

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from _____ to _____.

Commission File Number:

001-38389

Motus GI Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

81-4042793
(I.R.S. Employer
Identification Number)

1301 East Broward Boulevard, 3rd Floor
Ft. Lauderdale, FL
(Address of principal executive offices)

33301
(Zip code)

(786) 459 1831

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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 and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of October 31, 2018, 15,690,151 shares of the registrant's common stock, \$0.0001 par value, were issued and outstanding.

MOTUS GI HOLDINGS, INC.

Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2018

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

Motus GI Holdings Inc
Condensed Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	September 30,	December 31,
	2018	2017
	(unaudited)	(*)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,887	\$ 6,939
Short-term investments	4,744	—
Accounts receivable	23	5
Inventory	46	6
Prepaid expenses and other current assets	1,188	734
Deferred financing fees	59	602
Total current assets	12,947	8,286
Fixed assets, net	871	783
Other long-term assets	88	99
Total assets	\$ 13,906	\$ 9,168
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,416	\$ 1,733
Other current liabilities	58	250
Total current liabilities	2,474	1,983
Contingent royalty obligation	1,906	1,662
Other non-current liabilities	84	—
Total liabilities	4,464	3,645
Shareholders' equity		
Common Stock \$0.0001 par value; 50,000,000 shares authorized; 15,690,151 and 10,493,233 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	2	1
Preferred Series A stock \$0.0001 par value; 2,000,000 shares authorized; 0 and 1,581,128 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	—	—
Preferred stock \$0.0001 par value; 8,000,000 shares authorized; zero shares issued and outstanding	—	—
Additional paid-in capital	65,251	44,643
Accumulated deficit	(55,811)	(39,121)
Total shareholders' equity	9,442	5,523
Total liabilities and shareholders' equity	\$ 13,906	\$ 9,168

(*) Derived from audited consolidated financial statements

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

Motus GI Holdings Inc
Condensed Consolidated Statements of Comprehensive Loss
(In thousands, except share and per share amounts)
(unaudited)

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2018	2017	2018	2017
Revenue	\$ —	\$ —	\$ 38	\$ —
Cost of revenue	—	—	56	—
Gross loss	<u>—</u>	<u>—</u>	<u>(18)</u>	<u>—</u>
Operating expenses:				
Research and development	1,770	965	4,357	2,701
Sales and marketing	1,215	614	2,945	1,603
General and administrative	2,145	2,414	6,021	4,907
Total operating expenses	<u>5,130</u>	<u>3,993</u>	<u>13,323</u>	<u>9,211</u>
Operating loss	(5,130)	(3,993)	(13,341)	(9,211)
Warrant expense	—	—	(3,156)	—
Loss on change in fair value of contingent royalty obligation	(85)	(72)	(244)	(207)
Finance income, net	44	—	73	—
Reversal of registration rights expense	—	900	—	—
Foreign currency gain (loss)	<u>1</u>	<u>—</u>	<u>(22)</u>	<u>(9)</u>
Loss before income taxes	(5,170)	(3,165)	(16,690)	(9,427)
Income tax expense	—	—	—	—
Net loss	<u>\$ (5,170)</u>	<u>\$ (3,165)</u>	<u>\$ (16,690)</u>	<u>\$ (9,427)</u>
Basic and diluted loss per common share	<u>\$ (0.33)</u>	<u>\$ (0.30)</u>	<u>\$ (1.13)</u>	<u>\$ (0.92)</u>
Weighted average number of common shares outstanding, basic and diluted	<u>15,680,750</u>	<u>10,489,822</u>	<u>14,782,285</u>	<u>10,288,895</u>

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

Motus GI Holdings Inc
Condensed Consolidated Statement of Changes in Shareholders' Equity (Deficit)
Nine-Month Period Ended September 30, 2018
(In thousands, except share and per share amounts)

	Preferred Stock		Preferred Series A stock		Common Stock		Additional paid-in capital	Accumulated deficit	Total shareholders' equity (deficit)
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at January 1, 2018	—	\$ —	1,581,128	\$ —	10,493,233	\$ 1	\$ 44,643	\$ (39,121)	\$ 5,523
Issuance of common shares upon initial public offering, net of offering costs	—	—	—	—	3,500,000	1	14,953	—	14,954
Conversion of preferred shares to commons shares in connection with initial public offering	—	—	(1,581,128)	—	1,581,128	—	—	—	—
Issuance of common shares upon exercise of over-allotment	—	—	—	—	56,000	—	258	—	258
Issuance of common shares upon cashless exercise of options	—	—	—	—	394	—	—	—	—
Share based compensation	—	—	—	—	15,000	—	602	—	602
Warrant expense	—	—	—	—	—	—	3,156	—	3,156
Net loss	—	—	—	—	—	—	—	(7,323)	(7,323)
Balance at March 31, 2018	—	—	—	—	15,645,755	2	63,612	(46,444)	17,170
Share based compensation	—	—	—	—	—	—	498	—	498
Net loss	—	—	—	—	—	—	—	(4,197)	(4,197)
Balance at June 30, 2018	—	—	—	—	15,645,755	2	64,110	(50,641)	13,471
Issuance of common shares upon exercise of options	—	—	—	—	14,396	—	48	—	48
Share based compensation	—	—	—	—	30,000	—	1,093	—	1,093
Net loss	—	—	—	—	—	—	—	(5,170)	(5,170)
Balance at September 30, 2018	—	\$ —	—	\$ —	15,690,151	2	\$ 65,251	\$ (55,811)	\$ 9,442

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

Motus GI Holdings Inc
Condensed Consolidated Statement of Changes in Shareholders' Equity (Deficit)
Nine-Month Period Ended September 30, 2017
(In thousands, except share and per share amounts)

	Preferred Stock		Preferred Series A Stock		Common Stock		Additional paid-in capital	Accumulated deficit	Total shareholders' equity (deficit)
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at January 1, 2017	—	\$ —	1,214,845	\$ —	9,294,463	\$ 1	\$ 35,949	\$ (25,921)	\$ 10,029
Issuance of shares	—	—	366,283	—	1,098,849	—	6,474	—	6,474
Share based compensation	—	—	—	—	90,000	—	653	—	653
Net loss	—	—	—	—	—	—	—	(2,781)	(2,781)
Balance at March 31, 2017	—	—	1,581,128	—	10,483,312	1	43,076	(28,702)	14,375
Issuance of common shares upon exercise of options	—	—	—	—	754	—	—	—	—
Share based compensation	—	—	—	—	5,000	—	(56)	—	(56)
Net loss	—	—	—	—	—	—	—	(3,480)	(3,480)
Balance at June 30, 2017	—	—	1,581,128	—	10,489,066	1	43,020	(32,182)	10,839
Share based compensation	—	—	—	—	2,778	—	1,297	—	1,297
Net loss	—	—	—	—	—	—	—	(3,166)	(3,166)
Balance at September 30, 2017	—	\$ —	1,581,128	\$ —	10,491,844	\$ 1	\$ 44,317	\$ (35,348)	\$ 8,970

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

Motus GI Holdings Inc
Condensed Consolidated Statements of Cash Flows
(In thousands, except share and per share amounts)
(unaudited)

For the Nine Months Ended
September 30,

2018 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$	(16,690)		\$	(9,427)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization		106			42
Revaluation of contingent royalty obligation		244			206
Share based compensation		1,735			1,894
Amortization of bond premium		15			—
Warrant expense		3,156			—
Inventory write-down		574			—
Changes in operating assets and liabilities:					
Accounts receivable		(18)			(1)
Inventory		(614)			(376)
Prepaid expenses and other current assets		(74)			(126)
Other long-term assets		—			(255)
Accounts payable and accrued expenses		1,141			364
Other current and long-term liabilities		(108)			61
Net cash used in operating activities		<u>(10,533)</u>			<u>(7,618)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of fixed assets		(194)			(656)
Proceeds from (repayment of) long-term deposits		11			(24)
Repayment of shareholder loan receivable		126			—
Purchase of available-for-sale securities		(5,026)			—
Proceeds from sale of available-for-sale securities		2,000			—
Purchase of held-to-maturity securities		(4,863)			—
Proceeds from maturity of held-to-maturity securities		3,130			—
Net cash used in investing activities		<u>(4,816)</u>			<u>(680)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from public offering, net of broker commissions of \$1,400		16,100			—
Payments of public offering costs		(1,109)			—
Proceeds from exercise of options, net of broker commissions of \$22		306			—
Proceeds from issuance of shares, net of financing cost of \$851		—			6,474
Net cash provided by financing activities		<u>15,297</u>			<u>6,474</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (52) (1,824)

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD 6,939 11,651

CASH AND CASH EQUIVALENTS AT END OF PERIOD \$ 6,887 \$ 9,827

SUPPLEMENTAL CASH FLOW INFORMATION:

CASH PAID FOR:

Interest	\$	—		\$	—
Income taxes	\$	—		\$	—

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:

Reclassification of deferred financing fees from current assets to common stock	\$	602		\$	—
Cashless exercise of options	\$	2		\$	—
Deferred financing fees included in accounts payable and accrued expenses	\$	59		\$	—

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

Motus GI Holdings, Inc. and Subsidiaries
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands, except share and per share amounts)

Note 1 - Description of Business

Motus GI Holdings, Inc. (the “Company”) was incorporated in Delaware, U.S.A. in September 2016. The Company and its subsidiaries, Motus, Ltd. and Motus, Inc., are collectively referred to as “Motus GI” or the “Company”.

The Company has developed a single-use medical device system, the Pure-Vu system, cleared by the United States Food and Drug Administration and which has received CE Mark approval in the European Economic Area, that is intended to attach to standard colonoscopes to help facilitate intraprocedural cleaning of a poorly prepared colon by irrigating or cleaning the colon and evacuating the irrigation fluid (water), feces and other bodily fluids and matter. The Pure-Vu system has been designed to integrate with standard colonoscopes to enable cleaning during the procedure while preserving standard procedural workflow and techniques. Challenges with bowel preparation for inpatient colonoscopy represent a significant area of unmet need that directly affects clinical outcomes and increases the cost of care for a hospital in a market segment where most of the reimbursement is under a bundle payment based on a DRG (Diagnostic Related Group). The Pure-Vu system does not currently have a unique reimbursement code with any private or governmental third-party payors in any country. To date, as part of the Company’s limited market development launch, the Company has focused on collecting additional clinical and health economic data, as exemplified by the recently initiated Reliable Endoscopic Diagnosis Utilizing Cleansing Enhancement Study (the “REDUCE Study”), along with garnering valuable experience in key hospitals on the use of the Pure-Vu system to support a full launch in the United States inpatient market in 2019. The Company does not expect to generate significant revenue from product sales unless and until the Company expands its commercialization efforts.

Note 2 – Basis of Presentation and Going Concern

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the 2017 10-K filed with the SEC on March 28, 2018. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information, the instructions for Form 10-Q and the rules and regulations of the SEC. Accordingly, since they are interim statements, the accompanying condensed consolidated financial statements do not include all of the information and notes required by GAAP for annual financial statements, but reflect all adjustments consisting of normal, recurring adjustments, that are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of the results that may be expected for any future periods. The December 31, 2017 balance sheet information was derived from the audited financial statements as of that date. Certain reclassifications to prepaid expenses and other current assets, and other current and long-term liabilities, other expenses, and income tax expense have been made to the prior period condensed consolidated financial statements to conform to the current period presentation.

To date, the Company has generated minimal revenues, experienced negative cash flows and has incurred substantial operating losses from its activities. Management expects the Company to continue to generate substantial operating losses and to continue to fund its operations primarily through utilization of its current financial resources, future product sales, and through additional raises of capital.

The Company has financed its operations primarily through sales of equity-related securities. At September 30, 2018, the Company had an accumulated deficit of approximately \$55.8 million, total current assets of approximately \$12.9 million and total current liabilities of approximately \$2.5 million resulting in working capital of approximately \$10.4 million. At September 30, 2018, the Company had cash and cash equivalents, and short-term investments of approximately \$11.6 million. Based on the Company’s current business plan, it believes their cash, cash equivalents, and short-term investments balance as of September 30, 2018 will be sufficient to meet its anticipated cash requirements through approximately the second quarter of 2019. However, there is no assurance that the current business plan will be achievable.

Such conditions raise substantial doubts about the Company’s ability to continue as a going concern. Management’s plan includes revenue generation through the sale of products and raising funds from outside investors. However, there is no assurance that such sale of products will occur or that outside funding will be available to the Company, will be obtained on favorable terms or will provide the Company with sufficient capital to meet its objectives. These financial statements do not include any adjustments relating to the recoverability and classification of assets, carrying amounts or the amount and classification of liabilities that may be required should the Company be unable to continue as a going concern.

