | \$ 950.00 | 2,220 |
| November 2019 | Common Shares | November 26, 2020 | \$ 0.61 | 423,809 |
| November 2019 | Common Shares | November 26, 2024 | \$ 0.61 | 3,256,286 |
| November 2019 | Common Shares | November 26, 2024 | \$ 1.836 | 9,893,776 |
| April 2020 | Common Shares | April 21, 2025 | \$ 0.6371 | 4,132,084 |
| | | | | <u>17,710,876</u> |

In connection with the November 2019 Offering, Series A warrants to purchase up to 7,419,353 shares of common stock, and Series B warrants to purchase up to 7,419,353 shares of common stock were issued in the offering. A Series A warrant to purchase one share of common stock at an exercise price of \$1.55 per share that expires on the first anniversary of the date of issuance and a Series B warrant to purchase one share of common stock at an exercise price of \$1.55 per share that expires on the fifth anniversary of the issuance. The Series A warrants to purchase one share of common stock have a contractual term of one year and an exercise price of \$1.55 per share. The Series B warrants to purchase one share of common stock have a contractual term of five years and an exercise price of \$1.55 per share.

In February 2020, a total of 1,026,240 shares of common stock were issued in connection with the exercise of Series A warrants for gross proceeds of approximately \$1,591,000, and a total of 45,473 shares of common stock were issued in connection with the exercise of Series B warrants for gross proceeds of approximately \$70,000.

On April 15, 2020, the Company reduced the exercise price of the outstanding Series A warrants and Series B warrants from \$1.55 per share to \$0.61 per share. The Series A and B warrant exercise price adjustment to \$0.61 per share from \$1.55 per share resulted in the recognition of a modification expense on April 15, 2020, under the analogous guidance with respect to stock option modification under FASB ASC Topic 718, Stock-Based Compensation (ASC 718), wherein an exchange of warrants is deemed to be a modification of the initial warrant agreement by the replacement with a revised warrant agreement, requiring the incremental fair value, measured as the difference between the fair value immediately after the modification as compared to the fair value immediately before the modification, to the extent an increase, recognized as a modification expense. In this regard, the Series A warrants and Series B warrants exercise price adjustment resulted in the recognition of a current period modification expense of \$1,838,000 included in other income (expense) in the condensed consolidated statement of operations, with a corresponding increase to additional paid-in capital in the condensed consolidated balance sheet. The modification expense incremental fair value was estimated using a Black-Scholes valuation model, using the following assumptions:

| | Immediately before Modification | Immediately After Modification |
|--------------------------|---------------------------------|--------------------------------|
| Exercise price | \$1.55 | \$0.61 |
| Common stock price | \$0.63 | \$0.63 |
| Expected term (in years) | 2.8 | 2.8 |
| Average volatility | 97% | 97% |
| Risk-free interest rate | 0.27% | 0.27% |
| Dividend yield | 0% | 0% |

On April 16, 2020, the Company entered into inducement letter agreements with certain institutional and accredited holders of Series A warrants and Series B warrants pursuant to which such holders agreed to exercise Series A warrants to purchase 4,820,584 shares of common stock and Series B warrants to purchase 242,790 shares of common stock for aggregate exercise proceeds to the Company of approximately \$3,089,000.

In conjunction, the Company also agreed to issue new Series A-2 warrants to purchase up to 4,820,584 shares of common stock as an inducement for the exercise of Series A warrants, and new Series B-2 warrants to purchase up to 242,790 shares of common stock as an inducement for the exercise of Series B warrants, in each case at an exercise price of \$0.6371 per share and for a term of five years. The Company determined the fair value of the Series A-2 and the Series B-2 warrants on the date of issuance to be approximately \$1,838,000 using the Black-Scholes option pricing model. Assumptions used were dividend yield of 0%, volatility of 84.1%, risk free interest rate of 0.35% and a contractual life of five years. The fair value of the Series A-2 and B-2 warrants is recorded as a cost of issuance of the offering and as additional paid-in capital. The transaction closed on April 20, 2020. Other transaction costs in connection with the 2020 Warrant Offering were approximately \$333,000.

In May 2020, a total of 4,099 shares of common stock were issued in connection with the exercise of Series A warrants for gross proceeds of approximately \$2,500.

In June 2020, a total of 27,601 shares of common stock were issued in connection with the exercise of Series A warrants for gross proceeds of approximately \$17,000, and a total of 50,700 shares of common stock were issued in connection with the exercise of Series B warrants for gross proceeds of approximately \$31,000.

In August 2020, a total of 1,117,020 shares of common stock were issued in connection with the exercise of Series A warrants for gross proceeds of approximately \$681,000, and a total of 3,809,104 shares of common stock were issued in connection with the exercise of Series B warrants for gross proceeds of approximately \$2,324,000.

In August 2020, a total of 892,300 shares of common stock were issued in connection with the exercise of Series A-2 warrants for gross proceeds of approximately \$569,000, and a total of 38,900 shares of common stock were issued in connection with the exercise of Series B-2 warrants for gross proceeds of approximately \$25,000.

In September 2020, a total of 15,000 shares of common stock were issued in connection with the exercise of Series B warrants for gross proceeds of approximately \$9,000.

As of September 30, 2020, there were Series A warrants to purchase a total of 423,809 shares of common stock, and Series B warrants to purchase a total of 3,256,286 shares of common stock still remaining and outstanding.

As of September 30, 2020, there were Series A-2 warrants to purchase a total of 3,928,284 shares of common stock, and Series B-2 warrants to purchase a total of 203,800 shares of common stock still remaining and outstanding.

In connection with the CRG Debt Conversion, CRG received warrants exercisable for 9,893,776 shares of common stock, an amount equal to 15% of our common stock on a fully diluted basis after taking the November 2019 Offering into account (the "CRG Warrants"). The CRG Warrants have a contractual term of five years and an exercise price equal to 120% of the Series B convertible preferred stock conversion price of \$1.53 or \$1.836 per share. The Company determined the fair value of the warrants on the date of issuance to be approximately \$3,502,000 using the Black-Scholes option pricing model. Assumptions used were dividend yield of 0%, volatility of 68.8%, risk free interest rate of 1.58% and a contractual life of five years. The fair value of the CRG warrants is recorded as additional paid-in capital as part of the accounting for the debt conversion.

In connection with the 2017 Loan Agreement, the Company issued warrants to purchase a total of 2,220, shares of common stock at an exercise price of \$950.00 per share. The warrants have a contractual life of ten years and are exercisable immediately in whole or in part. The Company determined the fair value of the warrants on the date of issuance to be \$940,000 using the Black-Scholes option pricing model. The fair value of the warrants along with financing and legal fees totaling \$790,000, are recorded as debt issuance costs and presented in the condensed consolidated balance sheets as a deduction from the carrying amount of the note payable. The debt issuance costs are amortized to interest expense over the loan term. During the three and nine months ended September 30, 2020, the Company recorded \$1,000 and \$2,000, respectively, of interest expense relating to the debt issuance costs using the effective interest method. During the three and nine months ended September 30, 2019, the Company recorded \$119,000 and \$202,000, respectively, of interest expense relating to the debt issuance costs using the effective interest method. As of September 30, 2020, the unamortized debt discount was \$10,000.

No shares issuable pursuant to warrants have been cancelled during the three and nine months ended September 30, 2020 and 2019.

A total of zero and 215 shares issuable pursuant to warrants expired during the three and nine months ended September 30, 2020, respectively. A total of 859 shares issuable pursuant to warrants expired during the three and nine months ended September 30, 2019.

12. Summary of Stock Options

Stock Option Plans

The Company has issued equity awards in the form of stock options and restricted stock awards (“RSAs”) from two employee benefit plans. The plans include the Viveve Amended and Restated 2006 Stock Plan (the “2006 Plan”) and the Company’s Amended and Restated 2013 Stock Option and Incentive Plan (the “2013 Plan”).

As of September 30, 2020, there were outstanding stock option awards issued from the 2006 Plan covering a total of 104 shares of the Company’s common stock and no shares are available for future awards. The weighted average exercise price of the outstanding stock options is \$992.00 per share and the weighted average remaining contractual term is 2.3 years.

As of September 30, 2020, there were outstanding stock option awards issued from the 2013 Plan covering a total of 9,755,350 shares of the Company’s common stock and there remain reserved for future awards 4,770,640 shares of the Company’s common stock. The weighted average exercise price of the outstanding stock options is \$1.95 per share, and the remaining contractual term is 9.1 years.

In January 2020, the board of directors approved the 2020 evergreen provision increasing the total stock reserved for issuance under the 2013 Plan by 2,639,926 shares from 11,872,531 shares to a total of 14,512,457 shares, which was effective January 1, 2020.

Activity under the 2006 Plan and the 2013 Plan is as follows:

| | Nine Months Ended September 30, 2020 | | | |
|--|---|--|--|--|
| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
| Options outstanding, beginning of period | 10,087,678 | \$ 2.22 | 9.9 | \$ 3,928,715 |
| Options granted | 1,018,000 | \$ 0.70 | | |
| Options exercised | - | | | |
| Options canceled | (1,350,224) | \$ 3.01 | | |
| Options outstanding, end of period | <u>9,755,454</u> | \$ 1.96 | 9.1 | \$ - |
| Vested and exercisable and expected to vest, end of period | 9,047,744 | \$ 2.03 | 9.1 | \$ - |
| Vested and exercisable, end of period | 1,969,073 | \$ 5.19 | 8.7 | \$ - |

The aggregate intrinsic value reflects the difference between the exercise price of the underlying stock options and the Company’s closing share price as of September 30, 2020.

The options outstanding and exercisable as of September 30, 2020 were as follows:

| <u>Range of Exercise Prices</u> | <u>Number Outstanding as of September 30, 2020</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Remaining Contractual Term (Years)</u> | <u>Number Exercisable as of September 30, 2020</u> | <u>Weighted Average Exercise Price</u> |
|---------------------------------|--|--|--|--|--|
| \$0.52 - \$0.89 | 9,563,606 | \$ 0.85 | 9.1 | 1,918,010 | \$ 0.87 |
| \$1.09 - \$1.36 | 155,000 | \$ 1.26 | 9.4 | 25,000 | \$ 1.36 |
| \$38.00 - \$58.00 | 1,250 | \$ 55.20 | 8.7 | 1,115 | \$ 56.99 |
| \$100.00 - \$197.00 | 19,996 | \$ 142.17 | 8.0 | 11,956 | \$ 144.84 |
| \$202.00 - \$283.00 | 725 | \$ 250.69 | 7.3 | 451 | \$ 253.26 |
| \$311.00 - \$358.00 | 1,875 | \$ 343.99 | 7.9 | 1,505 | \$ 346.28 |
| \$430.00 - \$497.00 | 6,443 | \$ 454.44 | 6.4 | 4,935 | \$ 455.06 |
| \$501.00 - \$567.00 | 3,139 | \$ 537.25 | 6.2 | 2,777 | \$ 536.54 |
| \$600.00 - \$661.00 | 1,379 | \$ 601.64 | 5.1 | 1,379 | \$ 601.64 |
| \$700.00 - \$792.00 | 1,937 | \$ 767.72 | 6.1 | 1,841 | \$ 767.15 |
| \$992.00 - \$992.00 | 104 | \$ 992.00 | 2.3 | 104 | \$ 992.00 |
| Total: | <u>9,755,454</u> | \$ 1.96 | 9.1 | <u>1,969,073</u> | \$ 5.19 |

Restricted Stock Awards

During the three and nine months ended September 30, 2020, no RSAs for shares of common stock under the 2013 Plan were granted by the Company.