Motus GI Holdings, Inc. and Subsidiaries
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands, except share and per share amounts)

Note 3 – Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying condensed consolidated financial statements follows:

Principles of Consolidation

The unaudited condensed consolidated financial statements represent the consolidation of the accounts of the Company and its subsidiaries in conformity with GAAP. All intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all highly liquid investment securities with an original maturity of three months or less to be cash equivalents. Due to the short-term maturity of such investments, the carrying amounts are a reasonable estimate of fair value.

Short-term Investments

The Company invests all excess cash primarily in debt securities.

Investment securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are carried at amortized cost. Purchase premiums and discounts are recognized in finance income, net over the term of the security. Investment securities not classified as held-to-maturity securities are classified as available-for-sale securities and recorded at fair value, with unrealized gains and losses reported in net loss. Gains and losses on the sale of available-for-sale securities are recorded on the trade date.

Management evaluates whether available-for-sale securities and held-to-maturity securities are other-than-temporarily impaired (OTTI) on a quarterly basis. Debt securities with unrealized losses are considered OTTI if the Company intends to sell the security or if it is more likely than not that the Company will be required to sell such security prior to any anticipated recovery. If management determines that a security is OTTI under these circumstances, the impairment recognized in earnings is measured as the entire difference between the amortized cost and the then-current fair value. During the three and nine months ended September 30, 2018, no investment OTTI losses were realized.

The Company's investment policy is focused on the preservation of capital, liquidity and return. From time to time, the Company may sell certain securities, but the objectives are generally not to generate profits on short-term differences in price.

Revenue Recognition

The FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The Company adopted this ASU effective January 1, 2018 on a full retrospective basis. Adoption of this standard did not result in significant changes to accounting policies, business processes, systems or controls, or have a material impact on the financial position, results of operations and cash flows or related disclosures. As such, prior period financial statements were not recast.

The Pure-Vu System – The Company manufactures a medical device system (a “Workstation”) and a single use disposable sleeve (a “Disposable”) designed to improve a colonoscopy procedure. These products are shipped directly to healthcare professionals under contract-based terms. Revenue for the products sold is recognized at the point in time when control transfers to the customer, which is generally when the shipment is received and accepted by the customer. In certain circumstances, products are available for free of charge for a limited evaluation period. At the end of the limited evaluation period, the customer may purchase the products at which time the Company will record the corresponding revenue, or the products may be returned. As of September 30, 2018, the Company had no future performance obligations from any customer contracts.

Motus GI Holdings, Inc. and Subsidiaries
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands, except share and per share amounts)

Stock Based Compensation

The Company applies ASC 718-10, "Share-Based Payment," which requires the measurement and recognition of compensation expenses for all share-based payment awards made to employees and directors including employee stock options under the Company's stock plans based on estimated fair values.

ASC 718-10 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's statement of operations. The Company recognizes share-based award forfeitures as they occur rather than estimate by applying a forfeiture rate.

The Company accounts for stock-based compensation awards to non-employees in accordance with FASB ASC 505-50, "Equity-Based Payments to Non-Employees" ("FASB ASC 505-50"). Under FASB ASC 505-50, the Company determines the fair value of the warrants or stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

All issuances of stock options or other equity instruments to non-employees as consideration for goods or services received by the Company are accounted for based on the fair value of the equity instruments issued. Non-employee equity based payments are recorded as an expense over the service period, as if the Company had paid cash for the services. At the end of each financial reporting period, prior to vesting or prior to the completion of the services, the fair value of the equity based payments will be re-measured and the non-cash expense recognized during the period will be adjusted accordingly. Since the fair value of equity based payments granted to non-employees is subject to change in the future, the amount of the future expense will include fair value re-measurements until the equity based payments are fully vested or the service completed.

The Company recognizes compensation expenses for the value of non-employee awards based on the straight-line method over the requisite service period of each award.

The Company estimates the fair value of stock options granted as equity awards using a Black-Scholes options pricing model. The option-pricing model requires a number of assumptions, of which the most significant are share price, expected volatility and the expected option term (the time from the grant date until the options are exercised or expire). Expected volatility is estimated based on volatility of similar companies in the technology sector. The Company has historically not paid dividends and has no foreseeable plans to issue dividends. The risk-free interest rate is based on the yield from governmental zero-coupon bonds with an equivalent term. The expected option term is calculated for options granted to employees and directors using the "simplified" method. Grants to non-employees are based on the contractual term. Changes in the determination of each of the inputs can affect the fair value of the options granted and the results of operations of the Company.

Income Taxes

The Company provides for income taxes using the asset and liability approach. Deferred tax assets and liabilities are recorded based on the differences between the financial statement and tax bases of assets and liabilities and the tax rates in effect when these differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. As of September 30, 2018, and December 31, 2017, the Company had a full valuation allowance against deferred tax assets.

Motus GI Holdings, Inc. and Subsidiaries
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands, except share and per share amounts)

The Tax Cuts and Jobs Act (the “Tax Act”), enacted on December 22, 2017, among other things, permanently lowered the statutory federal corporate tax rate from 35% to 21%, effective for tax years including or beginning January 1, 2018. Under the guidance of ASC 740, “Income Taxes” (“ASC 740”), the Company revalued its net deferred tax assets on the date of enactment based on the reduction in the overall future tax benefit expected to be realized at the lower tax rate implemented by the new legislation. Although in the normal course of business the Company is required to make estimates and assumptions for certain tax items which cannot be fully determined at period end, the Company did not identify items for which the income tax effects of the Tax Act have not been completed as of September 30, 2018 and, therefore, considers its accounting for the tax effects of the Tax Act on its deferred tax assets and liabilities to be complete as of September 30, 2018.

For the three and nine months ended September 30, 2018 and 2017, the Company recorded zero income tax expense. No tax benefit has been recorded in relation to the pre-tax loss for the three and nine months ended September 30, 2018 and 2017, due to a full valuation allowance to offset any deferred tax asset related to net operating loss carry forwards attributable to the losses.

Fair Value Measurements

The Company accounts for financial instruments in accordance with ASC 820, “Fair Value Measurements and Disclosures” (“ASC 820”). ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

There were no changes in the fair value hierarchy leveling during the three and nine months ended September 30, 2018.

The following table summarizes the fair value of our financial assets and liabilities that were accounted for at fair value on a recurring basis, by level within the fair value hierarchy, as of September 30, 2018 and December 31, 2017:

	September 30, 2018			Fair Value
	Level 1	Level 2	Level 3	
Assets				
Short-term investments	\$ 3,026	\$ —	\$ —	\$ 3,026
Total	<u>\$ 3,026</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,026</u>
Liabilities				
Contingent royalty obligation	\$ —	\$ —	\$ 1,906	\$ 1,906
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,906</u>	<u>\$ 1,906</u>
	December 31, 2017			Fair Value
	Level 1	Level 2	Level 3	
Liabilities				
Contingent royalty obligation	\$ —	\$ —	\$ 1,662	\$ 1,662
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,662</u>	<u>\$ 1,662</u>

Motus GI Holdings, Inc. and Subsidiaries
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands, except share and per share amounts)

Financial instruments with carrying values approximating fair value include cash, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses, and other current liabilities, due to their short-term nature.

Contingent Royalty Obligation

In estimating the fair value of the Company's contingent royalty obligation (see Note 5), the Company used the discounted cash flow method as of September 30, 2018 and December 31, 2017. Based on the fair value hierarchy, the Company classified contingent royalty obligation within Level 3 because valuation inputs are based on projected revenues discounted to a present value.

The following table sets forth a summary of changes in the estimated fair value of the Company's Level 3 contingent royalty obligation for the nine months ended September 30, 2018:

	Fair Value Measurements of Contingent Royalty Obligation (Level 3)
Balance at January 1, 2018	\$ 1,662
Change in estimated fair value of contingent royalty obligation	244
Balance at September 30, 2018	<u>\$ 1,906</u>

The contingent royalty obligation is re-measured at each balance sheet date using the following assumptions as of September 30, 2018 and December 31, 2017: 1) Discount rate of 20%, and 2) rate of royalty payment of 3%.

In accordance with ASC-820-10-50-2(g), the Company performed a sensitivity analysis of the liability, which was classified as a Level 3 financial instrument. The Company recalculated the fair value of the liability by applying a +/- 2% change to the input variable in the discounted cash flow model; the discount rate. A 2% decrease in the discount rate would increase the liability by approximately \$211 and a 2% increase in the discount rate would decrease the liability by approximately \$186.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02 "Leases" to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. For operating leases, the ASU requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on its balance sheet. The ASU retains the current accounting for lessors and does not make significant changes to the recognition, measurement, and presentation of expenses and cash flows by a lessee. The ASU is effective for the Company in the first quarter of 2019, with early adoption permitted. The Company is in the process of implementing changes to its systems and processes in conjunction with its review of lease agreements. The Company will adopt ASU 2016-02 effective January 1, 2019 and expects to elect certain available transitional practical expedients.

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In June 2016, the FASB issued ASU 2016-13 “Financial Instruments – Credit Losses” to improve information on credit losses for financial assets and net investment in leases that are not accounted for at fair value through net income. The ASU replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses. The ASU is effective for the Company in the first quarter of 2020, with early adoption permitted. The Company is currently evaluating the effect the adoption of this ASU will have on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting,” which clarifies when a change to terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance requires modification accounting if the vesting condition, fair value or the award classification is not the same both before and after a change to the terms and conditions of the award. The new guidance was adopted by the Company on January 1, 2018, on a prospective basis. The adoption of this standard did not have a material impact on the Company’s condensed consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, “Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting”, which simplifies the accounting for nonemployee share-based payment transactions. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. The standard will be effective in the first quarter 2019, although early adoption is permitted (but no sooner than the adoption of Topic 606). The Company is currently evaluating the effect the adoption of this ASU will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “Changes to Disclosure Requirements for Fair Value Measurements”, which will improve the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements, and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company will be evaluating the impact this standard will have on the Company’s consolidated financial statements.

Note 4 – Short-term investments

Short term investments as of September 30, 2018 consist of held-to-maturity securities which are carried at amortized costs and available-for-sale securities which are carried at fair value. Interest and dividends on short-term investments are included in finance income, net. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in finance income, net. The Company did not have any short-term investments at December 31, 2017.

The following table summarizes, by major security type, the Company’s short-term investments as of September 30, 2018.

	<u>Amortized Cost</u>	<u>Carrying Value</u>
Mutual fund, available for sale	\$ 3,026	\$ 3,026
Corporate debt securities, held-to-maturity	1,718	1,718
Total	<u>\$ 4,744</u>	<u>\$ 4,744</u>

The Company had de minimus unrealized gains and losses from available-for-sale securities during the three and nine months ended September 30, 2018. Actual maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Contractual securities mature from October 2018 through November 2018.

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Note 5 – Commitments and Contingencies

Royalty on Coated Products

On January 30, 2018, the Company entered into a license and supply agreement with a third party whereby it was granted a worldwide license to sell its products coated with an agent that is the intellectual property of the third party for providing a lubricious surface to the Company's products (a "Coated Product" or "Coated Products"). The third party is entitled to a royalty in the amount of:

- a. 2% of the first \$25 million in annual net sales of Coated Products; and
- b. 1.5% once annual net sales exceed \$25 million of Coated Products.

The above two tiers reset annually on January 1st of each calendar year.

Minimum royalties shall be paid for each Coated Product sold by the Company as follows:

- a. January 1, 2020 to December 31, 2020 - \$5 per calendar quarter;
- b. January 1, 2021 to December 31, 2021 - \$10 per calendar quarter;
- c. January 1, 2022 and beyond - \$15 per calendar quarter.

Additionally, the Company shall make one-time milestone payments as follows:

- a. \$12.5 due 6 months after the first commercial sale of a Coated Product.
- b. \$12.5 due 12 months after the first commercial sale of a Coated Product.
- c. \$25 due 18 months after the first commercial sale of a Coated Product.

For the three and nine months ended September 30, 2018, the Company recorded \$0 and \$50, respectively, as general and administrative expense to accrue the one-time milestone payments in anticipation of the first commercial sale of a coated product in the next six months. As of September 30, 2018, the Company has recorded \$13 as other current liabilities and \$37 as long-term liabilities. After discussions with the vendor, previous shipments have been deemed for pilot use and not a commercial sale.

Royalties to the IIA

The Company has received grants from the Government of the State of Israel through the Israel Innovation Authority of the Ministry of Economy and Industry (the "IIA") (formerly known as the Office of the Chief Scientist of the Ministry of Economy and Industry (the "OCS")) for the financing of a portion of its research and development expenditures pursuant to the Encouragement of Research, Development and Technological Innovation in the Industry Law 5744-1984 (formerly known as the Encouragement of Industrial Research and Development Law, 5744-1984), referred to as the Research Law, and related regulations. The Company has received funding from the IIA, which was received and recorded between the periods ending December 31, 2011 through 2016, in the aggregate amount of \$1,332 and has a contingent obligation to the IIA in the amount of approximately \$1,382 as of September 30, 2018, which is generally repaid in the form of royalties ranging from 3% to 5% of revenues on sales of products and services based on technology developed using IIA grants, up to an aggregate of 100% (which may be increased under certain circumstances) of the U.S. dollar-linked value of the grant, plus interest at the rate of 12-month LIBOR.

Repayment of the grants is contingent upon the successful completion of the Company's R&D programs and generating sales. The Company has no obligation to repay these grants, if the R&D program fails, is unsuccessful or aborted or if no sales are generated. The Company has recorded \$0 and an immaterial expense and liability during the three and nine months ended September 30, 2018, respectively, as sales occur.

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Royalty Payment Rights on Royalty Payment Rights Certificates

The Company filed a Certificate of Designation of Preferences, Rights and Limitations (the “Certificate of Designation”), establishing the rights and preferences of the holders of the Series A Convertible Preferred Stock (“the Royalty Payment Rights”). As set forth in the in the Certificate of Designation, the Royalty Payment Rights initially entitled the holders in aggregate, to a royalty in an amount of:

- 3% of net sales subject to a maximum in any calendar year equal to the total dollar amount of Units closed on in the Company’s 2017 private placement (the “2017 Private Placement”); and
- 5% of licensing proceeds subject to a maximum in any calendar year equal to the total dollar amount of Units closed on in the 2017 Private Placement.

In addition, in connection with completion of the 2017 private placement, the Company issued the placement agent royalty payment rights certificates (the “Placement Agent Royalty Payment Rights Certificates”) which grants the placement agent, and its designees, the right to receive, in the aggregate, 10% of the amount of payments paid to the holders of the Series A Convertible Preferred Stock, or the holders of the Royalty Payment Rights Certificates (the “Royalty Payment Rights Certificates”), upon the conversion of the Series A Convertible Preferred Stock into shares of the Company’s common stock. The Placement Agent Royalty Payment Rights Certificates are on substantially similar terms as the Royalty Payment Rights of the Series A Convertible Preferred Stock.

The Royalty Payment Rights Certificate obligation and Placement Agent Royalty Payment Rights Certificate obligation (the “Contingent Royalty Obligation”) was recorded as a liability at fair value as “Contingent royalty obligation” in the condensed consolidated balance sheets at September 30, 2018 and December 31, 2017 (see Contingent Royalty Obligation below). The fair value at inception was allocated to the royalty rights and the residual value was allocated to the preferred shares and recorded as equity.

The Company amended its Certificate of Designation to modify the Royalty Payment Rights when the Company consummated its Initial Public Offering (“IPO”) on February 16, 2018, at which time the Company converted the Series A Convertible Preferred Stock into shares of the Company’s common stock and issued the Royalty Payment Rights Certificates. Pursuant to the terms of the Royalty Payment Rights Certificates, if and when the Company generates sales of the Pure-Vu system, including disposables, parts, and services, or if the Company receives any proceeds from the licensing of the Pure-Vu system, then the Company will pay to the holders of the Royalty Payment Rights Certificates a royalty (the “Royalty Amount”) equal to, in the aggregate, in royalty payments in any calendar year for all products:

- 3% of net sales* for commercialized product directly;
- 5% of any licensing proceeds** for rights to commercialize the product if sublicensed by the Company to a third-party.

* Notwithstanding the foregoing, with respect to Net Sales based Royalty Amounts, (a) no Net Sales based Royalty Amount shall begin to accrue or become payable until the Company has first generated, in the aggregate, since its inception, Net Sales equal to \$20,000 (the “Initial Net Sales Milestone”), and royalties shall only be computed on, and due with respect to, Net Sales generated in excess of the Initial Net Sales Milestone, and (b) the total Net Sales based Royalty Amount due and payable in any calendar year shall be subject to a cap per calendar year of \$30,000. Net Sales is defined in the Certificate of Designations. The Company has not reached the Initial Net Sales Milestone as of September 30, 2018.

** Notwithstanding the foregoing, with respect to Licensing Proceeds based Royalty Amounts, (a) no Licensing Proceeds based Royalty Amount shall begin to accrue or become payable until the Company has first generated, in the aggregate, since its inception, Licensing Proceeds equal to \$3,500 (the “Initial Licensing Proceeds Milestone”), and royalties shall only be computed on, and due with respect to, Licensing Proceeds in excess of the Initial Licensing Proceeds Milestone and (b) the total Licensing Proceeds based Royalty Amount due and payable in any calendar year shall be subject to a cap per calendar year of \$30,000. Licensing Proceeds is defined in the Certificate of Designations. The Company has not reached the Initial Licensing Proceeds Milestone as of September 30, 2018.

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The Royalty Amount will be payable up to the later of (i) the latest expiration date for the Company's current patents (which is currently November 2034), or (ii) the latest expiration date of any pending patents as of the date of the initial closing of the 2017 Private Placement that may be issued in the future. Following the expiration of all such patents, the holders of the Royalty Payment Rights and Placement Agent Royalty Payment Rights will no longer be entitled to any further royalties for any period following the latest to occur of such patent expiration.

On February 16, 2018, the date of the closing of the IPO, (1) the amendment to the Certificate of Designation became effective, (2) all outstanding shares of Series A Convertible Preferred Stock were converted into shares of the Company's common stock pursuant to a mandatory conversion, and (3) the Royalty Payment Rights Certificates were issued to the former holders of the Series A Convertible Preferred Stock. As provided for in the Certificate of Designation, if a holder had elected to convert a portion or all their Series A Convertible Preferred Stock into shares of the Company's common stock prior to the mandatory conversion, the holder would have forfeited all rights to future royalty payments, if any. No such conversion elections were received by the Company prior to the mandatory conversion.

Contingent Royalty Obligation

The Contingent Royalty Obligation was recorded as a long-term liability at fair value in the condensed consolidated balance sheets at September 30, 2018 and December 31, 2017 in the amount of \$1,906 and \$1,662, respectively. For the three months ending September 30, 2018 and 2017, the Company recorded a loss on change in fair value of Contingent Royalty Obligation in the amount of \$85 and \$72, respectively. For the nine months ending September 30, 2018 and 2017, the Company recorded a loss on change in fair value of Contingent Royalty Obligation in the amount of \$244 and \$207, respectively.

Employment Agreements

Effective October 1, 2018 (the "Commencement Date"), the Company entered into an employment agreement with Timothy P. Moran as Chief Executive Officer of the Company. Mr. Moran succeeded Mark Pomeranz, in his position as Chief Executive Officer. Mr. Pomeranz continued his employment with the Company as President and Chief Operating Officer.

Employment Agreement with Mr. Moran

The Company entered into an employment agreement with Mr. Moran (the "CEO Employment Agreement"), which became effective on October 1, 2018, on an at-will basis, which contains non-disclosure and invention assignment provisions. Under the terms of Mr. Moran's employment agreement, he will hold the position of Chief Executive Officer and receive a base salary of \$475 annually (the "Base Salary"). In addition, Mr. Moran is eligible to receive an annual bonus payment (the "Performance Bonus") in an amount equal to up to sixty percent (60%) of his then-Base Salary (the "Bonus Target") if the Board determines that he has met the target objectives communicated to him. For the first twelve months of his employment (the period from October 1, 2018 through October 1, 2019), the payout range for the Performance Bonus shall be between fifty percent (50%) and two hundred percent (200%) of the Bonus Target if the Board determines the objectives have been achieved. Thereafter, subsequent payout parameters will be determined by the Board based upon parameters set by the Board and Mr. Moran for an overall Company executive bonus program using market data and analysis input from a third-party expert compensation firm.

In connection with his employment agreement, within 30 days after the Commencement Date, Mr. Moran will be granted (i) an option to purchase 495,000 shares (the "Initial Option Grant") of the Company's common stock (the "Common Stock") pursuant to the Company's 2016 Equity Incentive Plan (the "Plan"), at an exercise price equal to the "Fair Market Value" of a share of Common Stock on the "Date Of Grant" (as such terms are defined by the Plan) and (ii) a restricted stock unit award for 165,000 shares of Common Stock pursuant to the Plan (the "Initial Restricted Stock Unit Award"). The Initial Option Grant and Initial Restricted Stock Unit Award will, subject to Mr. Moran's continued employment by the Company, vest in substantially equal quarterly installments over four years commencing from the Commencement Date. The stock option grant agreement and restricted stock unit award agreement will include terms and conditions set forth in the Company's standard forms of such agreements under the Plan. In addition, pursuant to the terms of his employment agreement, Mr. Moran is eligible to receive, from time to time, equity awards under the Plan, or any other equity incentive plan the Company may adopt in the future, and the terms and conditions of such awards, if any, will be determined by the Board or Compensation Committee, in their discretion. Mr. Moran is also eligible to participate in any executive benefit plan or program the Company adopts. Further, Mr. Moran will be eligible to receive employment buy-out payments (the "Employment Buy-Out Payments") in the amount of \$400 each on March 1, 2019, November 1, 2019, March 1, 2020 and November 1, 2020, provided he remains actively employed, or pursuant to certain termination conditions, on each such date.

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Concurrently with the CEO Employment Agreement, the Company entered into an indemnification agreement with Mr. Moran, in the form previously entered into by the Company with each of the Company's directors and executive officers.

Amended and Restated Employment Agreement with Mr. Pomeranz

On September 24, 2018, the Company entered into an amended and restated employment agreement (the "Amended and Restated Employment Agreement") with Mark Pomeranz, pursuant to which Mr. Pomeranz transitioned from his current role as President and Chief Executive Officer, into the role of President and Chief Operating Officer.

The Amended and Restated Employment Agreement with Mr. Pomeranz became effective on September 24, 2018, provides for employment on an at-will basis, and contains non-disclosure and invention assignment provisions. Under the terms of the Amended and Restated Employment Agreement, Mr. Pomeranz holds the position of President and Chief Operating Officer, and receives a base salary of \$385 annually (the "Pomeranz Base Salary"). In addition, Mr. Pomeranz is eligible to receive (i) for the calendar year ending December 31, 2018, a bonus payment in an amount equal to up to thirty one and one quarter percent (31.25%) (the "2018 Bonus Target") of his then base salary (the "2018 Bonus") if the Board determines that he has met the target objectives communicated to him, with a payout range for the 2018 Bonus of between fifty percent (50%) and two hundred percent (200%) of the 2018 Bonus Target, and (ii) effective January 1, 2019 and thereafter an annual bonus payment (the "Pomeranz Performance Bonus") in an amount equal to up to fifty percent (50%) of the Pomeranz Base Salary if the Board determines that he has met the target objectives communicated to him. Payout parameters for the Pomeranz Performance Bonus will be determined by the Board based upon parameters set by the Board and CEO for an overall Company executive bonus program using market data and analysis input from a third-party expert compensation firm. Pursuant to the terms of the Amended and Restated Employment Agreement, Mr. Pomeranz is also eligible to receive, from time to time, equity awards under the Company's existing equity incentive plan, or any other equity incentive plan the Company may adopt in the future, and the terms and conditions of such awards, if any, will be determined by the Board or Compensation Committee, in their discretion. Mr. Pomeranz is also eligible to participate in any executive benefit plan or program we adopt.

Note 6 – Related Party Transactions

Other than transactions and balances related to cash and share-based compensation to officers and directors, the Company did not have any transactions and balances with related parties and executive officers during the three and nine months ending September 30, 2018 and 2017 except for the following:

Shareholder Loan

During the nine months ended September 30, 2018, the Company received \$126 in cash proceeds as repayment of a shareholder loan. The loan was entered into on May 15, 2017 for a principal balance of \$122 at a stated interest rate of 3.4%. The loan principal and accrued interest was repaid in full as of September 30, 2018. For the three and nine months ended September 30, 2018, the Company recorded \$0 and \$4 as finance income related to the shareholder loan. For the three and nine months ended September 30, 2017, the Company recorded \$0 as finance income related to the shareholder loan.

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Sales and Marketing Services Arrangement with FreeHold Surgical, Inc.

Beginning in the fourth quarter of 2017, the Company began to make payments to FreeHold Surgical, Inc (“FreeHold”), an entity in which one of our Directors serves as a Director and President, for services rendered beginning August 2017. In the third quarter of 2018, the agreement was amended to reduce the number of sales representatives from two to one and revise the fee arrangement from \$25 to \$8 for each month. Pursuant to the fee arrangement, the Company paid FreeHold a monthly amount of approximately \$25 for each month through June 30, 2018 and approximately \$8 for each month from July 1, 2018 for sales and marketing services performed for the Company, on a part time basis, by two Freehold sales representatives through June 2018 and one Freehold sales representative from July 2018 to September 2018 (the “FreeHold Services”). As of September 30, 2018 and December 31, 2017, the Company had \$8 and \$50 recorded as accounts payable to FreeHold, respectively. For the three and nine months ended September 30, 2018, the Company recorded \$25 and \$175, respectively, as general and administrative expense related to this arrangement. For the three and nine months ended September 30, 2017, the Company recorded \$0 as general and administrative expense related to this arrangement.