In June 2020, the Company issued 250 shares of common stock to a consultant in connection with the annual vesting of an RSA granted to the consultant in June 2018.

In July 2019, the Company issued 378 shares of common stock under the 2013 Plan to members of the Company's board of directors with a weighted average grant date fair value of \$38.08 per share, based on the market price of the Company's common stock on the award date. The RSAs were fully vested on the date of grant and 378 shares of common stock were issued.

In June 2019, the Company issued 250 shares of common stock to a consultant in connection with the annual vesting of an RSA granted to the consultant in June 2018.

In April 2019, the Company issued 525 shares of common stock under the 2013 Plan to board members as director compensation with a weighted average grant date fair value of \$91.00 per share, based on the market price of the Company's common stock on the award date. The RSAs were fully vested on the date of grant and 525 shares of common stock were issued.

In January 2019, the Company granted RSAs for 3,625 shares of common stock under the 2013 Plan to employees as part of their 2018 annual performance bonuses. The bonuses for 2018 performance were paid 50% in cash and 50% in the form of RSAs that will vest in full upon FDA approval of the Viveve System for improvement of sexual function or stress urinary incontinence in the United States. During the nine months ended September 30, 2020, 153 shares pursuant to these RSAs were cancelled. As of September 30, 2020, there are 2,217 remaining shares and zero shares were vested and issued.

As of September 30, 2020, there were a total of 2,217 shares of unvested restricted stock awards outstanding that had been granted pursuant to RSAs.

2017 Employee Stock Purchase Plan

The activity of the Company's 2017 ESPP for the nine months ended September 30, 2020 is described as follows:

The tenth offering period under the Company's 2017 ESPP began on January 1, 2020 and ended on March 31, 2020, and 320 shares were issued on March 31, 2020 at a purchase price of \$0.59.

The eleventh offering period under the Company's 2017 ESPP began on April 1, 2020 and ended on June 30, 2020, and 300 shares were issued on June 30, 2020 at a purchase price of \$0.48.

The twelfth offering period under the Company's 2017 Employee Stock Purchase Plan (the "2017 ESPP") began on July 1, 2020, and ended on September 30, 2020, and 220 shares were issued on September 30, 2020 at a purchase price of \$0.44.

In September 2020, the board of directors approved the suspension of the Company's 2017 ESPP following the twelfth offering period and the ESPP purchase on September 30, 2020.

As of September 30, 2020, the remaining shares available for issuance under the 2017 ESPP were 252 shares.

The Company estimates the fair value of purchase rights under the ESPP using a Black-Scholes valuation model. The fair value of each purchase right was estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach with the following weighted-average assumptions:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------|-------------------------------------|-------|------------------------------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| Expected term (in years) | 0.25 | 0.25 | 0.25 | 0.25 |
| Average volatility | 76% | 98% | 106% | 84% |
| Risk-free interest rate | 0.14% | 2.21% | 0.66% | 2.40% |
| Dividend yield | 0% | 0% | 0% | 0% |

The weighted average grant date fair value of the purchase rights issued under the 2017 ESPP during the three and nine months ended September 30, 2020, was \$0.17 and \$0.29, respectively. The weighted average grant date fair value of the purchase rights issued under the 2017 ESPP during the three and nine months ended September 30, 2019 was \$13.16 and \$2.12, respectively.

Stock-Based Compensation

During the three ended September 30, 2020, the Company granted stock options to employees and nonemployees to purchase 550,000 shares of common stock with a weighted average grant date fair value of \$0.36 per share. There were no stock options granted during the three months ended September 30, 2019. During the three ended September 30, 2020, the Company granted stock options to employees and nonemployees to purchase 1,018,000 shares of common stock with a weighted average grant date fair value of \$0.44 per share. During the nine months ended September 30, 2019, the Company granted stock options to employees to purchase 23,069 shares of common stock, with a weighted average grant date fair value of \$117.86. There were no stock options exercised during the three and nine months ended September 30, 2020 and 2019.

The Company estimated the fair value of stock options using the Black-Scholes option pricing model. The fair value of employee and nonemployee stock options is being amortized on a straight-line basis over the requisite service period of the awards. The fair value of employee stock options granted was estimated using the following weighted average assumptions:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------|-------------------------------------|------|------------------------------------|-------|
| | 2020 | 2019 | 2020 | 2019 |
| Expected term (in years) | 5 | N/A | 5 | 5 |
| Average volatility | 87% | N/A | 81% | 73% |
| Risk-free interest rate | 0.27% | N/A | 0.34% | 2.49% |
| Dividend yield | - | N/A | - | - |

Option-pricing models require the input of various subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected stock price volatility is based on analysis of the Company's stock price history over a period commensurate with the expected term of the options, trading volume of comparable companies' stock, look-back volatilities and the Company specific events that affected volatility in a prior period. The expected term of employee stock options represents the weighted average period the stock options are expected to remain outstanding and is based on the history of exercises and cancellations on all past option grants made by the Company, the contractual term, the vesting period and the expected remaining term of the outstanding options. The risk-free interest rate is based on the U.S. Treasury interest rates whose term is consistent with the expected life of the stock options. No dividend yield is included as the Company has not issued any dividends and does not anticipate issuing any dividends in the future.

The following table shows stock-based compensation expense included in the condensed consolidated statements of operations for the three and nine months ended September 30, 2020 and 2019 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------|---|---------------|--|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Cost of revenue | \$ 42 | \$ 25 | \$ 163 | \$ 91 |
| Research and development | 78 | 41 | 250 | 134 |
| Selling, general and administrative | 522 | 452 | 1,596 | 1,409 |
| Total | <u>\$ 642</u> | <u>\$ 518</u> | <u>\$ 2,009</u> | <u>\$ 1,634</u> |

As of September 30, 2020, the total unrecognized compensation cost in connection with unvested stock options was approximately \$5,469,000. These costs are expected to be recognized over a period of approximately 2.6 years.

13. Income Taxes

No provision for income taxes has been recorded due to the net operating losses incurred from inception to date, for which no benefit has been recorded.

For interim periods, the Company estimates its annual effective income tax rate and applies the estimated rate to the year-to-date income or loss before income taxes. The Company also computes the tax provision or benefit related to items reported separately and recognizes the items net of their related tax effect in the interim periods in which they occur. The Company also recognizes the effect of changes in enacted tax laws or rates in the interim periods in which the changes occur.

The Company's effective tax rate is 0% for the three and nine months ended September 30, 2020. The Company expects that its effective tax rate for the full year 2020 will be 0%.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted on March 27, 2020 in the United States. The CARES Act includes several significant provisions for corporations, including the usage of net operating losses and payroll benefits. The Company is evaluating the impact, if any, the CARES Act and other economic stimulus measures will have on the Company's financials and disclosures.

14. Related Party Transactions

In June 2006, the Company entered into a Development and Manufacturing Agreement (the "Agreement") with Stellartech Research Corporation ("Stellartech"). The Agreement was amended on October 4, 2007. Under the Agreement, the Company agreed to purchase 300 generators manufactured by Stellartech. As of September 30, 2020, the Company has purchased 855 units. The price per unit is variable and dependent on the volume and timing of units ordered. In conjunction with the Agreement, Stellartech purchased 375 shares of Viveve, Inc.'s common stock. Under the Agreement, the Company paid Stellartech approximately \$199,000 and \$720,000 for goods and services during the three months ended September 30, 2020 and 2019, respectively, and approximately \$948,000 and \$3,853,000 for the nine months ended September 2020 and 2019, respectively. The amounts due to Stellartech for accounts payable as of September 30, 2020 and December 31, 2019 were approximately \$1,000 and \$124,000, respectively.

In August 2017, the Company entered into a Distributorship Agreement with ICM. Under the terms of the Distributorship Agreement, the Company had a minimum purchase requirement to purchase a certain quantity of ICM products per month during the term of this agreement. In February 2019, the Company executed a mutual termination of the Distributorship Agreement with ICM. As a result, the Company no longer has a minimum purchase requirement to purchase a certain quantity of ICM products per month.

15. Restructuring Costs

In January 2019, the Company implemented a strategic organizational realignment plan to reduce operating expenses and prepare the Company for expanded indications for its CMRF technology platform for improved sexual function and stress urinary incontinence in women. The restructuring included a reduction in headcount of approximately 40 full-time employees. The total restructuring costs were approximately \$742,000 and have been recorded in operating expenses in the condensed consolidated statements of operations. The restructuring contributed to a reduction in total operating expenses in the first quarter of 2019 as planned and resulted in additional operating cost savings throughout the remainder of this year.

16. Subsequent Events

In October 2020, the Company was notified that the terms of its PPP loan with Western Alliance Bank have been modified. The amount of time that the Company has to spend the proceeds of the PPP loan (the "covered period") has been extended from 8 weeks to 24 weeks. The date to begin repaying unforgiven portions of the PPP loan has also been extended from six months after the funding date to up to 10 months after the end of the covered period (approximately 16 months from the funding date) depending on when the Company applies for forgiveness. The SBA will also cover interest on the forgiveness portion of the loan during this period. There has been no change to the maturity date of the loan. All PPP loans must be repaid or forgiven within two years after the funding date.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report and with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on March 19, 2020. In addition to historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report, particularly in Part II, Item 1A. "Risk Factors."

Overview of Our Business

In the discussion below, when we use the terms "we", "us" and "our", we are referring to Viveve Medical, Inc. and our wholly-owned subsidiaries, Viveve, Inc. and Viveve BV.

We design, develop, manufacture and market a platform medical technology, which we refer to as *Cryogen-cooled Monopolar Radiofrequency* ("CMRF"). Our proprietary CMRF technology is delivered through a radiofrequency generator, handpiece and treatment tip that, collectively, we refer to as the Viveve® System. The Viveve System is currently marketed and sold for a number of indications, depending on the relevant country-specific clearance or approval. Currently, the Viveve System is cleared for marketing in 51 countries throughout the world under the following indications for use:

| Indication for Use: | No. of Countries: |
|---|------------------------|
| General surgical procedures for electrocoagulation and hemostasis | 4 (including the U.S.) |
| General surgical procedures for electrocoagulation and hemostasis of vaginal tissue and the treatment of vaginal laxity | 30 |
| For treatment of vaginal laxity | 5 |
| For treatment of the vaginal introitus, after vaginal childbirth, to improve sexual function | 9 |
| General surgical procedures for electrocoagulation and hemostasis as well as for the treatment of vaginal laxity | 1 |
| For vaginal rejuvenation | 1 |
| For treatment of vaginal laxity and to improve mild urinary incontinence and sexual function | 1 |

In the U.S., the Viveve System is indicated for use in general surgical procedures for electrocoagulation and hemostasis and we market and sell primarily through a direct sales force. Outside the U.S., we primarily market and sell through distribution partners. As of September 30, 2020, we have a global installed base of 865 Viveve Systems and we have sold approximately 47,100 single-use treatment tips worldwide.

Because the revenues we have earned to date have not been sufficient to support our operations, we have relied on sales of our securities, bank term loans and loans from related parties to fund our operations.

We are subject to risks, expenses and uncertainties frequently encountered by companies in the medical device industry. These risks include, but are not limited to, intense competition, whether we can be successful in obtaining U.S. Food and Drug Administration ("FDA") and other governmental clearance or approval for the sale of our product for all desired indications and whether there will be a demand for the Viveve System, given that the cost of the procedure will likely not be reimbursed by the government or private health insurers. In addition, we will continue to require substantial funds to support our clinical trials and fund our efforts to expand regulatory clearance or approval for our products, including in the U.S. We cannot be certain that any additional required financing will be available when needed or on terms which are favorable to us. As noted above, our operations to date have been primarily funded through the sales of our securities, bank term loans and loans from related parties. Various factors, including our limited operating history with limited revenues to date and our limited ability to market and sell our products have resulted in limited working capital available to fund our operations. There are no assurances that we will be successful in securing additional financing in the future to fund our operations going forward. Failure to generate sufficient cash flows from operations, raise additional capital or reduce certain discretionary spending could have a material adverse effect on our ability to achieve our intended business objectives.

Recent Events

Spending Reductions and Organizational Realignment

In response to COVID-19, the Company implemented a range of operational changes designed to support the safety and health of our employees, customers, distribution partners and other contacts as necessary. In addition, a series of significant cost-cutting actions, undertaken in April 2020, included the furlough of 31 full-time employees across the entire organization to reduce expenses and reposition resources to support the Company's current customers and its pivotal clinical development program for our Cryogen-cooled, Monopolar Radiofrequency (CMRF) technology in the treatment of stress urinary incontinence ("SUI"). These deliberate actions, including an approximate two-thirds reduction of the direct sales organization, have proven effective and will remain in effect as a reduction in force due to the continuing health, market and economic challenges caused by the COVID-19 crisis. As clinical practices re-open, elective procedures increase by current and prospective customers and conditions improve, Viveve is positioned to re-scale its operational and commercial activities as warranted.

Purchase Agreement with Lincoln Park Capital, LLC

On June 8, 2020, the Company entered into a purchase agreement (the "Purchase Agreement") with Lincoln Park Capital Fund, LLC ("LPC"), pursuant to which the Company has the right to sell to LPC, and LPC has committed to purchase from us, from time to time, up to \$10,000,000 of our common stock, subject to certain limitations, during the 30 months term of the Purchase Agreement.

On June 9, 2020, LPC purchased 525,000 shares of common stock at a price per share of \$0.65 (the "Initial Purchase Shares") under the Purchase Agreement. Thereafter, under the Purchase Agreement, on any business day selected by us, the Company may direct LPC to purchase up to 250,000 shares (and in certain circumstances up to 500,000 shares) of our common stock. LPC has no right to require the Company to sell any shares of common stock to LPC, but LPC is obligated to make purchases as the Company directs, subject to certain conditions. The purchase price per share for each such Regular Purchase will be based off of prevailing market prices of our common stock immediately preceding the time of sale without any fixed discount.

Other than as described above, there are no trading volume requirements or restrictions under the Purchase Agreement, and the Company will control the timing and amount of any sales of our common stock to LPC.

Paycheck Protection Program Loan

The Paycheck Protection Program ("PPP") was established under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and is administered by the U.S. Small Business Administration. On April 24, 2020, Viveve, Inc. ("Viveve"), a wholly-owned subsidiary of the Company, entered into a promissory note evidencing an unsecured loan in the aggregate amount of approximately \$1,343,000 made to Viveve under the PPP (the "PPP Loan"). The PPP Loan to Viveve is being made through Western Alliance Bank. The interest rate on the PPP Loan is 1.00% and the term is two years. Beginning seven months from the date of the PPP Loan, Viveve is required to make monthly payments of principal and interest. The promissory note evidencing the PPP Loan contains customary events of default relating to, among other things, payment defaults or breaching the terms of the PPP Loan documents. The occurrence of an event of default may result in the repayment of all amounts outstanding, collection of all amounts owing from Viveve, or filing suit and obtaining judgment against Viveve. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payment of payroll costs and any payments of mortgage interest, rent, and utilities. No assurance is provided that Viveve will obtain forgiveness of the PPP Loan in whole or in part.

In October 2020, the Company was notified that the terms of its PPP loan with Western Alliance Bank have been modified. The amount of time that the Company has to spend the proceeds of the PPP loan (the "covered period") has been extended from 8 weeks to 24 weeks. The date to begin repaying unforgiven portions of the PPP loan has also been extended from six months after the funding date to up to 10 months after the end of the covered period (approximately 16 months) depending on when the Company applies for forgiveness. The SBA will also cover interest on the forgiveness portion of the loan during this period. There has been no change to the maturity date of the loan. All PPP loans must be repaid or forgiven within two years after the funding date.

Nasdaq Notices

On April 21, 2020, we received written notice from the Listing Qualifications Department of The Nasdaq Stock Market LLC ("Nasdaq") notifying us that we are not in compliance with the minimum bid price requirements set forth in Nasdaq Listing Rule 5550(a)(2) for continued listing on The Nasdaq Capital Market. Nasdaq Listing Rule 5550(a)(2) requires listed securities to maintain a minimum bid price of \$1.00 per share, and Nasdaq Listing Rule 5810(c)(3)(A) provides that a failure to meet the minimum bid price requirement exists if the deficiency continues for a period of thirty (30) consecutive business days. Based on the closing bid price of our common stock for the thirty (30) consecutive business days from March 9, 2020 to April 20, 2020, we no longer meet the minimum bid price requirement.

The letter states that under the Nasdaq Listing Rule 5810(c)(3)(A) and the relief granted as a result of the COVID-19 pandemic, we have 180 calendar days from July 1, 2020, or until December 28, 2020, to regain compliance with Nasdaq Listing Rule 5550(a)(2). To regain compliance, the bid price of our common stock must have a closing bid price of at least \$1.00 per share for a minimum of ten (10) consecutive business days. If we do not regain compliance with Nasdaq Listing Rule 5550(a)(2) by December 28, 2020, we may be eligible for an additional 180 calendar day compliance period. To qualify, we would be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for The Nasdaq Capital Market, with the exception of the bid price requirement, and would need to provide written notice of our intention to cure the deficiency during the second compliance period, by effecting a reverse stock split, if necessary. We intend to monitor the closing bid price of our common stock and may, if appropriate, consider implementing available options, including, but not limited to, implementing a reverse stock split of our outstanding securities, to regain compliance with the minimum bid price requirement under the Nasdaq Listing Rules. At our annual stockholders meeting on July 22, 2020, our stockholders approved an amendment to the Company's Amended and Restated Certificate of Incorporation to effect a reverse stock split of the Company's common stock at a ratio in the range of one-for-two (1:2) to one-for-ten (1:10), such ratio to be determined in the sole discretion of the board of directors. The Company expects to effect such reverse stock split if needed prior to the Nasdaq compliance deadline.

On May 4, 2020, Karen Zaderej resigned from the Company's board of directors and its committees, and the Company notified Nasdaq of such resignation. On May 6, 2020, the Company received a notice from Nasdaq about non-compliance with its majority independent board and audit committee requirements. To regain compliance, Nasdaq provided the Company time until November 2, 2020 in accordance with Nasdaq Listing Rules 5605(b)(1)(A) and 5605(c)(4). On October 28, 2020, the Company appointed Sharon Collins Presnell, Ph.D. to serve on the Company's board of directors and its audit committee. On October 29, 2020, the Company received a letter from Nasdaq noting that, as a result of the appointment of Dr. Presnell, the Company evidenced compliance with the majority independent board and audit committee requirements of the Nasdaq Listing Rules.

In the event that our common stock is not eligible for continued listing on Nasdaq or another national securities exchange, trading of our common stock could be conducted in the over-the-counter market or on an electronic bulletin board established for unlisted securities such as the Pink Sheets or the OTC Bulletin Board. In such event, it could become more difficult to dispose of, or obtain accurate price quotations for, our common stock, and there would likely also be a reduction in our coverage by security analysts and the news media, which could cause the price of our common stock to decline further. Also, it may be difficult for us to raise additional capital if we are not listed on a major exchange.

2020 Warrant Offering

On April 15, 2020, the Company reduced the exercise price of the outstanding Series A warrants and Series B warrants from \$1.55 per share to \$0.61 per share. On April 16, 2020, the Company entered into inducement letter agreements with certain institutional and accredited holders of Series A warrants and Series B warrants pursuant to which such holders agreed to exercise Series A warrants to purchase 4,820,584 shares of common stock and Series B warrants to purchase 242,790 shares of common stock for aggregate exercise proceeds to the Company of approximately \$3.1 million. In conjunction, the Company also agreed to issue new Series A-2 warrants to purchase up to 4,820,584 shares of common stock as an inducement for the exercise of Series A warrants, and new Series B-2 warrants to purchase up to 242,790 shares of common stock as an inducement for the exercise of Series B warrants, in each case at an exercise price of \$0.6371 per share and for a term of five years. The transaction closed on April 20, 2020. Transaction costs in connection with the 2020 Warrant Offering totaled approximately \$333,000.

As of September 30, 2020, there were Series A-2 warrants to purchase a total of 3,928,284 shares of common stock and Series B-2 warrants to purchase a total of 203,800 shares of common stock still remaining and outstanding.

2019 Public Offering and Debt Conversion

In November 2019, the Company closed an underwritten public offering of units (the "November 2019 Offering") for gross proceeds of approximately \$11,500,000, which included the full exercise of the underwriter's over-allotment option to purchase additional shares and warrants. The net proceeds to the Company, after deducting underwriting discounts and commissions and other offering expenses and payable by the Company, were approximately \$9,922,000.