Note 7 – Stockholder’s Equity

Initial Public Offering

On February 16, 2018, the Company closed its IPO in which it sold 3,500,000 shares of the Company’s common stock at a public offering price of \$5.00 per share. In connection with the closing of the IPO, (1) the Company received net proceeds of approximately \$15,000 after deducting underwriting discounts and commissions of \$1,400 and other offering expenses of approximately \$1,100, (2) the amendment to the registration rights agreement described below became effective, (3) the amendment to the Certificate of Designation described above in Note 5 became effective, (4) all outstanding shares of Series A Convertible Preferred Stock converted, on a one-to-one basis, into shares of the Company’s common stock, (5) the Company issued the Royalty Payment Rights Certificates as described in Note 5, and (6) the Company issued warrants to certain of the former Series A Convertible Preferred Stock and common stock holders, pursuant to the amendment to the Registration Rights Agreement, the amendment to the Certificate of Designation, and the execution of a lock up agreement, to purchase an aggregate of 1,095,682 shares of the Company’s common stock (the “Ten Percent Warrants”). The Ten Percent Warrants are exercisable any time on or after the 180-day anniversary of the completion of the IPO, have a five-year term, and provide for cashless exercise. In addition, the Company granted the representative of the several underwriters in the IPO (the “Representative”) a 30-day option (the “Over-Allotment Option”) to purchase up to an aggregate 525,000 additional shares of the Company’s common stock at an exercise price of \$5.00 per share.

The Ten Percent Warrants were valued using the Black-Scholes option pricing model under the following assumptions, (i) expected life of 5 years, (ii) volatility of 67.08%, (iii) risk-free rate of 2.63%, and (iv) dividend rate of zero. For the three and nine months ended September 30, 2018, the Company recorded \$0 and \$3,156 for the fair value of the Ten Percent Warrants as warrant expense in the accompanying condensed consolidated statements of comprehensive loss.

On March 12, 2018, the Company issued an additional 56,000 shares of its common stock at a price of \$5.00 per share, pursuant to the Representative’s partial exercise of the Over-Allotment Option. In connection with the closing of the partial exercise of the Over-Allotment Option, the Company received net proceeds of \$258 after deducting underwriting discounts and commissions of \$22.

Issuance of Common Stock and Warrants to Purchase Common Stock

On March 27, 2018, the Company’s Board of Directors approved the issuance of 15,000 shares of the Company’s common stock to a third party for services to be provided. The stock vests immediately and is subject to a lock-up through February 14, 2019. The Company recorded the fair market value of the stock on the date of issuance as stock-based compensation in the amount of \$69.

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On June 6, 2018, the Company entered into a consultant agreement with a service provider which shall continue until the agreement is terminated by the Company or service provider by providing at least five business days' prior written notice. Pursuant to the agreement, the Company (a) issued a warrant on June 6, 2018 to purchase 10,000 shares of the Company's common stock, with an exercise price of \$5.25 per share, (b) upon the four (4) month anniversary of the execution of the agreement, provided the service provider is still engaged at that time, will issue a warrant to purchase 10,000 shares of the Company's common stock, with an exercise price of \$6.25 per share, and (c) upon the eight (8) month anniversary of the execution of the agreement, provided the service provider is still engaged at that time, will issue a warrant to purchase 10,000 shares of the Company's common stock, with an exercise price of \$7.25 per share (collectively, such warrants referred to as the "Consultant Warrants"). The Consultant Warrants will each have a five-year term, vest immediately, and will provide for cashless exercise. Warrants totaling 30,000 in relation to this agreement were valued using the Black-Scholes option pricing model under the following assumptions, (i) expected life of 5 years, (ii) volatility of 67.25% and 69.57%, (iii) risk-free rate of 2.81% and 2.94%, and (iv) dividend rate of zero. The fair value of the 30,000 warrants was estimated to be \$95 which is expensed using the straight-line method over eight months. The Company recorded \$38 and \$45 as general and administrative expense in the accompanying condensed consolidated statements of comprehensive loss in relation to the 30,000 warrants for the three and nine months ended September 30, 2018, respectively.

On July 2, 2018, the Company entered into a consultant agreement with a service provider which shall continue until February 28, 2019, unless and until sooner terminated by the Company or service provider by providing, at any time after October 2, 2018, at least five business days' prior written notice. Pursuant to the agreement, the Company (i) issued a fully-vested and nonforfeitable warrant on July 2, 2018 (at which point a measurement date was reached) to purchase 25,000 shares of the Company's common stock, with an exercise price of \$7.39 per share, and expires 12 months from the date of agreement, (ii) issued a fully-vested and nonforfeitable warrant on July 2, 2018 (at which point a measurement date was reached) to purchase 25,000 shares of the Company's common stock, with an exercise price of \$7.39 per share, and expires 18 months from the date of the agreement, (iii) upon the three (3) month anniversary of the date of the agreement, provided the service provider is still engaged at that time, will issue a fully-vested and nonforfeitable warrant to purchase 25,000 shares of the Company's common stock with an exercise price of \$8.75 per share, and expires 18 months from the date of the agreement and (iv) upon the six (6) month anniversary of the date of the agreement, provided the service provider is still engaged at that time, will issue a fully-vested and nonforfeitable warrant to purchase 25,000 shares of common stock of the Company with an exercise price of \$10.00 per share, and expires 24 months from the date of the agreement. The warrants issued under this agreement are callable by the Company and it will have the right to require the consultant to exercise all or any warrants still unexercised for a cash exercise or the Company may re-purchase the warrant at a price of \$0.01 per warrant share if the Company's stock trades above a closing floor price ranging from \$9.00 to \$13.00 per share for ten (10) consecutive trading days. In accordance with FASB ASC 480, the call feature is a conditional obligation upon an event not certain to occur that becomes mandatorily redeemable if that event occurs, the condition is resolved, or that event becomes certain to occur. Because the conditional event is within control of the Company, the call feature is not recognized for accounting purposes until the Company exercises its rights under agreement. Warrants totaling 100,000 in relation to this agreement were valued using the Black-Scholes option pricing model under the following assumptions, (i) expected life of 1-2 years, (ii) volatility of 61.86% - 65.84%, (iii) risk-free rate of 2.34 - 2.81%, and (iv) dividend rate of zero. The aggregate fair value of the 100,000 warrants was estimated to be \$146 which will be expensed using the straight-line method over eight months. The Company recorded \$55 as general and administrative expense in the accompanying condensed consolidated statements of comprehensive loss for both the three and nine months ended September 30, 2018. As of September 30, 2018, the Company has recorded a prepaid expense in the amount of \$52, related to the fully vested, nonforfeitable warrants issued for which services have not been rendered.

On July 3, 2018, the Company entered into an amendment to a consulting agreement dated May 27, 2017 as a continuation of investor relation and consulting services to extend the termination of the agreement to July 2019 and issued 30,000 shares of common stock which vests immediately and a warrant to purchase 90,000 shares of common stock which vests immediately. The warrants are fully vested, are exercisable at \$8.50 per share and expire five years from the date of issuance. The 90,000 warrants were valued using the Black-Scholes option pricing model under the following assumptions, (i) expected life of 5 years, (ii) volatility of 68.31%, (iii) risk-free rate of 2.72%, and (iv) dividend rate of zero. The fair value of the 90,000 warrants and 30,000 shares of common stock was estimated to be \$594 which will be expensed using the straight-line method over thirteen months, the expected term of the agreement. The Company recorded \$136 as general and administrative expense in the accompanying condensed consolidated statements of comprehensive loss for both the three and nine months ended September 30, 2018. As of September 30, 2018, the Company has recorded a prepaid expense in the amount of \$454, related to the fully vested nonforfeitable shares of common stock and warrants issued for which services have not been rendered.

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Consultant Award

On July 3, 2018, the Company engaged an executive search firm (the “Firm”) to conduct a confidential search for a Chief Executive Officer (the “CEO”) for the Company. The terms of the engagement were that upon a successful search, the Company would compensate the Firm one-third of the total first-year actual cash compensation for the position. The Company agreed to (a) make payments based on the CEO’s base salary of \$475, and (b) make a true-up payment (the “True-up Payment”) at the end of the CEO’s first year of employment base on the actual cash compensation earned within the CEO’s first year of employment, exclusive of any Employment Buy-Out Payments.

The recruiter was successful in recruiting a new CEO for the Company. An employment agreement was finalized and entered into during the third quarter and effective October 1, 2018. The Company deemed the Firm’s services were rendered in the third quarter of 2018 as an employment agreement was finalized in September 2018. The CEO’s annual base salary is \$475 and is entitled to bonus and Employment Buy-Out Payments.

Firm Compensation

The Firm’s total compensation is to be paid 75% in cash and 25% in equity in the form of a warrant valued per the last round valuation. The cash component for the initial base salary measurement for \$119 is payable in three (3) monthly installments with the first installment dated at the start date of the engagement. Therefore, the first installment was dated July 3, 2018; since, the Company deemed the services began in July 2018.

The Firm’s total compensation is the aggregate of one-third of the base salary of \$475 and one-third of any additional cash compensation earned within the CEO’s first year of employment. As of September 30, 2018, the Company owes the following payments: (i) a warrant (the “Base Warrant”) and cash payment based on one-third of the base salary of \$475, (ii) a warrant (the “Contingent Warrant”) based on any additional cash compensation earned by the CEO during his first year of employment, and (iii) a cash payment based on any additional cash compensation earned by the CEO during his first year of employment. For items (ii) and (iii), a True-up Payment will be determined after the first year of employment ends and the additional cash compensation is known.

Warrant Accounting

Each warrant will be issued with an exercise price of \$5 per share, subject to adjustment with a three-year term, to purchase shares of the Company’s common stock. As of September 30, 2018, the warrants have not been issued but will be fully vested upon issuance.

Consultant Expense

The Company valued the entire agreement and recorded \$239 as general and administrative expense for the three and nine months ended September 30, 2018 as follows: (i) \$158 earned for one-third of \$475 payable 75% in cash and 25% by issuing a variable number of warrants, and (ii) \$81 for the estimated cash portion of the True-up Payment that will also be paid 75% in cash and 25% by issuing a variable number of warrants. As of September 30, 2018, the Company has recorded in the aggregate \$190 in accounts payable and accrued expenses in relation to this agreement.

Motus GI Holdings, Inc. and Subsidiaries
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands, except share and per share amounts)

Employment Buy-Out Payments

The Firm agreed not to include any Employment Buy-Out Payments stipulated in the agreement as a calculation in the Firm's fee as these Employment Buy Out Payments were deemed to be earned at the CEO's previous place of employment. The Employment Buy-Out Payments represent any cash and equity bonuses earned that the CEO forfeited upon departing his previous place of employment, thus the Employment Buy-Out Payments will not be considered in the True-up Payment.

A summary of the Company's warrants to purchase common stock activity is as follows:

	Shares Underlying Warrants	Weighted Average Exercise Price	Weighted average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	1,340,869	\$ 5.07	3.73	\$ —
Granted	1,245,682	5.35		110
Outstanding at September 30, 2018	<u>2,586,551</u>	\$ 5.20	3.76	\$ 241

Exercise of Options

On February 21, 2018, a consultant exercised 896 options on a cashless basis which resulted in the issuance of 394 shares of the Company's common stock.

On July 5, 2018, the Company issued 773 shares of its common stock upon the exercise of 773 employee options at an exercise price of \$4.50 per share. In connection with the exercise, the Company received \$3 in proceeds.

On July 31, 2018, the Company issued 1,792 shares of its common stock upon the exercise of 1,792 employee options at an exercise price of \$2.52 per share. In connection with the exercise, the Company received \$5 in proceeds.

On August 23, 2018, the Company issued 3,943 shares of its common stock upon the exercise of 3,943 employee options at an exercise price of \$2.38 per share. In connection with the exercise, the Company received \$9 in proceeds.

On August 23, 2018, the Company issued 2,389 shares of its common stock upon the exercise of 2,389 employee options at an exercise price of \$2.52 per share. In connection with the exercise, the Company received \$6 in proceeds.

On September 14, 2018, the Company issued 5,000 shares of its common stock upon the exercise of 5,000 employee options at an exercise price of \$4.50 per share. In connection with the exercise, the Company received \$23 in proceeds.

On September 14, 2018, the Company issued 499 shares of its common stock upon the exercise of 499 employee options at an exercise price of \$5.00 per share. In connection with the exercise, the Company received \$2 in proceeds.