The offering comprised of: (1) Class A Units, priced at a public offering price of \$1.55 per unit, with each unit consisting of one share of common stock, a Series A warrant to purchase one share of common stock at an exercise price of \$1.55 per share that expires on the first anniversary of the date of issuance and a Series B warrant to purchase one share of common stock at an exercise price of \$1.55 per share that expires on the fifth anniversary of the issuance; and (2) Class B Units, priced at a public offering price of \$1.55 per unit, with each unit consisting of one share of Series A convertible preferred stock, convertible into one share of common stock, a Series A warrant to purchase one share of common stock at an exercise price of \$1.55 per share that expires on the first anniversary of the date of issuance and a Series B warrant to purchase one share of common stock at an exercise price of \$1.55 per share that expires on the fifth anniversary of the issuance.

The securities comprising the units were immediately separable and were issued separately.

A total of 1,945,943 shares of common stock, 5,473,410 shares of Series A convertible preferred stock, Series A warrants to purchase up to 7,419,353 shares of common stock, and Series B warrants to purchase up to 7,419,353 shares of common stock were issued in the offering, including the full exercise of the over-allotment option.

As of September 30, 2020, all Series A convertible preferred stock had been converted into common stock and there were no remaining shares of Series A preferred stock outstanding.

As of September 30, 2020, there were Series A warrants to purchase a total of 423,809 shares of common stock and Series B warrants to purchase a total of 3,256,286 shares of common stock still remaining and outstanding.

In connection with the closing of the November 2019 Offering, the Company's secured lender, affiliates of CRG LP ("CRG"), converted approximately \$28,981,000 of the outstanding principal amount under its term loan with CRG (plus accrued interest, the prepayment premium and the back-end fee applicable thereto), for an aggregate amount of converted debt obligations of approximately \$31,300,000. The amounts converted into 31,300 shares of the newly authorized Series B convertible preferred stock convertible into 20,457,516 shares of common stock following an increase in the Company's authorized stock. CRG was also issued warrants to purchase up to 9,893,776 shares of common stock exercisable following an increase in the Company's authorized stock at an exercise price of \$1.836 per share. CRG entered into a one year lock up agreement on all securities that it holds.

As of September 30, 2020, there were 34,735 shares of Series B convertible preferred stock outstanding and warrants to purchase 9,893,776 shares of common stock.

Effective Shelf Registration Statements

In November 2017, we filed a universal shelf registration statement with the SEC on Form S-3 for the proposed offering from time to time of up to \$50,000,000 of our securities, including common stock, preferred stock, and/or warrants (the "2017 Shelf Registration Statement"). The 2017 Shelf Registration Statement currently has a balance of \$35,016,000 available for future issuance. However, pursuant to General Instruction I.A.3 of Form S-3, the Company is not eligible to use its 2017 Shelf Registration Statement owing to the late filing of management's annual report on internal control over financial reporting in its Form 10-K/A filed on June 29, 2020.

Clinical Advisory Board in Urinary Incontinence

In October 2020, the Company announced that it had formed a clinical advisory board of preeminent medical specialists in the field of urinary incontinence. The clinical advisory board will help guide the Company as it advances its SUI clinical development program and pivotal PURSUIT trial. The inaugural Clinical Advisory Board is comprised of six physician researchers and clinicians in urology and urogynecology specialties. Each member is a seasoned practitioner and key opinion leader in urinary incontinence treatments, experienced with novel technologies and their transition into medical practice.

Issuance of Novel U.S. Methods Patent for Stress Urinary Incontinence

In September 2020, the Company announced that the United States Patent and Trademark Office had issued U.S. Patent No. 10,779,874 covering Viveve's unique method of treatment to address SUI in women. Viveve's dual-energy technology has demonstrated its ability to activate fibroblasts and initiate collagen formation in underlying vaginal tissue in a non-invasive, painless, and comfortable procedure. When applied in the area of the urethra and tissue surrounding the bladder neck, the technology's unique mechanism of action may strengthen and improve the function of connective tissues, improve vaginal structural integrity and reduce urethral hypermobility, a leading cause of SUI in women. The newly granted patent strengthens the Company's intellectual property portfolio in advance of the launch of its U.S. pivotal PURSUIT clinical trial for SUI in women.

PURSUIT - U.S. SUI Trial

In April 2020, the Company resubmitted its IDE to the FDA for approval to initiate its pivotal multicenter SUI trial PURSUIT – Prospective U.S. Radiofrequency SUI Trial. Following multiple rounds of discussions with the Agency, the resubmitted IDE addressed specific protocol requests during the FDA initial review and provided positive results from additional in vivo animal safety testing requested by the FDA. In May 2020, the FDA outlined several study considerations that were successfully addressed in an IDE Supplement that Viveve submitted to the FDA on June 1, 2020. The Company received FDA approval of its IDE to conduct the PURSUIT trial as announced on July 7, 2020.

The trial is designed to evaluate the safety and efficacy of Viveve's CMRF treatment versus an inert sham treatment for the improvement of SUI in women. Importantly, the PURSUIT protocol will compare CMRF treatment (90J/cm² RF and cryogen-cooling) in the Active group to a clinically inert sham treatment (<1J/cm² RF and <2 degrees tissue cooling cryogen delivery) in the control group.

In-vivo Preclinical Study and Results for New Sham Treatment Tip

In response to the inconclusive results from the Company's LIBERATE International SUI trial, reported in July of 2019, Viveve conducted an in-vivo preclinical temperature and immunohistochemistry study to evaluate a new inert sham treatment tip. The Good Laboratory Practices study was initiated in June of this year following several months of engineering, validation, and development work. The study assessed both in-vivo tissue temperature changes during treatment, and histopathology at 30 days post-treatment compared to baseline, in three parous ewes using Viveve's CMRF treatment tip (Active), cryogen-cooling only tip ("Old" sham treatment used in previous SUI study), and a new inert sham treatment tip. Histopathology of vaginal biopsies were performed and included use of α -smooth muscle actin (" α -SMA") staining for fibroblast activation and formation. All tissue samples were evaluated by an independent and blinded pathologist.

The positive preclinical findings demonstrated, as reported on August 25, 2020, that both temperature and immunohistochemistry results support the validity of the new inert sham tip to provide a true inert or placebo treatment. Only minor tissue temperature change (less than 2 degrees centigrade) was generated by the new inert sham tip and no fibroblast activation was shown through elevated α -SMA staining. In contrast, both the Active and cryogen-cooling sham tips demonstrated significant tissue temperature changes during treatment and increased fibroblast activation 30 days post-treatment. The positive in-vivo preclinical study validates Viveve's new inert sham tip for use in the upcoming U.S. pivotal PURSUIT trial.

Three-Arm SUI Feasibility Study

In December 2019, the Company received approval of an Investigational Testing Application (ITA) from the Canadian Ministry of Health and in January 2020 initiated a three-arm, three-month feasibility study to compare Viveve's cryogen-cooled monopolar radiofrequency ("CMRF") treatment and a cryogen-only sham to an inert sham treatment for the improvement of SUI in women. Completion of subject enrollment in the study was reported in March 2020. Study subjects were randomized in a 1:1:1 ratio to the three arms and were assessed using the 1-hour Pad Weight Test, 3-day Voiding Diary, the 24-hour Pad Weight Test and I-QOL at five months post treatment. Due to patient, provider and medical facility health and safety concerns caused by the COVID-19 pandemic, the final subject follow-up visit was changed to 5 months versus 3 months.

Final results were reported on August 25, 2020, indicating the primary efficacy endpoint, change from baseline in the standardized 1-hour Pad Weight Test at five months post treatment, was positively achieved. The median change from baseline in the active CMRF treatment group (N=13) and the cryogen-only sham treatment group (N=12) was -9.5 grams and -6.8 grams respectively, as compared to -4.4 grams in the inert sham treatment group (N=11). The study also assessed several secondary endpoints but showed no differentiation between groups. No device-related safety issues were reported. The meaningful separation demonstrated between the CMRF treatment arm and the inert sham arm in the feasibility study is believed to provide confidence in the potential to achieve positive separation between the two treatment arms in the upcoming U.S. pivotal PURSUIT trial.

VIVEVE II - U.S. Sexual Function Trial

In April 2020, topline results for the VIVEVE II (Viveve treatment of the Vaginal Introitus to Evaluate Effectiveness) clinical study were reported by the Company. VIVEVE II was a multicenter, randomized, double-blinded, sham-controlled study to evaluate the safety and efficacy of the company's cryogen-cooled monopolar radiofrequency (CMRF) technology for the improvement of sexual function in women following vaginal childbirth. Topline results indicated that the study did not meet its primary endpoint of demonstrating a statistically significant improvement in the mean change from baseline in total Female Sexual Function Index (FSFI) at 12 months. Although there was substantial improvement in the total FSFI score from baseline to the final 12-month follow-up in the active group indicating a significant treatment effect, there was not sufficient separation from the sham treatment group to achieve statistical significance.

The study included 220 subjects that successfully completed 12-month follow-up. Subjects were randomized in a 1:1 ratio for the active (N=114) and the sham (N=106) treatments at 17 clinical sites in the United States. Adjusted mean change in total FSFI score at 12 months for the active group was 9.8 and the adjusted mean change for the sham group was 9.0, a difference of 0.8 ($p=0.3942$). There were no serious device-related adverse events reported. The treatment groups were well balanced, and the number of subjects lost to follow-up was as expected.

The Company is analyzing the complete data set, including all secondary and exploratory endpoints and will include the results in the final VIVEVE II clinical study report that is expected to be submitted to the FDA in the fourth quarter of 2020.

LIBERATE-International SUI Trial

In July 2019, topline results for the LIBERATE-International study in SUI conducted under an investigational testing application approved by the Canadian Ministry of Health were reported by the Company. In August 2019, Viveve reported additional clinical outcomes data from the study. While the study did not achieve statistical significance on the primary endpoint of mean change from baseline on the 1-hour Pad Weight Test at six months post-treatment compared to the control group, the full clinical data demonstrated a consistency of benefit at six months post-treatment across all endpoints in the majority of patients within both groups. The median change from baseline at six months post-treatment was -8.0g in the active group of 66 subjects (baseline median 12.8g) and -8.0g in the sham-control group of 33 subjects (baseline median 12.9g).

LIBERATE International was a randomized, double-blind, sham-controlled study conducted at 9 sites in Canada and included enrollment of 99 patients suffering from mild-to-moderate SUI. Patients were randomized in a 2:1 ratio to either Active treatment (90J/cm² RF with cryogen-cooling) or Sham treatment (sub-treatment dose of ≤ 1 J/cm² cryogen-cooling). Patients were followed for six months post-treatment to assess the primary efficacy and safety of the treatment with data being collected at one, three and six months. Eighty-five subjects successfully completed the six-month study and no serious device-related events were reported.

The primary efficacy endpoint was the 6-month change from baseline in the one-hour pad weight test. Secondary endpoints, included: 24-hour pad weight test, daily incontinence episodes(3-day diary), as well as composite scores from the validated UDI-6 (Urogenital Distress Inventory-Short Form), IIQ-7 (Incontinence Impact Questionnaire), ICIQ-UI-SF (International Consultation on Incontinence Questionnaire-Urinary Incontinence-Short Form), and FSFI (Female Sexual Function Index) outcome questionnaires.

Across all endpoints, the efficacy of both the Active and Sham treatments were highly clinically relevant. For the primary endpoint, median percentage decrease from baseline (CFB) to 6 months post-treatment in 1-hr pad weight for the Active group was 77.2% and 81.0% for the Sham group. However, the differences were not significant between the Active and Sham groups.

Launch of Next Generation 2.0 Platform

Thailand: In July 2020, Viveve received regulatory clearance from the Thai Food and Drug Administration for its next generation Viveve 2.0 CMRF system and consumable treatment tips. Thailand is one of the leading women's health and aesthetic medicine markets in Southeast Asia and an important addition to Viveve's global commercial distribution network. The Viveve 2.0 system and consumable treatment trips are now available throughout the Asia Pacific region.

Canada: In April 2020, Viveve received regulatory clearance from the Canadian Ministry of Health for its next generation Viveve 2.0 CMRF system and consumable treatment tips for improvement of sexual function in women following vaginal childbirth. The clearance in Canada brings additional momentum to the company's rapidly expanding Viveve 2.0 platform throughout the world with its availability now throughout North America, Asia and over 30 European countries.

Taiwan: In March 2020, Viveve announced registration clearance from the Taiwanese Food and Drug Administration for the Viveve 2.0 CMRF system and consumable treatment tips for use in general surgical procedures for electrocoagulation and hemostasis. Taiwan represents one of the largest markets in Asia for advanced medical procedures. Viveve continues its support of Dynamic Medical Technologies, Inc., their exclusive distribution partner in Taiwan, and their efforts to advance clinician adoption and utilization of the company's innovative CMRF technology platform for the treatment of women's intimate health conditions.

South Korea: In December 2019, Viveve received registration clearance by the Korean Ministry of Food and Drug Safety for its next generation Viveve 2.0 CMRF system for use in general surgical procedures for electrocoagulation and hemostasis as well as for the treatment of vaginal laxity. Clearance of the Viveve 2.0 System in South Korea represents an important milestone in the Company's ongoing regulatory strategy to expand the global commercial footprint of its next generation CMRF technology platform and consumable treatment tips that are currently available in the U.S., European Union, China, and South Korea.

China: In December 2019, Viveve reported the launch of its next generation 2.0 System and consumable treatment tips in mainland China, Hong Kong and Macau with Paragon Meditech, the Company's exclusive distribution partner in the region. The Paragon hosted launch event included more than 70 key opinion leader customers in Dalian, China. The comprehensive event was enthusiastically received by participating women's health and aesthetic practitioners from Mainland China and other Asian markets across Paragon's territories.

United States: In June 2019, the Company received 510(k) clearance by the U.S. Food and Drug Administration of its next generation Viveve 2.0 System and consumable treatment tips for use in general surgical procedures for electrocoagulation and hemostasis. The regulatory agency clearance is believed to represent another important confirmation of the safety profile of Viveve's CMRF technology platform.

European Union: In April 2019, the Company received CE Mark clearance for its next generation Viveve 2.0 CMRF system and treatment tips in European Union and European Economic Area countries. As part of our ongoing regulatory strategy to expand the commercial launch of our Viveve 2.0 CMRF system globally, the Company's next generation system and its consumable treatment tips are now available in over 30 countries in Europe. The Company's Viveve 2.0 CMRF system significantly reduced manufacturing costs for both the next generation system and for the consumable tips since becoming available in the U.S. and it is projected to have a positive impact on our overall gross margins going forward.

U.S. Commercial Sales Transition to Recurring Revenue Rental Model

In June 2019, U.S. sales of the Viveve System transitioned from a capital equipment sales model to a recurring revenue rental model. The new U.S. commercial sales model is intended to lower up-front costs for customers and thus lower hurdles to adoption, increase placement rates, and improve profitability by significantly reducing selling time per unit. The new commercial sales model successfully increased physician adoption rates in the months following its implementation and continued to gain traction in the U.S. market well into the first quarter of 2020. In December 2019, Viveve Systems placed with new customers represented higher monthly productivity rates and lower costs per system placed per sales representative. Sale of Viveve products outside of the U.S. continue to be supported by the Company's current distributors without significant change to the international business model.

Late in the first quarter of 2020, the negative impact of the COVID-19 pandemic on medical facilities and practitioners was in full effect in the United States. Federal, regional, and local government and public health agencies issued directives halting performance of non-essential medical treatments and elective procedures in an effort to combat the spread of the coronavirus and protect public health and safety. As a result, an estimated 70-80% of Viveve's U.S. customers either temporarily closed their medical practices or dramatically reduced services and staff. The consequence has been both a public health and economic crisis that is continuing for existing and prospective Viveve customers. In a supportive partnership response, Viveve contacted all of its subscription customers and provided them with a three-month deferral of the rental payment. Although clinics in various regions are have re-opened and provide limited services, we anticipate that until the COVID-19 pandemic abates, more practices re-open and elective patient's safety concerns are reduced that we will continue to experience reduced revenue from existing subscription customers, as well as a greatly reduced number of new and prospective customers.

Under the recurring revenue rental model, customers may lease the Viveve System for a set initial term. After the initial term, the customer may purchase the Viveve System, continue to pay a monthly rental amount or terminate the contract.

The rental program is accounted for under the Financial Standards Board's ("FASB") Accounting Standards Codification ("ASC") No. 2016-02, Leases (Topic 842) and meets the classification criteria for an operating lease. Revenue from the rental program is included in total revenue. For the three months ended September 30, 2020 and 2019, rental revenue recognized during the period was \$471,000 and \$177,000, respectively. For the nine months ended September 30, 2020 and 2019, rental revenue recognized during the period was \$829,000 and \$177,000, respectively. The Viveve Systems that are being leased are included in property and equipment, net and depreciated over their expected useful lives of five years. When other products ("non-lease components"), such as single-use treatment tips or ancillary consumables, are included in the offering, the Company follows the relevant guidance in ASC Topic 606, Revenue from Contracts with Customers, to determine how to allocate contractual consideration between the lease and non-lease components.

Impact of the Novel Coronavirus

As of the filing of this Quarterly Report on Form 10-Q, the United States, United Kingdom, Germany and most other countries continue to face outbreaks or resurgences of the novel highly transmissible and pathogenic coronavirus, which has resulted in an increasingly widespread global health crisis, adversely affected general commercial activity and the economies and financial markets of many countries, and is likely to continue to adversely affect our business, financial condition and results of operations. The extent to which the novel coronavirus impacts us will depend on future developments, which are highly uncertain and cannot be accurately predicted, including new information which may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others.

Plan of Operation

We intend to increase our sales both internationally and in the U.S. market by seeking additional regulatory clearances or approvals for the sale and distribution of our products, identifying and training qualified distributors, and expanding the scope of physicians who offer the Viveve System to include plastic surgeons, general surgeons, urologists and urogynecologists.

In June 2019, we transitioned from a capital equipment sales model to a recurring revenue rental model in the U.S. market. The new U.S. commercial sales model is intended to lower up-front costs for customers and thus lower hurdles to adoption, increase placement rates, and improve profitability by significantly reducing selling time per unit. Sale of Viveve products outside of the U.S. will continue to be supported by our international distributors.

In addition, we intend to use the strategic relationships that we have developed with outside contractors and medical experts to improve our products by focusing our research and development efforts on various areas including, but not limited to:

- designing new treatment tips optimized for both ease-of-use and to reduce procedure times for patients and physicians; and
- developing new RF consoles.

The net proceeds received from sales of our securities and the term loans have been used to support commercialization of our product in existing and new markets, for our research and development efforts and for protection of our intellectual property, as well as for working capital and other general corporate purposes. We expect that our cash and the committed equity financing from LPC will be sufficient to fund our activities for at least the next 12 months; however, we may require additional capital from the sale of equity or debt securities to fully implement our plan of operation. Our operating costs include employee salaries and benefits, compensation paid to consultants, professional fees and expenses, costs associated with our clinical trials, capital costs for research and other equipment, costs associated with research and development activities including travel and administration, legal expenses, sales and marketing costs, general and administrative expenses, and other costs associated with an early stage public company subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We also expect to incur expenses related to obtaining regulatory clearance and approvals in the U.S. and internationally as well as legal and related expenses to protect our intellectual property. We expect capital expenditures, for the foreseeable future, to be less than \$500,000 annually.

We intend to continue to meet our operating cash flow requirements through the sales of our products and by raising additional capital from the sale of equity or debt securities. If we sell our equity securities, or securities convertible into equity, to raise capital, our current stockholders will likely be substantially diluted. We may also consider the sale of certain assets, or entering into a strategic transaction, such as a merger, with a business complimentary to ours although we do not currently have plans for any such transaction. While we have been successful in raising capital to fund our operations since inception, other than as discussed in this Quarterly Report on Form 10-Q, we do not have any committed sources of financing and there are no assurances that we will be able to secure additional funding, or if we do secure additional financing that it will be on terms that are favorable to us. If we cannot obtain financing, then we may be forced to curtail our operations or consider other strategic alternatives.

Results of Operations

Comparison of the Three Months Ended September 30, 2020 and 2019

Revenue

| | Three Months Ended September 30, | | Change | |
|---------|-------------------------------------|----------|--------|-----|
| | 2020 | 2019 | \$ | % |
| | (in thousands, except percentages) | | | |
| Revenue | \$ 1,524 | \$ 1,052 | \$ 472 | 45% |

We recorded revenue of \$1,524,000 for the three months ended September 30, 2020, compared to revenue of \$1,052,000 for the three months ended September 30, 2019, an increase of \$472,000, or approximately 45%. The increase in revenue was primarily due to higher sales volume of Viveve Systems and treatment tips sold during the period. Sales in the third quarter of 2020 included 12 Viveve Systems sold and approximately 2,100 disposable treatment tips sold globally. Sales in the third quarter of 2019 included six Viveve Systems (which included four Viveve Systems sold through our international distribution partner and two Viveve Systems sold in the U.S. market through our direct sales) and approximately 1,300 disposable treatment tips sold globally.