Motus GI Holdings, Inc. and Subsidiaries
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands, except share and per share amounts)

Stock Options

The following table summarizes stock option activity during the nine months ended September 30, 2018:

	Shares Underlying Options	Weighted Average Exercise Price	Weighted average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	1,803,094	\$ 4.41	9.19	\$ 334
Granted	252,000	4.99		
Exercised	(15,292)	3.31		33
Forfeited/canceled	(75,348)	4.60		
Outstanding at September 30, 2018	<u>1,964,454</u>	\$ 4.48	8.63	\$ 1,279

At September 30, 2018, unamortized stock compensation for stock options was \$2,070, with a weighted-average recognition period of 1.03 years.

At September 30, 2018, outstanding options to purchase 1,013,462 shares of common stock were exercisable with a weighted-average exercise price per share of \$4.40.

For the three and nine months ended September 30, 2018, the Company recorded \$415 and \$1,155 for stock options.

For the three and nine months ended September 30, 2017, the Company recorded \$410 and \$1,436 for stock options.

Stock Based Compensation

The following table sets forth total non-cash stock-based compensation for the issuance of common stock, options to purchase common stock, and warrants to purchase common stock by operating statement classification for the three and nine months ended September 30, 2018 and 2017:

	Three Months ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
Research and development	\$ 32	\$ 110	\$ 135	\$ 158
Sales and marketing	58	86	97	123
General and administrative	572	1,100	1,503	1,613
Total ^{(1), (2)}	<u>\$ 662</u>	<u>\$ 1,296</u>	<u>\$ 1,735</u>	<u>\$ 1,894</u>

(1) As of September 30, 2018 and 2017, the Company recorded a prepaid expense in the amount of \$506 and \$0 for the value of vested warrants for future services to be rendered.

(2) As of September 30, 2018 and 2017, the Company recorded a warrant liability in the amount of \$48 and \$0 for the value of warrants to be issued for services provided.

For options granted during the nine months ending September 30, 2018 were valued using the Black-Scholes option pricing model using the following weighted average assumptions: (i) expected life of 5.7 years, (ii) volatility of 68.12%, (iii) risk free interest rate of 2.76% and (iv) dividend yield of zero.

2016 Equity Incentive Plan

The Company has 2,641,250 shares of common stock reserved for issuance and as of September 30, 2018 there were 653,272 shares available for grant under the Company's equity plan. The Company has one equity incentive plan that was adjusted in 2016. The number of shares of common stock available for issuance under the Company's equity plan shall increase annually by six percent (6%) of the total number of shares of our common stock outstanding on December 31st of the preceding calendar year; provided, however, that the board of directors may act prior to the first day of any calendar year to provide that there shall be no increase such calendar year, or that the increase shall be a lesser number of shares of our common stock than would otherwise occur.

Note 8 – Subsequent Events

The Company has analyzed its operations subsequent to September 30, 2018 and noted the following subsequent events:

Motus GI Holdings, Inc. and Subsidiaries
Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(In thousands, except share and per share amounts)

Options and Warrants

On October 2, 2018, the Company issued a warrant to purchase 25,000 shares of the Company's common stock with an exercise price of \$8.75 per share and an exercise period of 18 months in connection with an agreement entered into on July 2, 2018 (see Note 7).

On October 6, 2018, the Company issued a warrant to purchase 10,000 shares of the Company's common stock with an exercise price of \$6.25 per share and an exercise period of five years in connection with an agreement entered into on June 6, 2018 (see Note 7).

On October 31, 2018, the Company gave thirty-day notice to FreeHold, a related party, for termination of its services agreement effective November 30, 2018.

On November 8, 2018, the Company's Compensation Committee approved the issuance of 560,000 options to employees which vest over a three-year period on a quarterly basis to purchase shares of the Company's common stock at \$3.78, the closing share price of the Company's common stock on the Nasdaq Capital Market on November 8, 2018.

On November 8, 2018, the Company's Board of Directors approved the issuance of a warrant to a consultant which vests immediately to purchase 7,917 shares of the Company's common stock at an exercise price of \$5 per share, in accordance with the consulting agreement entered into on July 2, 2018 (see Note 7 - *Consultant Award*).

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

The following discussion and analysis of our financial condition and results of operations should be read together with our financial statements and the related notes and the other financial information included elsewhere in this Quarterly Report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Quarterly Report, particularly those under "Risk Factors."

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as "may," "can," "anticipate," "assume," "should," "indicate," "would," "believe," "contemplate," "expect," "seek," "estimate," "continue," "plan," "point to," "project," "predict," "could," "intend," "target," "potential" and other similar words and expressions of the future.

There are a number of important factors that could cause the actual results to differ materially from those expressed in any forward-looking statement made by us. These factors include, but are not limited to:

- our limited operating history;
- our history of substantial operating losses in each year since inception and expectation that we will continue to incur substantial operating losses for the foreseeable future;
- our current and future capital requirements to support our development and commercialization efforts for the Pure-Vu system and our ability to satisfy our capital needs;
- our dependence on the Pure-Vu system, our sole product candidate, which is still in development;
- our ability to obtain approval from regulatory agents in different jurisdictions for the Pure-Vu system;
- our Pure-Vu system and the procedure to cleanse the colon in preparation for colonoscopy are not currently reimbursable through private or governmental third-party payors;
- our lack of a developed sales and marketing organization and our ability to commercialize the Pure-Vu system;
- our dependence on third-parties to manufacture the Pure-Vu system;
- our ability to maintain or protect the validity of our patents and other intellectual property;
- our ability to retain key executives and medical and science personnel;
- our ability to internally develop new inventions and intellectual property;
- interpretations of current laws and the passages of future laws;
- acceptance of our business model by investors;
- the accuracy of our estimates regarding expenses and capital requirements; and
- our ability to adequately support growth.

The foregoing does not represent an exhaustive list of matters that may be covered by the forward-looking statements contained herein or risk factors that we are faced with that may cause our actual results to differ from those anticipate in our forward-looking statements. Please see "Part II—Item 1A—Risk Factors" for additional risks which could adversely impact our business and financial performance.

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this report or the date of the document incorporated by reference into this report. We have no obligation, and expressly disclaim any obligation, to update, revise or correct any of the forward-looking statements, whether as a result of new information, future events or otherwise. We have expressed our expectations, beliefs and projections in good faith and we believe they have a reasonable basis. However, we cannot assure you that our expectations, beliefs or projections will result or be achieved or accomplished.

Overview

We have developed a single-use medical device system (the “Pure-Vu system”), cleared by the United States Food and Drug Administration (the “FDA”) and which has received CE Mark approval in the European Economic Area, that is intended to attach to standard colonoscopes to help facilitate intraprocedural cleaning of a poorly prepared colon by irrigating or cleaning the colon and evacuating the irrigation fluid (water), feces and other bodily fluids and matter. The Pure-Vu system has been designed to integrate with standard colonoscopes to enable cleaning during the procedure while preserving standard procedural workflow and techniques. Challenges with bowel preparation for inpatient colonoscopy represent a significant area of unmet need that directly affects clinical outcomes and increases the cost of care for a hospital in a market segment where most of the reimbursement is under a bundle payment based on a Diagnostic Related Group (a “DRG”). The Pure-Vu system does not currently have a unique reimbursement code with any private or governmental third-party payors in any country. To date, as part of the limited market development launch, we have focused on collecting additional clinical and health economic data, as exemplified by the recently initiated Reliable Endoscopic Diagnosis Utilizing Cleansing Enhancement Study (the “REDUCE Study”), along with garnering valuable experience in key hospitals on the use of the Pure-Vu system to support a full launch in the United States inpatient market in 2019. We do not expect to generate significant revenue from product sales unless and until we expand our commercialization efforts.

Financial Operations Overview

We are a development stage company and have not generated any significant revenues from the sale of products. We have never been profitable and our accumulated deficit as of September 30, 2018 was approximately \$55.8 million. Our net losses for the three months ended September 30, 2018 and 2017 were approximately \$5.2 million and \$3.2 million, respectively, and for the nine months ended September 30, 2018 and 2017 our net losses were approximately \$16.7 million and \$9.4 million, respectively. We expect to incur significant expenses and increasing operating losses for the foreseeable future. We expect our expenses to increase significantly in connection with our ongoing activities to commercialize and market the Pure-Vu system. Furthermore, we expect to incur additional costs associated with operating as a public company. Accordingly, we will need additional financing to support our continuing operations. We will seek to fund our operations through public or private equity or debt financings or other sources, which may include collaborations with third parties. Adequate additional financing may not be available to us on acceptable terms, or at all. Our failure to raise capital as and when needed would have a negative impact on our financial condition and our ability to pursue our business strategy. We will need to generate significant revenues to achieve profitability, and we may never do so.

We expect to continue to incur significant expenses and increasing operating losses for at least the next several years.

We expect our expenses will increase substantially in connection with our ongoing activities, as we:

- conduct a limited market development launch through 2018 and into the first part of 2019 to refine how the Pure-Vu system integrates into the workflow of the in-patient settings and hone the value proposition and health economic benefits to hospitals;
- work with third parties to scale up the manufacture of the workstation and the disposable portion of Pure-Vu system;
- develop a second generation system to improve user interface, optimize ease of use and reduce the cost structure;
- raise sufficient funds in the capital market to effectuate our business plan, including commercialization activities related to our Pure-Vu system and our research and development activities, including clinical and regulatory development and the continued development and enhancement of our Pure-Vu system; and

- operate as a public company.

Critical Accounting Policies and Estimates

Our accounting policies are essential to understanding and interpreting the financial results reported on the condensed consolidated financial statements. The significant accounting policies used in the preparation of our condensed consolidated financial statements are summarized in Note 2 to the consolidated financial statements and notes thereto found in our Annual Report on Form 10-K for the year ended December 31, 2017. Certain of those policies are considered to be particularly important to the presentation of our financial results because they require us to make difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain.

During the nine months ended September 30, 2018, there were no material changes to matters discussed under the heading “Critical Accounting Policies and Estimates” in Part II, Item 7 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 except for the following:

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 (ASU 2014-09) “Revenue from Contracts with Customers.” ASU 2014-09 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605)”, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

We adopted ASU 2014-09 effective January 1, 2018 on a full retrospective basis. Adoption of this standard did not result in significant changes to accounting policies, business processes, systems or controls, or have a material impact on the financial position, results of operations and cash flows or related disclosures. As such, prior period financial statements were not recast.

Short-term Investment Securities

We invest all excess cash primarily in debt securities.

Short-term investments that we have the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. Purchase premiums and discounts are recognized in finance income, net over the term of the investment. Short-term investments not classified as held-to-maturity investments are classified as available-for-sale investments and recorded at fair value, with unrealized gains and losses reported in other comprehensive income. Gains and losses on the sale of available-for-sale investments are recorded on the trade date.

We evaluate whether available-for-sale and held-to-maturity investments are other-than-temporarily impaired (OTTI) on a quarterly basis. Debt securities with unrealized losses are considered OTTI if we intend to sell the security or if it is more likely than not that we will be required to sell such security prior to any anticipated recovery. If we determine that a security is OTTI under these circumstances, the impairment recognized in earnings is measured as the entire difference between the amortized cost and the then-current fair value. During the three and nine months ended September 30, 2018, no investment OTTI losses were realized.

Our investment policy is focused on the preservation of capital, liquidity and return. From time to time, we may sell certain securities, but the objectives are generally not to generate profits on short-term differences in price.

Revenue

To date, as part of our limited launch, we have generated limited revenue from the sales of products. We do not expect to generate significant revenue from product sales unless and until we expand our commercialization efforts for the Pure-Vu system, which we expect will take a number of years and is subject to significant uncertainty.

Research and Development

We incurred research and development activity expenses of approximately \$1.8 million and \$1.0 million, respectively, during the three months ended September 30, 2018 and 2017, and approximately \$4.4 million and \$2.7 million, respectively, during the nine months ended September 30, 2018 and 2017. These expenses include cash and non-cash expenses relating to the advancement of our development and clinical programs for the Pure-Vu system. We have research and development capabilities in electrical and mechanical engineering with laboratories in our facility in Israel for development and prototyping, and electronics design and testing. We also use consultants and third-party design houses to complement our internal capabilities.

Sales and Marketing

We incurred sales and marketing activity expenses of approximately \$1.2 million and \$0.6 million, respectively, during the three months ended September 30, 2018 and 2017, and approximately \$2.9 million and \$1.6 million, respectively, during the nine months ended September 30, 2018 and 2017. These expenses include cash and non-cash expenses relating to the development of our sales and marketing infrastructure for the Pure-Vu system. We have hired limited sales and marketing personnel in the U.S. as part of our market development launch to develop our policies and procedures, as well as to spearhead the market development phase of the Company's market penetration.