Under the subscription offering program, we placed seven Viveve Systems in the U.S. market in the third quarter of 2020; however, these new placements were offset by the negative impact of the COVID-19 crisis on our sales activity in the period which resulted in the return of nine Viveve Systems during the period. Under the subscription offering program, which was launched in June 2019, we placed 25 Viveve Systems in the U.S. market in the third quarter of 2019. Rental revenue on these leases is recognized on a straight-line basis over the term of the lease. For the three months ended September 30, 2020 and 2019, rental revenue recognized during the period was \$471,000 and \$177,000, respectively.

Additionally, late in the first quarter of 2020 and through the third quarter of 2020, the negative impact of the COVID-19 pandemic was in full effect in the United States and most other countries. Government and public health agencies issued directives halting performance of non-essential medical treatments and elective procedures in an effort to combat the spread of the coronavirus and protect public health and safety. As a result, Viveve's customers either temporarily closed their medical practices or dramatically reduced services and staff. The consequence has been both a public health and economic crisis that continues for existing and prospective Viveve customers. In a supportive partnership response, Viveve contacted all of its subscription customers and provided them with a three-month deferral of the rental payment. Although clinics in various regions are beginning to re-open and provide limited services, we anticipate that until the COVID-19 pandemic abates, more practices begin to re-open and elective patient's safety concerns are reduced that we will continue to experience reduced revenue from existing subscription customers, as well as a greatly reduced number of new and prospective customers.

Gross profit

| | Three Months Ended September 30, | | Change | |
|---------------------|-------------------------------------|---------|--------|----|
| | 2020 | 2019 | \$ | % |
| | (in thousands, except percentages) | | | |
| Gross profit (loss) | \$ 241 | \$ (47) | \$ 288 | NM |

Gross profit was \$241,000, or 16% of revenue, for the three months ended September 30, 2020, compared to a gross loss of \$47,000, or 4% of revenue, for the three months ended September 30, 2019, an increase of \$288,000. The increase in gross profit was primarily due to the higher sales volume of Viveve Systems and treatment tips sold during the period. Additionally, fixed manufacturing costs in the third quarter of 2019 were spread over a lower sales volume thereby lowering gross margins.

Research and development expenses

| | Three Months Ended September 30, | | Change | |
|--------------------------|-------------------------------------|----------|----------|------------------------------------|
| | 2020 | 2019 | \$ | % |
| | | | | (in thousands, except percentages) |
| Research and development | \$ 884 | \$ 1,449 | \$ (565) | (39)% |

Research and development expenses totaled \$884,000 for the three months ended September 30, 2020, compared to research and development expense of \$1,449,000 for the three months ended September 30, 2019, a decrease of \$565,000, or approximately 39%. Spending on research and development decreased primarily due to reduced engineering and development work related to our products as a result of our overall strategic organizational realignment in 2019 and current economic conditions associated with COVID-19. Research and development expenses during the third quarter of 2020 also included lower clinical study costs primarily due to the completion and readout of our LIBERATE-International SUI clinical trial in July 2019 and VIVEVE II – U.S. Sexual Function Trial in April 2020.

Additionally, in response to the COVID-19 crisis, the Company implemented a series of significant cost-cutting actions, including the furlough of 31 full-time employees throughout the entire organization, designed to reduce expenses and reposition resources to support the Company's current customers and its pivotal clinical development program for our CMRF technology in the treatment of SUI.

Selling, general and administrative expenses

| | Three Months Ended September 30, | | Change | |
|-------------------------------------|-------------------------------------|----------|------------|------------------------------------|
| | 2020 | 2019 | \$ | % |
| | | | | (in thousands, except percentages) |
| Selling, general and administrative | \$ 2,761 | \$ 5,032 | \$ (2,271) | (45)% |

Selling, general and administrative expenses totaled \$2,761,000 for the three months ended September 30, 2020, compared to \$5,032,000 for the three months ended September 30, 2019, a decrease of \$2,271,000, or approximately 45%. The decrease in selling, general and administrative expenses was primarily due to reduced spending as a result of our overall strategic organizational realignment in 2019 and current economic conditions related to COVID-19.

Additionally, in response to the COVID-19 crisis, the Company implemented a series of significant cost-cutting actions, including the furlough of 31 full-time employees throughout the entire organization, designed to reduce expenses and reposition resources to support the Company's current customers and its pivotal clinical development program for our CMRF technology in the treatment of SUI. These corporate actions included an approximate two-thirds reduction of the direct sales organization.

Interest expense, net

| | Three Months Ended September 30, | | Change | |
|-----------------------|-------------------------------------|----------|----------|------------------------------------|
| | 2020 | 2019 | \$ | % |
| | | | | (in thousands, except percentages) |
| Interest expense, net | \$ 235 | \$ 1,209 | \$ (974) | (81)% |

During the three months ended September 30, 2020, we had interest expense, net of \$235,000 compared to \$1,209,000 for the three months ended September 30, 2019, a decrease of \$974,000, or approximately 81%. The decrease in interest expense was primarily due to CRG's conversion of approximately \$28,981,000 in outstanding principal into Series B convertible preferred stock in connection with our November 2019 Offering.

Other expense, net

| | Three Months Ended September 30, | | Change | |
|--------------------|-------------------------------------|-------|---------|------------------------------------|
| | 2020 | 2019 | \$ | % |
| | | | | (in thousands, except percentages) |
| Other expense, net | \$ 41 | \$ 51 | \$ (10) | (20)% |

During the three months ended September 30, 2020, we had other expense, net, \$41,000 compared to \$51,000 for the three months ended September 30, 2019.

Loss from minority interest in limited liability company

| | Three Months Ended September 30, | | Change | |
|--|-------------------------------------|--------|----------|-------|
| | 2020 | 2019 | \$ | % |
| | (in thousands, except percentages) | | | |
| Loss from minority interest in limited liability company | \$ 55 | \$ 168 | \$ (113) | (67)% |

The Company uses the equity method to account for its investment in InControl Medical, LLC (“ICM”). For the three months ended September 30, 2020, the allocated net loss from ICM’s operations was \$55,000 compared to \$168,000 for the three months ended September 30, 2019.

Comparison of the Nine Months Ended September 30, 2020 and 2019

Revenue

| | Nine Months Ended September 30, | | Change | |
|---------|------------------------------------|----------|------------|-------|
| | 2020 | 2019 | \$ | % |
| | (in thousands, except percentages) | | | |
| Revenue | \$ 3,532 | \$ 5,116 | \$ (1,584) | (31)% |

We recorded revenue of \$3,532,000 for the nine months ended September 30, 2020, compared to revenue of \$5,116,000 for the nine months ended September 30, 2019, a decrease of \$1,584,000, or approximately 31%. The decrease in revenue was primarily due to lower sales volume of Viveve Systems sold as the Company transitioned its U.S. commercial sales model to a recurring revenue rental model versus selling systems under a capital equipment sales model as well as the negative impact of the COVID-19 crisis on our sales activity in the period. Revenue for the nine months ended September 30, 2020 included sales of 16 Viveve Systems and approximately 5,900 disposable treatment tips sold globally. Under the subscription offering program, the Company also placed 9 Viveve Systems in the U.S. market in the nine months ended September 30, 2020. Rental revenue on these leases is recognized on a straight-line basis over the term of the lease. Revenue for the nine months ended September 30, 2019 included sales of 53 Viveve Systems and approximately 5,850 disposable treatment tips sold globally. Under the subscription offering program, which was launched in June 2019, the Company placed 49 Viveve Systems in the U.S. market in the nine months ended September 30, 2019. For the nine months ended September 30, 2020 and 2019, rental revenue recognized during the period was \$829,000 and \$177,000, respectively.

Additionally, late in the first quarter of 2020 and through the third quarter of 2020, the negative impact of the COVID-19 pandemic was in full effect in the United States and most other countries. Government and public health agencies issued directives halting performance of non-essential medical treatments and elective procedures in an effort to combat the spread of the coronavirus and protect public health and safety. As a result, Viveve’s customers either temporarily closed their medical practices or dramatically reduced services and staff. The consequence has been both a public health and economic crisis that continues for existing and prospective Viveve customers. In a supportive partnership response, Viveve contacted all of its subscription customers and provided them with a three-month deferral of the rental payment. Although clinics in various regions are beginning to re-open and provide limited services, we anticipate that until the COVID-19 pandemic abates, more practices begin to re-open and elective patient’s safety concerns are reduced that we will continue to experience reduced revenue from existing subscription customers, as well as a greatly reduced number of new and prospective customers.

Gross profit

| | Nine Months Ended September 30, | | Change | |
|--------------|------------------------------------|----------|------------|-------|
| | 2020 | 2019 | \$ | % |
| | (in thousands, except percentages) | | | |
| Gross profit | \$ 49 | \$ 1,135 | \$ (1,086) | (96)% |

Gross profit was \$49,000 or 1% of revenue for the nine months ended September 30, 2020, compared to gross profit of \$1,135,000, or 22% of revenue, for the nine months ended September 30, 2019, a decrease of \$1,086,000, or approximately 96%. The decrease in gross profit was primarily due to the lower sales volume of Viveve Systems sold as the Company transitioned its U.S. business model to a recurring revenue rental model versus selling systems under a capital equipment sales model that was launched in June of 2019 as well as the negative impact of the COVID-19 crisis on our sales activity in the period. Additionally, fixed manufacturing costs in the nine months ended September 30, 2020 were spread over a lower sales volume thus lowering gross margins.

Research and development expenses

| | Nine Months Ended September 30, | | Change | |
|--------------------------|------------------------------------|----------|------------|-------|
| | 2020 | 2019 | \$ | % |
| | (in thousands, except percentages) | | | |
| Research and development | \$ 3,745 | \$ 6,831 | \$ (3,086) | (45)% |

Research and development expenses totaled \$3,746,000 for the nine months ended September 30, 2020 compared to research and development expense of \$6,831,000 for the nine months ended September 30, 2019, a decrease of \$3,085,000 or approximately 45%. Spending on research and development decreased in the nine months ended September 30, 2020 primarily due to reduced engineering and development work related to our products in the period as a result of our overall strategic organizational realignment in 2019 and current economic conditions associated with COVID-19. Research and development expenses during the nine months ended September 30, 2020 also included lower clinical study costs primarily due to the completion and readout of our LIBERATE-International SUI clinical trial in July 2019 and VIVEVE II – U.S. Sexual Function Trial in April 2020.

Additionally, in response to the COVID-19 crisis, the Company implemented a series of significant cost-cutting actions, including the furlough of 31 full-time employees throughout the entire organization, designed to reduce expenses and reposition resources to support the Company's current customers and its pivotal clinical development program for our CMRF technology in the treatment of SUI.

Selling, general and administrative expenses

| | Nine Months Ended September 30, | | Change | |
|-------------------------------------|------------------------------------|-----------|------------|-------|
| | 2020 | 2019 | \$ | % |
| | (in thousands, except percentages) | | | |
| Selling, general and administrative | \$ 10,476 | \$ 17,188 | \$ (6,712) | (39)% |

Selling, general and administrative expenses totaled \$10,476,000 for the nine months ended September 30, 2020, compared to \$17,188,000 for the nine months ended September 30, 2019, a decrease of \$6,712,000 or approximately 39%. The decrease in selling, general and administrative expenses in the nine months ended September 30, 2020 was primarily due to reduced spending as a result of our overall strategic organizational realignment in 2019 and current economic conditions related to COVID-19.

Additionally, in response to the COVID-19 crisis, the Company implemented a series of significant cost-cutting actions, including the furlough of 31 full-time employees throughout the entire organization, designed to reduce expenses and reposition resources to support the Company's current customers and its pivotal clinical development program for our CMRF technology in the treatment of SUI. These corporate actions included an approximate two-thirds reduction of the direct sales organization.

Restructuring costs

| | Nine Months Ended September 30, | | Change | |
|---------------------|------------------------------------|--------|----------|----|
| | 2020 | 2019 | \$ | % |
| | (in thousands, except percentages) | | | |
| Restructuring costs | \$ - | \$ 742 | \$ (742) | NM |

In January 2019, the Company implemented the Strategic Organizational Realignment to reduce operating expenses and prepare the Company for expanded indications for its CMRF technology platform for improved sexual function and stress urinary incontinence in women. The restructuring included a reduction in headcount of approximately 40 full-time employees. The total restructuring costs recorded for the nine months ended September 30, 2019 were approximately \$742,000. This restructuring contributed to a reduction in total operating expenses in the second quarter of 2019 as planned and resulted in additional operating cost savings throughout the remainder of the year.

Modification of Series A and B Warrants

| | Nine Months Ended September 30, | | Change | |
|--|------------------------------------|------|--------|------------------------------------|
| | 2020 | 2019 | \$ | % |
| | | | | |
| | | | | (in thousands, except percentages) |

| | | | | |
|---|----------|------|----------|----|
| Modification of Series A and B warrants | \$ 1,838 | \$ - | \$ 1,838 | NM |
|---|----------|------|----------|----|

In April 2020, the Company reduced the exercise price of the outstanding Series A warrants and Series B warrants from \$1.55 per share to \$0.61 per share. The Series A and B warrant exercise price adjustment to \$0.61 per share from \$1.55 per share resulted in the recognition of a modification expense of \$1,838,000.

Interest expense, net

| | Nine Months Ended September 30, | | Change | |
|--|------------------------------------|------|--------|------------------------------------|
| | 2020 | 2019 | \$ | % |
| | | | | |
| | | | | (in thousands, except percentages) |

| | | | | |
|-----------------------|--------|----------|------------|-------|
| Interest expense, net | \$ 668 | \$ 3,519 | \$ (2,851) | (81)% |
|-----------------------|--------|----------|------------|-------|

During the nine months ended September 30, 2020, we had interest expense, net of \$668,000, compared to \$3,519,000 for the nine months ended September 30, 2019, a decrease of \$2,851,000, or approximately 81%. The decrease in interest expense was primarily due to CRG's conversion of approximately \$28,981,000 in outstanding principal into Series B convertible preferred stock in connection with our November 2019 Offering.

Other expense, net

| | Nine Months Ended September 30, | | Change | |
|--|------------------------------------|------|--------|------------------------------------|
| | 2020 | 2019 | \$ | % |
| | | | | |
| | | | | (in thousands, except percentages) |

| | | | | |
|--------------------|--------|--------|-------|-----|
| Other expense, net | \$ 159 | \$ 133 | \$ 26 | 20% |
|--------------------|--------|--------|-------|-----|

During the nine months ended September 30, 2020, we had other expense, net, of \$158,000, compared to \$133,000 for the nine months ended September 30, 2019.

Loss from minority interest in limited liability company

| | Nine Months Ended September 30, | | Change | |
|--|------------------------------------|------|--------|------------------------------------|
| | 2020 | 2019 | \$ | % |
| | | | | |
| | | | | (in thousands, except percentages) |

| | | | | |
|--|--------|--------|----------|-------|
| Loss from minority interest in limited liability company | \$ 323 | \$ 431 | \$ (108) | (25)% |
|--|--------|--------|----------|-------|

The Company uses the equity method to account for its investment in ICM. For the nine months ended September 30, 2020, the allocated net loss from ICM's operations was \$323,000, compared to \$431,000 for the nine months ended September 30, 2019.

Liquidity and Capital Resources

Comparison of the Nine Months Ended September 30, 2020 and 2019

Since inception, the Company has sustained significant operating losses and such losses are expected to continue for the foreseeable future. As of September 30, 2020, the Company had an accumulated deficit of \$215,071,000, cash and cash equivalents of \$9,200,000 and working capital of \$12,895,000. Additionally, the Company used \$12,936,000 in cash for operations in the nine months ended September 30, 2020. Accordingly, management has concluded there is substantial doubt about the Company's ability to continue as a going concern. However, due to the cost-cutting actions that the Company has taken and the remaining equity financing commitment of \$9.7 million from LPC, management believes that this substantial doubt has been alleviated in the current period. Accordingly, we expect to satisfy our estimated liquidity needs for at least 12 months from the date of the issuance of these consolidated financial statements and have mitigated our going concern risk. However, we cannot predict, with certainty, the outcome of our future actions to generate liquidity, including the availability of additional financing.

Management currently believes that it will be necessary for us to raise additional funding in the form of an equity financing of common stock, but there can be no assurance that such funding will be available to us on favorable terms, if at all. The failure to raise capital when needed could have a material adverse effect on our business and financial condition. We may not be able to obtain additional financing as needed on acceptable terms, or at all, which may require us to reduce our operating costs and other expenditures, including reductions of personnel, salaries and capital expenditures. Alternatively, or in addition to such potential measures, we may elect to implement additional cost reduction actions as we may determine are necessary and in our best interests. Any such actions undertaken might limit the Company's ability to achieve its strategic objectives.

The following table summarizes the primary sources and uses of cash for the periods presented below (in thousands):

| | Nine Months Ended | |
|---|-------------------|-------------|
| | September 30, | |
| | 2020 | 2019 |
| Net cash used in operating activities | \$ (12,936) | \$ (25,862) |
| Net cash used in investing activities | (403) | (848) |
| Net cash provided by (used in) financing activities | 9,231 | 6,273 |
| Net decrease in cash and cash equivalents | \$ (4,108) | \$ (20,437) |

Operating Activities

We have incurred, and expect to continue to incur, significant expenses in the areas of research and development, regulatory and clinical study costs, associated with the Viveve System.

Operating activities used \$12,936,000 for the nine months ended September 30, 2020 compared to \$25,862,000 used for the nine months ended September 30, 2019. The primary use of our cash was to fund selling, general and administrative expenses and research and development expenses associated with the Viveve System. Net cash used during the nine months ended September 30, 2020 consisted of a net loss of \$17,160,000 adjusted for non-cash expenses including provision for doubtful accounts and write off of accounts receivable of \$335,000, depreciation and amortization of \$965,000, stock-based compensation of \$2,009,000, non-cash interest expense of \$394,000, amortization of operating lease right-of-use assets and accretion of operating lease liabilities of \$3,000, a loss from minority interest in limited liability company of \$323,000, a loss on disposal of property and equipment of \$14,000, a noncash charge for the modification of Series A and B warrants of \$1,838,000, and cash outflows from changes in operating assets and liabilities of \$1,657,000. The change in operating assets and liabilities was primarily due to a decrease in accounts receivable of \$549,000, a decrease in inventory of \$233,000, a decrease in prepaid expenses and other current assets of \$683,000, a decrease in other noncurrent assets of \$444,000, a decrease in accounts payable \$913,000, a decrease in accrued and other liabilities of \$2,918,000, and an increase of other noncurrent liabilities of \$265,000.

Net cash used during the nine months ended September 30, 2019 consisted of a net loss of \$27,709,000 adjusted for non-cash expenses including provision for doubtful accounts of \$260,000, depreciation and amortization of \$819,000, stock-based compensation of \$1,634,000, non-cash interest expense of \$1,266,000, amortization of operating lease right-of-use assets and accretion of operating lease liabilities of \$4,000, a loss from minority interest in limited liability company of \$431,000, a loss on disposal of property and equipment of \$93,000 and cash outflows from changes in operating assets and liabilities of \$2,660,000. The change in operating assets and liabilities was primarily due to a decrease in accounts receivable of \$2,638,000, an increase in inventory of \$236,000, an increase in prepaid expenses and other current assets of \$493,000, a decrease in other noncurrent assets of \$40,000, a decrease in accounts payable \$2,203,000, a decrease in accrued and other liabilities of \$2,566,000, and an increase of other noncurrent liabilities of \$160,000.

Investing Activities

Net cash used in investing activities during the nine months ended September 30, 2020 and 2019 was \$403,000 and \$848,000, respectively. Net cash used in investing activities during the nine months ended September 30, 2020 and 2019 was used for the purchase of property and equipment. We expect to continue to purchase property and equipment in the normal course of our business. The amount and timing of these purchases and the related cash outflows in future periods is difficult to predict and is dependent on a number of factors including, but not limited to, any changes to the capital equipment requirements related to our recurring revenue rental model, development programs and clinical trials and increase in the number of our employees.

Financing Activities

Net cash provided by financing activities during the nine months ended September 30, 2020 was \$9,231,000, which was the result of net proceeds of \$8,407,000 from exercises of common warrants, proceeds of \$1,343,000 from the PPP loan and proceeds of \$341,000 from the initial purchase of common shares under the Purchase agreement from LPC, partially offset by transaction costs of \$333,000 in connection with the 2020 Warrant Offering, transaction costs of \$494,000 in connection with the Purchase Agreement with LPC, and additional transaction costs of \$33,000 in connection with our November 2019 Offering.

Net cash provided by financing activities during the nine months ended September 30, 2019 was \$6,273,000, which was the result of gross proceeds of \$6,760,000 from our August 2019 ATM Facility (partially offset by transaction costs of \$438,000) and the proceeds of \$56,000 from purchases of common shares under the 2017 ESPP, partially offset by transaction costs of \$100,000 in connection with our note payable.