General and Administrative Expenses

We incurred general and administrative activity expenses of approximately \$2.1 million and \$2.4 million, respectively, during the three months ended September 30, 2018 and 2017, and approximately \$6.0 million and \$4.9 million, respectively, during the nine months ended September 30, 2018 and 2017. General and administrative expenses consist primarily of payroll and professional services. Other general and administrative expenses include accounting and legal services and expenses associated with obtaining and maintaining patents. We anticipate that our general and administrative expenses will increase significantly during the remainder of 2018 and in the future as we increase our headcount to support our continued development and commercialization activities related to our Pure-Vu system. We also anticipate increased expenses related to audit, legal, regulatory, and tax-related services associated with maintaining compliance with exchange listing and SEC requirements, director and officer insurance premiums, and investor relations and communication costs associated with being a public company. Additionally, commencing in July 2017, we began to compensate our outside directors.

Stock-Based Compensation

Stock options are granted with an exercise price at no less than fair market value at the date of the grant. The stock options normally expire ten years from the date of grant. Stock option awards vest upon terms determined by our board of directors.

We recognize compensation costs resulting from the issuance of stock-based awards to employees, members of our board of directors and consultants. The fair value of each option grant was estimated as of the date of grant using the Black-Scholes option-pricing model. The fair value is amortized as compensation cost on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. Due to our limited operating history and limited volume of sales of our common stock, we estimated our volatility in consideration of a number of factors, including the volatility of comparable public companies. The expected term of options granted to employees under our stock plans is based on the simplified method. Under this method, the expected term is equal to the sum of the weighted average vesting term plus the original contractual term, divided by two. We have elected this method as we have concluded that we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time our equity shares have been publicly traded. The vesting period is generally 36 months. The expected term of options granted under the 2016 Equity Incentive Plan (the "2016 Equity Incentive Plan"), all of which qualify as "plain vanilla" per SEC Staff Accounting Bulletin 107, is based on the average of approximately 5.81 years. For non-employee options, the expected term is the contractual term and stock options granted to non-employee consultants are revalued at the end of each reporting period until vested and changes in their fair value are recorded as adjustments to expense over the related vesting period. The risk-free rate is based on the yield of a U.S. Treasury security with a term consistent with the expected term of the option. We have never paid dividends on our common stock and do not anticipate paying dividends on our common stock in the foreseeable future. Accordingly, we have assumed no dividend yield for purposes of estimating the fair value of our share-based compensation. We recognize share-based award forfeitures as they occur rather than estimate by applying a forfeiture rate.

Emerging Growth Company Status

Under Section 107(b) of the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Results of Operations

Comparison of Three Months Ended September 30, 2018 and 2017

To date, as part of our limited launch, we have generated limited revenue from the sales of products. We do not expect to generate significant revenue from product sales unless and until we expand our commercialization efforts for the Pure-Vu system, which we expect will take a number of years and is subject to significant uncertainty.

Research and Development

Research and development expenses for the three months ended September 30, 2018 totaled approximately \$1.8 million, an increase of \$0.8 million over the \$1.0 million recorded for the three months ended September 30, 2017. The increase was primarily attributable to increases of \$0.3 million in salaries, wages and related, \$0.1 million in professional services and subcontractor costs, \$0.2 million in material costs, and \$0.2 million in travel and other research and development cost.

Sales and Marketing

Sales and marketing expenses for the three months ended September 30, 2018 totaled approximately \$1.2 million, an increase of \$0.6 million over the \$0.6 million recorded for the three months ended September 30, 2017. The increase was primarily attributable to increases of \$0.2 million in professional services and subcontractor costs, \$0.4 million in marketing and training product units, \$0.1 in tradeshow and other promotional items, partially offset by a decrease of \$0.1 million in salaries and wages and other costs.

General and Administrative

General and administrative expenses for the three months ended September 30, 2018 totaled approximately \$2.1 million, a decrease of \$0.3 million over the \$2.4 million recorded for the three months ended September 30, 2017. The decrease was primarily attributable to decreases of \$0.2 million in professional and consulting fees, \$0.4 million in salaries and wages, partially offset by an increase of \$0.3 million in investor and public relation cost.

Other Expenses

Other expenses for the three months ended September 30, 2018 totaled approximately \$0.04 million compared to \$0.8 million of other income recorded for the three months ended September 30, 2017. The \$0.8 million decrease in other expense was primarily attributable to the reversal of registration rights expense of \$0.9 million.

Comparison of Nine Months Ended September 30, 2018 and 2017

To date, as part of our limited launch, we have generated limited revenue from the sales of products. We do not expect to generate significant revenue from product sales unless and until we expand our commercialization efforts for the Pure-Vu system, which we expect will take a number of years and is subject to significant uncertainty.

Research and Development

Research and development expenses for the nine months ended September 30, 2018 totaled approximately \$4.4 million, an increase of \$1.7 million over the \$2.7 million recorded for the nine months ended September 30, 2017. The increase was primarily attributable to increases of \$0.9 million in salaries and wages, \$0.6 million in professional and subcontractor costs, \$0.1 million in travel costs, \$0.2 million in other costs, partially offset by a decrease of \$0.1 million in clinical related costs.

Sales and Marketing

Sales and marketing expenses for the nine months ended September 30, 2018 totaled approximately \$2.9 million, an increase of \$1.3 million over the \$1.6 million recorded for the nine months ended September 30, 2017. The increase was primarily attributable to increases of \$0.6 million in marketing and training product units, \$0.6 million in professional and subcontractor costs, and \$0.1 million travel and other costs.

General and Administrative

General and administrative expenses for the nine months ended September 30, 2018 totaled approximately \$6.0 million, an increase of \$1.1 million over the \$4.9 million recorded for the nine months ended September 30, 2017. The increase was primarily attributable to increases of \$0.4 million in legal and professional fees, \$0.4 million in investor and public relation expenses, \$0.2 million in insurance related expenses, and \$0.2 million in rent, travel and other costs, partially offset by a decrease of \$0.1 million in salaries and wages.

Other Expenses

Other expenses for the nine months ended September 30, 2018 totaled approximately \$3.3 million compared to \$0.2 million recorded for the nine months ended September 30, 2017. The \$3.1 million increase was primarily attributable to increases of \$3.2 million in warrant expense, partially offset by a \$0.1 increase in finance income.

Liquidity and Capital Resources

Since inception, we have experienced negative cash flows from operations. We have financed our operations primarily through sales of equity-related securities. At September 30, 2018, our accumulated deficit since inception was approximately \$55.8 million.

At September 30, 2018, we had total current assets of approximately \$12.9 million and total current liabilities of approximately \$2.5 million resulting in working capital of \$10.4 million. Net cash used in operating activities for the nine months ended September 30, 2018 was approximately \$10.5 million, which includes a net loss of approximately \$16.7 million, offset by non-cash expenses of approximately \$5.8 million principally related to warrant expense of \$3.2 million, stock-based compensation expense of \$1.8 million, revaluation of contingent royalty obligation of \$0.2 million, inventory write-down of \$0.5 million, and depreciation and amortization of \$0.1 million, and approximately \$0.3 million of cash provided by the change in net working capital items principally related to an increase in accounts payable and accrued expenses of \$1.1 million, partially offset by an increase in accounts receivable, inventory, prepaid expenses and other current assets, and other long-term assets of \$0.8 million and a decrease in other current and long-term liabilities of \$0.1 million.

Cash used in investing activities for the nine months ended September 30, 2018 totaled approximately \$4.8 million for the purchase of available-for-sale securities of approximately \$5.0 million, the purchase of held-to-maturity securities of approximately \$4.9 million, and the purchase of fixed assets of approximately \$0.2 million, offset by the proceeds from the sale of available-for-sale securities of approximately \$2.0 million, the proceeds from the maturity of held-to-maturity securities of \$3.1 million, and the proceeds from shareholder loan of approximately \$0.1 million.

Cash provided by financing activities for the nine months ended September 30, 2018 totaled approximately \$15.3 million. On February 16, 2018, we closed our IPO in which we sold 3,500,000 shares of our common stock at a public offering price of \$5.00 per share. In connection with the closing of the IPO, we received net proceeds of approximately \$15 million after deducting underwriting discounts and commissions of approximately \$1.4 million and other offering expenses of approximately \$1.1 million. On March 12, 2018, we received net proceeds of approximately \$0.3 million in relation to the sale of an additional 56,000 shares of our common stock at a price of \$5.00 per share, pursuant to the Partial IPO Over-Allotment Exercise completed in March 2018.

At September 30, 2018, we had cash and cash equivalents, and short-term investments of approximately \$11.6 million. Based on our current business plan, we believe our cash, cash equivalents, and short-term investments balance as of September 30, 2018 will be sufficient to meet our anticipated cash requirements through approximately the second quarter of 2019. However, there is no assurance that the current business plan will be achievable, and such conditions raise substantial doubts about our ability to continue as a going concern.

We will need to raise significant additional capital to continue to fund operations. We may seek to sell common or preferred equity, convertible debt securities or seek other debt financing. In addition, we may seek to raise cash through collaborative agreements or from government grants. The sale of equity and convertible debt securities may result in dilution to our stockholders and certain of those securities may have rights senior to those of our common shares. If we raise additional funds through the issuance of preferred stock, convertible debt securities or other debt financing, these securities or other debt could contain covenants that would restrict our operations. Any other third-party funding arrangement could require us to relinquish valuable rights.

The source, timing and availability of any future financing will depend principally upon market conditions, and, more specifically, on the progress of our clinical development programs. Funding may not be available when needed, at all, or on terms acceptable to us. Lack of necessary funds may require us, among other things, to delay, scale back or eliminate expenses including some or all of our planned clinical trials.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under SEC rules, such as relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, established for the purpose of facilitating financing transactions that are not required to be reflected on our balance sheets.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not Applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Evaluation of Our Disclosure Controls

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of the period covered by this report for the three and nine months ended September 30, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2018, our disclosure controls and procedures were not effective at the reasonable assurance level due to a material weakness in the internal control related to the reporting of non-routine, complex transactions due to the insufficient complement of personnel with the appropriate level of knowledge to identify and account for these transactions. The material weakness was identified when management did not appropriately identify the proper accounting treatment related to a contract that included contingent payments and stock awards owed to a non-employee.

A material weakness is defined as a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

In light of the material weakness, we performed additional analyses and other post-closing procedures to ensure the Company’s condensed consolidated financial statements are prepared in accordance with U.S. GAAP. Accordingly, our CEO and CFO have certified that, based on their knowledge, the condensed consolidated financial statements, and other financial information included in this Form 10-Q, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Form 10-Q.

Management has begun remediation by engaging a third party firm with technical accounting specialists to review the accounting for non-routine complex transactions on a prospective basis. We believe the actions described above will be sufficient to remediate the identified material weakness and strengthen our internal control over financial reporting.

Evaluation of Changes in Internal Control over Financial Reporting

As a newly public company, we continue the process of reviewing and documenting our internal controls over financial reporting, and have implemented new or strengthened existing internal controls over financial reporting during the period to which this report relates, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

Other than as described above, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the three months ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. From time to time, we make changes to our internal control over financial reporting that are intended to enhance its effectiveness and which do not have a material effect on our overall internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

There have been no material changes in risk factors from what was reported in our 2017 Annual Report on Form 10-K, other than as described below.

Risks Related to our Capital Stock

We identified a material weakness in our internal control over financial reporting. If we are not able to remediate the material weakness and otherwise maintain an effective system of internal control over financial reporting, the reliability of our financial reporting, investor confidence in us and the value of our common stock could be adversely affected.

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal controls. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected and corrected on a timely basis.

In connection with the review of our third quarter 2018 financial statements, we identified a material weakness in our internal control over financial reporting related to the accounting for non-routine complex transactions. Management did not appropriately identify the proper accounting treatment related to contingent payments and stock awards owed to a non-employee. Management has begun remediation by engaging a third party firm with technical accounting specialists to review the accounting for non-routine complex transactions on a prospective basis.

In light of the material weakness, we performed additional analyses and other post-closing procedures to ensure the Company's condensed consolidated financial statements are prepared in accordance with U.S. GAAP. Accordingly, our CEO and CFO have certified that, based on their knowledge, the condensed consolidated financial statements, and other financial information included in this Form 10-Q, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Form 10-Q.

If our steps are insufficient to successfully remediate the material weakness and otherwise establish and maintain an effective system of internal control over financial reporting, the reliability of our financial reporting, investor confidence in us and the value of our common stock could be materially and adversely affected. Effective internal control over financial reporting is necessary for us to provide reliable and timely financial reports and, together with adequate disclosure controls and procedures, are designed to reasonably detect and prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. For as long as we are an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404. We could be an "emerging growth company" for up to five years from the date of our initial public offering in February 2018, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenues exceed \$1.07 billion, (ii) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (iii) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three-year period. An independent assessment of the effectiveness of our internal control over financial reporting could detect problems that our management's assessment might not. Undetected material weaknesses in our internal control over financial reporting could lead to financial statement restatements and require us to incur the expense of remediation.

Moreover, we do not expect that disclosure controls or internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Failure of our control systems to prevent error or fraud could materially adversely impact us.