Contractual Payment Obligations

We have obligations under a bank term loan and non-cancelable operating leases. As of September 30, 2020, our contractual obligations were as follows (in thousands):

| Contractual Obligations (including interest): | Total | Less than 1 Year | 1 - 3 Year | 3 -5 Years | More than 5 Years |
|--|-----------------|-----------------------------|-------------------|-------------------|------------------------------|
| CRG note payable | \$ 5,992 | \$ - | \$ 5,992 | \$ - | \$ - |
| Paycheck Protection Program loan | 1,364 | 682 | 682 | - | - |
| Non-cancellable operating lease obligations | 213 | 213 | - | - | - |
| Total | <u>\$ 7,569</u> | <u>\$ 895</u> | <u>\$ 6,674</u> | <u>\$ -</u> | <u>\$ -</u> |

In February 2017, we entered into the Sublease for approximately 12,400 square feet of building space for the relocation of the Company's corporate headquarters to Englewood, Colorado. The lease term is 36 months and the monthly base rent for the first, second and third years is \$20.50, \$21.12 and \$21.75 per rentable square foot, respectively. In connection with the execution of the Sublease, the Company paid a security deposit of approximately \$22,000. The Company is also entitled to an allowance of approximately \$88,000 for certain tenant improvements relating to the engineering, design and construction of the Sublease Premises. The lease term commenced in June 2017 and will terminate in May 2021.

In May 2017, the Company entered into the 2017 Loan Agreement with affiliates of CRG LP ("CRG"). The credit facility consists of \$20,000,000 that was drawn at closing and the ability to access additional funding of up to an aggregate of \$10,000,000 for a total of \$30,000,000 under the credit facility. In December 2017, the Company accessed the remaining \$10,000,000 available under the CRG credit facility. The term of the loan is six years with the first four years being interest only. In November 2019, the Company and CRG amended the 2017 Loan Agreement concurrent with the conversion of approximately \$29,000,000 of the principal amount under the term loan with CRG (plus accrued interest, the prepayment premium and the back-end fee applicable thereto), for an aggregate amount of converted debt obligations of approximately \$31,300,000. The amounts converted into 31,300 shares of the newly authorized Series B convertible preferred stock and warrants to purchase up to 9,893,776 shares of common stock were also issued. The outstanding principal balance under the 2017 Loan Agreement was \$4,377,000 as of September 30, 2020.

In September 2018, the Company entered into a 36-month noncancelable operating lease agreement for office equipment. The monthly payment is approximately \$3,000.

Critical Accounting Policies and Estimates

The discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. Certain accounting policies and estimates are particularly important to the understanding of our financial position and results of operations and require the application of significant judgment by our management or can be materially affected by changes from period to period in economic factors or conditions that are outside of our control. As a result, they are subject to an inherent degree of uncertainty. In applying these policies, management uses their judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on our historical operations, our future business plans and projected financial results, the terms of existing contracts, observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. Please see Note 2 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2019, that was filed with the SEC on March 19, 2020, as amended on June 18, 2020 and June 27, 2020, for a more complete description of our significant accounting policies. There have been no material changes to the significant accounting policies during the three months ended September 30, 2020.

Recent Accounting Pronouncements

In November 2019, the FASB issued ASU 2019-08, "Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606). The amendments in this Update require measurement and classification of share-based payment awards granted to a customer by applying the guidance in Topic 718. This guidance is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period, with early adoption permitted. We adopted this guidance as of January 1, 2020, and the adoption of the guidance did not have a significant impact on the condensed consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740). The amendments in this Update provide further simplification of accounting standards for the accounting for income taxes. Certain exceptions for are removed and requirements regarding the accounting for franchise taxes, tax basis of goodwill, and tax law rate changes are made. This guidance is effective for annual reporting periods beginning after December 15, 2020, including interim periods within that reporting period, with early adoption permitted. We will adopt this guidance as of January 1, 2021 and the adoption of the guidance is not expected to have a significant impact on the consolidated financial statements. We have reviewed other recent accounting pronouncements and concluded they are either not applicable to the business, or no material effect is expected on the condensed consolidated financial statements as a result of future adoption.

We have reviewed other recent accounting pronouncements and concluded they are either not applicable to the business, or no material effect is expected on the condensed consolidated financial statements as a result of future adoption.

Off-Balance Sheet Transactions

We do not have any off-balance sheet transactions.

Trends, Events and Uncertainties

Research, development and commercialization of new technologies and products is, by its nature, unpredictable. Although we will undertake development efforts, including efforts with commercially reasonable diligence, there can be no assurance that we will have adequate capital to develop or commercialize our technology to the extent needed to create future sales to sustain our operations.

We cannot assure you that our technology will be adopted, that we will ever earn revenues sufficient to support our operations, or that we will ever be profitable. Furthermore, since we have no committed source of financing, we cannot assure you that we will be able to raise money as and when we need it to continue our operations. If we cannot raise funds as and when we need them, we may be required to severely curtail, or even to cease, our operations.

Other than as discussed above and elsewhere in this Quarterly Report on Form 10-Q, we are not aware of any trends, events or uncertainties that are likely to have a material effect on our financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk related to changes in interest rates. As of September 30, 2020, our cash and cash equivalents consisted of cash and interest-bearing accounts. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates. However, since a majority of our investments are in highly liquid interest-bearing accounts, we do not believe we are subject to any material market risk exposure. As of September 30, 2020, we did not have any material derivative financial instruments. The fair value of our cash and cash equivalents was \$9.2 million as of September 30, 2020.

We are also exposed to market risk related to changes in foreign currency exchange rates. From time to time, we contract with vendors or service providers that are located outside the U.S., which are denominated in foreign currencies. We are subject to fluctuations in foreign currency rates in connection with these agreements. We do not currently hedge our foreign currency exchange rate risk. As of September 30, 2020 and December 31, 2019, we had minimal liabilities denominated in foreign currencies.

We do not believe that inflation had a material effect on our business, financial condition or results of operations during the nine months ended September 30, 2020 and 2019.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation under the supervision and with the participation of management, including our principal executive officer and principal financial and accounting officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2020, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon the evaluation of our disclosure controls and procedures as of September 30, 2020, our Chief Executive Officer (principal executive officer) and Vice President of Finance and Administration (principal accounting and financial officer) concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level. In addition, our ability to maintain an effective internal control environment has not been impacted by the COVID-19 pandemic.

Changes in Internal Control over Financial Reporting

No changes in the Company's internal control over financial reporting have come to management's attention during the Company's last fiscal quarter that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

PART II-OTHER INFORMATION

Item 1. Legal Proceedings.

Except as disclosed below and in our Annual Report on Form 10-K for the year ended December 31, 2019, we are not subject to any material pending legal proceedings. From time to time, we may be involved in routine legal proceedings, as well as demands, claims and threatened litigation, which arise in the normal course of our business.

Item 1A. Risk Factors.

We incorporate herein by reference the risk factors included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 19, 2020 (as amended on June 18, 2020 and June 27, 2020), the First Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 14, 2020 and the Second Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 13, 2020.

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

Unregistered Sales of Securities

Acorn Shares

On September 10, 2020, the Company issued 47,090 shares of its common stock (the "Acorn Shares") to Acorn Management Partners, L.L.C., an accredited investor, at a price per share of \$0.5309, or an aggregate offering price of approximately \$25,000, in a private offering pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"). The Company did not receive any cash proceeds from the sale, as the Acorn Shares were issued as compensation for services rendered under a consulting agreement between the parties and pursuant to the terms set forth in such consulting agreement. The Company did not engage in general solicitation or general advertising with respect to the offering.

Series B Preferred Stock

Pursuant to the Certificate of Designation of the Company's Series B preferred stock, we issued 1,050 shares of Series B preferred stock in lieu of \$1,050,000 in cash dividend to holders of Series B preferred stock, exempt from registration pursuant to Section 4(a)(2) of the Securities Act, on September 30, 2020.

The shares of Series B preferred stock will only be convertible into common stock, following such time as we have filed an amendment to the certificate of incorporation that authorizes at least 125,000,000 shares of common stock. We may effect a reverse stock split and then remove the requirement of authorized common stock increase for the conversion of Series B preferred stock to enable CRG to convert its shares to common stock. The conversion or exercise of securities issued to affiliates of CRG are also further subject to certain beneficial ownership restrictions and Nasdaq stockholder approval requirements. If the Series B preferred stock becomes convertible into common stock, it will be convertible into that number of shares of common stock determined by dividing \$1,000 by the conversion price of \$1.53.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

| Exhibit Number | Document |
|-----------------------|---|
| 3.1.1(1) | Certificate of Conversion for Delaware. |
| 3.1.2(2) | Amended and Restated Certificate of Incorporation. |
| 3.1.3(3) | Articles of Amendment to the Articles of Continuance of Viveve Medical, Inc. |
| 3.1.3(4) | Certificate of Amendment to the Amended and Restated Certificate of Incorporation. |
| 3.2(2) | Amended and Restated Bylaws. |
| 31.1* | Certification of the Company's Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of the Company's Principal Accounting and Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1+ | Certification of the Company's Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2+ | Certification of the Company's Principal Accounting and Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL Instance |
| 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 |

* Filed herewith.

+ This document is deemed not filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

- (1) Incorporated by reference from the Form 10-Q filed with the Securities and Exchange Commission on May 13, 2016.
- (2) Incorporated by reference from the Form 8-K filed with the Securities and Exchange Commission on August 16, 2017.
- (3) Incorporated by reference from the Form 8-K filed with the Securities and Exchange Commission on April 14, 2016.
- (4) Incorporated by reference from the Form 8-K filed with the Securities and Exchange Commission on September 18, 2019.

SIGNATURES

Pursuant to the requirements 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.

Dated: November 12, 2020

VIVEVE MEDICAL, INC.
(Registrant)

By: /s/ Scott Durbin
Scott Durbin
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Jim Robbins
Jim Robbins
Vice President of Finance and Administration
(Principal Accounting and Financial Officer)

**Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**

I, Scott Durbin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for Viveve Medical, 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 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.

Date: November 12, 2020

/s/ Scott Durbin
Scott Durbin
Chief Executive Officer
(Principal Executive Officer)

**Certification of Principal Accounting and Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**

I, Jim Robbins, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for Viveve Medical, 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 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(s) 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.

Date: November 12, 2020

/s/ Jim Robbins

Jim Robbins

Vice President of Finance and Administration
(Principal Accounting and Financial Officer)

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (A) and (B) of Section 1350, Chapter 63 of Title 18,
United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of Title 18, United States Code), the undersigned officer of Viveve Medical, Inc. (the "Company"), does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2020

/s/ Scott Durbin

Scott Durbin
Chief Executive Officer
(Principal Executive Officer)

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (A) and (B) of Section 1350, Chapter 63 of Title 18,
United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of Title 18, United States Code), the undersigned officer of Viveve Medical, Inc. (the "Company"), does hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2020

/s/ Jim Robbins

Jim Robbins
Vice President of Finance and Administration
(Principal Accounting and Financial Officer)