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

During the period covered by this Form 10-Q, or such period as described below, we issued the following unregistered securities:

In June 2018, we entered into a consultant agreement pursuant to which we (a) issued a warrant, on June 6, 2018, to purchase 10,000 shares of our common stock, with an exercise price of \$5.25 per share, (b) issued a warrant, on October 6, 2018, to purchase 10,000 shares of our common stock, with an exercise price of \$6.25 per share, and (c) agreed to issue a warrant to purchase 10,000 shares of our common stock, with an exercise price of \$7.25 per share, issuable on February 6, 2019, provided the consultant is still engaged at that time, as payment for services pursuant to the consulting agreement. Each warrant (each a "June 2018 Consultant Warrant") issued or issuable under the consultant agreement has or will have a five (5) year term and a cashless exercise provision.

In July 2018, we entered into a consulting agreement pursuant to which we (a) issued a warrant on July 2, 2018 to purchase 25,000 shares of our common stock with an exercise price of \$7.39 per share, which warrant has an exercise period of 12 months from the date of agreement, (b) issued a warrant on July 2, 2018 to purchase 25,000 shares of our common stock with an exercise price of 7.39 per share, which warrant has an exercise period of 18 months from the date of the agreement, (c) issued a warrant on October 2, 2018 to purchase

25,000 shares of our common stock with an exercise price of 8.75 per share, which warrant has an exercise period of 18 months from the date of the agreement and (d) agreed to issue upon the six month anniversary of the date of the agreement, provided the consultant is still engaged at the respective time of issuance, a warrant to purchase 25,000 shares of our common stock with an exercise price of \$10.00 per share, which warrant will have an exercise period of 24 months from the date of the agreement. The warrants (each a “July 2018 Consultant Warrant”) issued under this agreement are callable by us.

In July 2018, we entered into an amendment to a consulting agreement pursuant to which we issued (a) 30,000 shares of our common stock on July 3, 2018, and (b) a warrant on July 3, 2018 to purchase 90,000 shares of our common stock with an exercise price of \$8.50 per share. The warrant (the “May 2017 Additional Consultant Warrant”) issued under the amendment of the consulting agreement has a five (5) year term.

In July 2018, we entered into a consulting agreement with an executive search firm pursuant to which we issued a warrant on November 8, 2018 to purchase 7,917 shares of our common stock, with an exercise price of \$5 per share. The warrant (the “November 2018 Consultant Warrant”) issued under the consultant agreement has a three (3) year term.

Securities Act Exemptions

We deemed the offers, sales and issuances of the securities described above to be exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”), in reliance on Section 4(a)(2) of the Securities Act, including Regulation D and Rule 506 promulgated thereunder, relative to transactions by an issuer not involving a public offering.

All certificates representing the securities issued in the transactions described above included appropriate legends setting forth that the securities had not been offered or sold pursuant to a registration statement and describing the applicable restrictions on transfer of the securities.

Use of Proceeds from Registered Securities

On February 13, 2018, our registration statement on Form S-1 (Registration No. 333-222441) was declared effective by the SEC for our IPO pursuant to which we sold an aggregate of 3,500,000 shares of our Common Stock at a price to the public of \$5.00 per share, for an aggregate offering of approximately \$17.5 million. Piper Jaffray & Co. acted as the sole book-running manager and Oppenheimer & Co. acted as lead manager for the offering. On February 16, 2018, we closed the sale of 3,500,000 shares, resulting in net proceeds to us of \$15 million after deducting underwriting discounts and commissions and other offering expenses. On March 12, 2018 we closed the sale of an additional 56,000 shares pursuant to the Partial IPO Over-Allotment Exercise, resulting in net proceeds to us of approximately \$258,000 after deducting underwriting discounts and commissions. No payments were made by us to directors, officers or persons owning ten percent or more of our Common Stock or to their associates, or to our affiliates. There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on February 15, 2018 pursuant to Rule 424(b).

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.1	Form of June 2018 Consultant Warrant.	10-Q	001-38389	4.1	8/13/2018	
4.2	Form of May 2017 Additional Consultant Warrant.	10-Q	001-38389	4.2	8/13/2018	
4.3	Form of July 2018 Consultant Warrant.	10-Q	001-38389	4.3	8/13/2018	
4.4	Form of November 2018 Consultant Warrant.					X
10.1†	Employment Agreement, effective October 1, 2018, between the Company and Timothy P. Moran.	8-K	001-38389	10.1	9/25/2018	
10.2†	Amended and Restated Employment Agreement, effective September 24, 2018, between the Company and Mark Pomeranz.	8-K	001-38389	10.2	9/25/2018	
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).					X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).					X
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350).					X
101.1	XBRL Instance Document.					X
101.2	XBRL Taxonomy Extension Schema Document.					X
101.3	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.4	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.5	XBRL Taxonomy Extension Label Linkbase Document.					X
101.6	XBRL Taxonomy Extension Presentation Linkbase Document.					X
†	Indicates management contract or compensatory plan.					
**	Furnished, not filed.					

EXHIBIT INDEX

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4.4	Form of November 2018 Consultant Warrant.					X
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31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).					X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).					X
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350).					X
101.1	XBRL Instance Document.					X
101.2	XBRL Taxonomy Extension Schema Document.					X
101.3	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.4	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.5	XBRL Taxonomy Extension Label Linkbase Document.					X
101.6	XBRL Taxonomy Extension Presentation Linkbase Document.					X
†	Indicates management contract or compensatory plan.					
**	Furnished, not filed.					
<hr/>						
*	Filed herewith.					
**	Furnished, not filed.					

SIGNATURES

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

Motus GI Holdings, Inc.

Date: November 13, 2018

By: /s/ Timothy P. Moran
Name: Timothy P. Moran
Title: *Chief Executive Officer and Director*
(Principal Executive Officer)

Date: November 13, 2018

By: /s/ Andrew Taylor
Name: Andrew Taylor
Title: *Chief Financial Officer*
(Principal Financial Officer and Chief Accounting Officer)

NEITHER THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES ISSUABLE UPON THE EXERCISE OF THIS WARRANT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAWS, AND NEITHER SUCH SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, ASSIGNED OR OTHERWISE TRANSFERRED UNLESS (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS, OR (2) AN EXEMPTION FROM SUCH REGISTRATION EXISTS AND THE COMPANY RECEIVES AN OPINION OF COUNSEL TO THE HOLDER OF SUCH SECURITIES, WHICH COUNSEL AND OPINION ARE SATISFACTORY TO THE COMPANY, THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED, ASSIGNED OR TRANSFERRED IN THE MANNER CONTEMPLATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS.

Effective Date: [DATE], 2018

Void After: [DATE], 2021

MOTUS GI HOLDINGS, INC.

WARRANT TO PURCHASE COMMON STOCK

Motus GI Holdings, Inc., a Delaware corporation (the "**Company**"), effective [DATE], 2018 (the "**Effective Date**"), hereby issues to [●], (the "**Holder**" or "**Warrant Holder**") this Warrant (the "**Warrant**") to purchase [●] shares (each such share as from time to time adjusted as hereinafter provided being a "**Warrant Share**" and all such shares being the "**Warrant Shares**") of the Company's Common Stock (as defined below), at the Exercise Price (as defined below), as adjusted from time to time as provided herein, on or before [DATE], 2021 (the "**Expiration Date**"), all subject to the following terms and conditions. This Warrant has been issued in connection with that certain Consulting Agreement, between the Company and the Holder, dated April 18, 2018, as the same may have been amended and supplemented from time to time (the "**Consulting Agreement**").

As used in this Warrant, (i) "**Business Day**" means any day other than Saturday, Sunday or any other day on which commercial banks in the City of New York, New York, are authorized or required by law or executive order to close; (ii) "**Common Stock**" means the common stock of the Company, par value \$0.0001 per share, including any securities issued or issuable with respect thereto or into which or for which such shares may be exchanged for, or converted into, pursuant to any stock dividend, stock split, stock combination, recapitalization, reclassification, reorganization or other similar event; (iii) "**Exercise Price**" means \$5.00 per share of Common Stock, subject to adjustment as provided herein; (iv) "**Trading Day**" means any day on which the Common Stock is traded (or available for trading) on its principal trading market; (v) "**Trading Market**" means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE American, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange or the trading platforms of OTC Markets Inc., or any successors to any of the foregoing; and (vi) "**Affiliate**" means any person that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, a person, as such terms are used and construed in Rule 144 promulgated under the Securities Act of 1933, as amended (the "**Securities Act**").

1. DURATION AND EXERCISE OF WARRANTS

(a) Exercise Period. The Holder may exercise this Warrant, in whole or in part, on any Business Day on or before 5:00 P.M., Eastern Time, on the Expiration Date, at which time this Warrant shall become void and of no value.

(b) Exercise Procedures.

(i) While this Warrant remains outstanding and exercisable in accordance with Section 1(a), the Holder may exercise this Warrant in whole or in part at any time and from time to time by:

(A) delivery to the Company of a duly executed copy of the Notice of Exercise (the “**Notice of Exercise**”) attached as **Exhibit A**;

(B) surrender of this Warrant to the Secretary of the Company at its principal offices or at such other office or agency as the Company may specify in writing to the Holder; and

(C) payment of the then-applicable Exercise Price per share multiplied by the number of Warrant Shares being purchased upon exercise of the Warrant (such amount, the “**Aggregate Exercise Price**”) made in the form of cash, or by certified check, bank draft or money order payable in lawful money of the United States of America.

(ii) Upon the exercise of this Warrant in compliance with the provisions of this Section 1(b), the Company shall promptly issue and cause to be delivered to the Holder a certificate for the Warrant Shares purchased by the Holder. Each exercise of this Warrant shall be effective immediately prior to the close of business on the date (the “**Date of Exercise**”) that the conditions set forth in Section 1(b) have been satisfied. On the first Business Day following the date on which the Company has received each of the Notice of Exercise and the Aggregate Exercise Price (the “**Exercise Delivery Documents**”), the Company shall transmit an acknowledgment of receipt of the Exercise Delivery Documents to the Company’s transfer agent (the “**Transfer Agent**”). On or before the third Business Day following the date on which the Company has received all of the Exercise Delivery Documents (the “**Share Delivery Date**”), the Company shall (X) provided that the Transfer Agent is participating in The Depository Trust Company (“**DTC**”) Fast Automated Securities Transfer Program, upon the request of the Holder, credit such aggregate number of shares of Common Stock to which the Holder is entitled pursuant to such exercise to the Holder’s or its designee’s balance account with DTC through its Deposit Withdrawal Agent Commission system, or (Y) if the Transfer Agent is not participating in the DTC Fast Automated Securities Transfer Program, issue and dispatch by overnight courier to the address as specified in the Notice of Exercise, a certificate, registered in the Company’s share register in the name of the Holder or its designee, for the number of shares of Common Stock to which the Holder is entitled pursuant to such exercise. Upon delivery of the Exercise Delivery Documents, the Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date of delivery of the certificates evidencing such Warrant Shares.

(c) Partial Exercise. This Warrant shall be exercisable, either in its entirety or, from time to time, for part only of the number of Warrant Shares referenced by this Warrant. If this Warrant is submitted in connection with any exercise pursuant to Section 1 and the number of Warrant Shares represented by this Warrant submitted for exercise is greater than the actual number of Warrant Shares being acquired upon such an exercise, then the Company shall as soon as practicable and in no event later than five (5) Business Days after any exercise and at its own expense, issue a new Warrant of like tenor representing the right to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which this Warrant is exercised.

(d) Disputes. In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company shall promptly issue to the Holder the number of Warrant Shares that are not disputed and resolve such dispute in accordance with Section 16.

2. ISSUANCE OF WARRANT SHARES

(a) The Company covenants that all Warrant Shares will, upon issuance in accordance with the terms of this Warrant, be (i) duly authorized, fully paid and non-assessable, and (ii) free from all liens, charges and security interests, with the exception of claims arising through the acts or omissions of any Holder and except as arising from applicable Federal and state securities laws.

(b) The Company shall register this Warrant upon records to be maintained by the Company for that purpose in the name of the record holder of such Warrant from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner thereof for the purpose of any exercise thereof, any distribution to the Holder thereof and for all other purposes.

(c) The Company will not, by amendment of its certificate of incorporation, by-laws or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all action necessary or appropriate in order to protect the rights of the Holder to exercise this Warrant, or against impairment of such rights.

3. ADJUSTMENTS OF EXERCISE PRICE, NUMBER AND TYPE OF WARRANT SHARES

(a) The Exercise Price and the number of shares purchasable upon the exercise of this Warrant shall be subject to adjustment from time to time upon the occurrence of certain events described in this Section 3; provided, that notwithstanding the provisions of this Section 3, the Company shall not be required to make any adjustment if and to the extent that such adjustment would require the Company to issue a number of shares of Common Stock in excess of its authorized but unissued shares of Common Stock, less all amounts of Common Stock that have been reserved for issue upon the conversion of all outstanding securities convertible into shares of Common Stock and the exercise of all outstanding options, warrants and other rights exercisable for shares of Common Stock. If the Company does not have the requisite number of authorized but unissued shares of Common Stock to make any adjustment, the Company shall use its commercially reasonable efforts to obtain the necessary stockholder consent to increase the authorized number of shares of Common Stock to make such an adjustment pursuant to this Section 3.

(i) Subdivision or Combination of Stock. In case the Company shall at any time subdivide (whether by way of stock dividend, stock split or otherwise) its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced and the number of Warrant Shares shall be proportionately increased, and conversely, in case the outstanding shares of Common Stock of the Company shall be combined (whether by way of stock combination, reverse stock split or otherwise) into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of Warrant Shares shall be proportionately decreased. The Exercise Price and the Warrant Shares, as so adjusted, shall be readjusted in the same manner upon the happening of any successive event or events described in this Section 3(a)(i).

(i i) Dividends in Stock, Property, Reclassification. If at any time, or from time to time, all of the holders of Common Stock (or any shares of stock or other securities at the time receivable upon the exercise of this Warrant) shall have received or become entitled to receive, without payment therefore:

(A) any shares of stock or other securities that are at any time directly or indirectly convertible into or exchangeable for Common Stock, or any rights or options to subscribe for, purchase or otherwise acquire any of the foregoing by way of dividend or other distribution, or

(B) additional stock or other securities or property (including cash) by way of spin-off, split-up, reclassification, combination of shares or similar corporate rearrangement (other than shares of Common Stock issued as a stock split or adjustments in respect of which shall be covered by the terms of Section 3(a)(i) above), then and in each such case, the Exercise Price and the number of Warrant Shares to be obtained upon exercise of this Warrant shall be adjusted proportionately, and the Holder hereof shall, upon the exercise of this Warrant, be entitled to receive, in addition to the number of shares of Common Stock receivable thereupon, and without payment of any additional consideration therefor, the amount of stock and other securities and property (including cash in the cases referred to above) that such Holder would hold on the date of such exercise had such Holder been the holder of record of such Common Stock as of the date on which holders of Common Stock received or became entitled to receive such shares or all other additional stock and other securities and property. The Exercise Price and the Warrant Shares, as so adjusted, shall be readjusted in the same manner upon the happening of any successive event or events described in this Section 3(a)(ii).

(b) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment pursuant to this Section 3, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each Holder of this Warrant a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall promptly furnish or cause to be furnished to such Holder a like certificate setting forth: (i) such adjustments and readjustments; and (ii) the number of shares and the amount, if any, of other property which at the time would be received upon the exercise of the Warrant.

(c) Certain Events. If any event occurs as to which the other provisions of this Section 3 are not strictly applicable but the lack of any adjustment would not fairly protect the purchase rights of the Holder under this Warrant in accordance with the basic intent and principles of such provisions, or if strictly applicable would not fairly protect the purchase rights of the Holder under this Warrant in accordance with the basic intent and principles of such provisions, then the Company's Board of Directors will, in good faith, make an appropriate adjustment to protect the rights of the Holder; provided, that no such adjustment pursuant to this Section 3(c) will increase the Exercise Price or decrease the number of Warrant Shares as otherwise determined pursuant to this Section 3.

4. INTENTIONALLY OMITTED.

5. TRANSFERS AND EXCHANGES OF WARRANT AND WARRANT SHARES

(a) Registration of Transfers and Exchanges. Subject to Section 5(c), upon the Holder's surrender of this Warrant, with a duly executed copy of the Form of Assignment attached as **Exhibit B**, to the Secretary of the Company at its principal offices or at such other office or agency as the Company may specify in writing to the Holder, the Company shall register the transfer of all or any portion of this Warrant. Upon such registration of transfer, the Company shall issue a new Warrant, in substantially the form of this Warrant, evidencing the acquisition rights transferred to the transferee and a new Warrant, in similar form, evidencing the remaining acquisition rights not transferred, to the Holder requesting the transfer.

(b) Warrant Exchangeable for Different Denominations. The Holder may exchange this Warrant for a new Warrant or Warrants, in substantially the form of this Warrant, evidencing in the aggregate the right to purchase the number of Warrant Shares which may then be purchased hereunder, each of such new Warrants to be dated the date of such exchange and to represent the right to purchase such number of Warrant Shares as shall be designated by the Holder. The Holder shall surrender this Warrant with duly executed instructions regarding such re-certification of this Warrant to the Secretary of the Company at its principal offices or at such other office or agency as the Company may specify in writing to the Holder.

(c) Restrictions on Transfers. This Warrant may not be transferred at any time without (i) registration under the Securities Act or (ii) an exemption from such registration and a written opinion of legal counsel addressed to the Company that the proposed transfer of the Warrant may be effected without registration under the Securities Act, which opinion will be in form and from counsel reasonably satisfactory to the Company.

(d) Permitted Transfers and Assignments. Notwithstanding any provision to the contrary in this Section 5, the Holder may transfer, with or without consideration, this Warrant or any of the Warrant Shares (or a portion thereof) to the Holder's Affiliates (as such term is defined under Rule 144 of the Securities Act) without obtaining the opinion from counsel that may be required by Section 5(c)(ii), provided, that the Holder delivers to the Company and its counsel certification, documentation, and other assurances reasonably required by the Company's counsel to enable the Company's counsel to render an opinion to the Company's Transfer Agent that such transfer does not violate applicable securities laws.

6. MUTILATED OR MISSING WARRANT CERTIFICATE

If this Warrant is mutilated, lost, stolen or destroyed, upon request by the Holder, the Company will, at its expense, issue, in exchange for and upon cancellation of the mutilated Warrant, or in substitution for the lost, stolen or destroyed Warrant, a new Warrant, in substantially the form of this Warrant, representing the right to acquire the equivalent number of Warrant Shares; provided, that, as a prerequisite to the issuance of a substitute Warrant, the Company may require satisfactory evidence of loss, theft or destruction as well as an indemnity from the Holder of a lost, stolen or destroyed Warrant.

7. PAYMENT OF TAXES

The Company will pay all transfer and stock issuance taxes attributable to the preparation, issuance and delivery of this Warrant and the Warrant Shares (and replacement Warrants) including, without limitation, all documentary and stamp taxes; provided, however, that the Company shall not be required to pay any tax in respect of the transfer of this Warrant, or the issuance or delivery of certificates for Warrant Shares or other securities in respect of the Warrant Shares to any person or entity other than to the Holder.

8. FRACTIONAL WARRANT SHARES

No fractional Warrant Shares shall be issued upon exercise of this Warrant. The Company, in lieu of issuing any fractional Warrant Share, shall round up the number of Warrant Shares issuable to nearest whole share.

9. NO STOCK RIGHTS AND LEGEND

No holder of this Warrant, as such, shall be entitled to vote or be deemed the holder of any other securities of the Company that may at any time be issuable on the exercise hereof, nor shall anything contained herein be construed to confer upon the holder of this Warrant, as such, the rights of a stockholder of the Company or the right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or give or withhold consent to any corporate action or to receive notice of meetings or other actions affecting stockholders (except as provided herein), or to receive dividends or subscription rights or otherwise (except as provide herein).

Each certificate for Warrant Shares initially issued upon the exercise of this Warrant, and each certificate for Warrant Shares issued to any subsequent transferee of any such certificate, shall be stamped or otherwise imprinted with a legend in substantially the following form:

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR ANY STATE SECURITIES LAWS, AND NEITHER SUCH SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, PLEDGED, ASSIGNED OR OTHERWISE TRANSFERRED UNLESS (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS, OR (2) AN EXEMPTION FROM SUCH REGISTRATION EXISTS AND THE COMPANY RECEIVES AN OPINION OF COUNSEL TO THE HOLDER OF SUCH SECURITIES, WHICH COUNSEL AND OPINION ARE REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH SECURITIES MAY BE OFFERED, SOLD, PLEDGED, ASSIGNED OR TRANSFERRED IN THE MANNER CONTEMPLATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS.”

10. INTENTIONALLY OMMITTED.

11. NOTICES

All notices, consents, waivers, and other communications under this Warrant must be in writing and will be deemed given to a party when (a) delivered to the appropriate address by hand or by nationally recognized overnight courier service (costs prepaid); (b) sent by facsimile or e-mail with confirmation of transmission by the transmitting equipment; (c) received or rejected by the addressee, if sent by certified mail, return receipt requested, if to the registered Holder hereof; or (d) seven days after the placement of the notice into the mails (first class postage prepaid), to the Holder at the address, facsimile number, or e-mail address furnished by the registered Holder to the Company from time to time, or if to the Company, to it at 1301 East Broward Boulevard, 3rd Floor, Ft. Lauderdale, FL 33301, Attn: Timothy P. Moran (or to such other address, facsimile number, or e-mail address as the Holder or the Company as a party may designate by notice the other party).

12. SEVERABILITY

If a court of competent jurisdiction holds any provision of this Warrant invalid or unenforceable, the other provisions of this Warrant will remain in full force and effect. Any provision of this Warrant held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

13. BINDING EFFECT

This Warrant shall be binding upon and inure to the sole and exclusive benefit of the Company, its successors and assigns, the registered Holder or Holders from time to time of this Warrant and the Warrant Shares.

14. SURVIVAL OF RIGHTS AND DUTIES

This Warrant shall terminate and be of no further force and effect on the earlier of 5:00 P.M., Eastern Time, on the Expiration Date or the date on which this Warrant has been exercised in full.

15. GOVERNING LAW

This Warrant will be governed by and construed under the laws of the State of New York without regard to conflicts of laws principles that would require the application of any other law.

16. DISPUTE RESOLUTION

In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company shall submit the disputed determinations or arithmetic calculations via facsimile within two Business Days of receipt of the Notice of Exercise giving rise to such dispute, as the case may be, to the Holder. If the Holder and the Company are unable to agree upon such determination or calculation of the Exercise Price or the Warrant Shares within three Business Days of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall, within two Business Days, submit via facsimile (a) the disputed determination of the Exercise Price to an independent, reputable investment bank selected by the Company and approved by the Holder or (b) the disputed arithmetic calculation of the Warrant Shares to the Company's independent, outside accountant. The Company shall cause at its expense the investment bank or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than ten (10) Business Days from the time it receives the disputed determinations or calculations. Such investment bank's or accountant's determination or calculation, as the case may be, shall be binding upon all parties absent demonstrable error.

17. NOTICES OF RECORD DATE

Upon (a) any establishment by the Company of a record date of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or right or option to acquire securities of the Company, or any other right, or (b) any capital reorganization, reclassification, recapitalization, merger or consolidation of the Company with or into any other corporation, any transfer of all or substantially all the assets of the Company, or any voluntary or involuntary dissolution, liquidation or winding up of the Company, or the sale, in a single transaction, of a majority of the Company's voting stock (whether newly issued, or from treasury, or previously issued and then outstanding, or any combination thereof), the Company shall mail to the Holder at least ten (10) Business Days, or such longer period as may be required by law, prior to the record date specified therein, a notice specifying (i) the date established as the record date for the purpose of such dividend, distribution, option or right and a description of such dividend, option or right, (ii) the date on which any such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up, or sale is expected to become effective and (iii) the date, if any, fixed as to when the holders of record of Common Stock shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding up.

18. RESERVATION OF SHARES

The Company shall reserve and keep available out of its authorized but unissued shares of Common Stock for issuance upon the exercise of this Warrant, free from pre-emptive rights, such number of shares of Common Stock for which this Warrant shall from time to time be exercisable. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation. Without limiting the generality of the foregoing, the Company covenants that it will use commercially reasonable efforts to take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant and use commercially reasonable efforts to obtain all such authorizations, exemptions or consents, including but not limited to consents from the Company's stockholders or Board of Directors or any public regulatory body, as may be necessary to enable the Company to perform its obligations under this Warrant.

19. NO THIRD PARTY RIGHTS

This Warrant is not intended, and will not be construed, to create any rights in any parties other than the Company and the Holder, and no person or entity may assert any rights as third-party beneficiary hereunder.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed as of the date first set forth above.

MOTUS GI HOLDINGS, INC.

By: _____
Name:
Title:

[Signature Page to Warrant]

EXHIBIT A

NOTICE OF EXERCISE

(To be executed by the Holder of Warrant if such Holder desires to exercise Warrant)

To Motus GI Holdings, Inc.:

The undersigned hereby irrevocably elects to exercise this Warrant and to purchase thereunder, _____ full shares of Motus GI Holdings, Inc. common stock issuable upon exercise of the Warrant and delivery of:

\$_____ (in cash as provided for in the foregoing Warrant) and any applicable taxes payable by the undersigned pursuant to such Warrant.

The undersigned requests that certificates for such shares be issued in the name of:

(Please print name, address and social security or federal employer
identification number (if applicable))

The undersigned hereby affirms that the undersigned is an accredited investor as defined under Rule 501 of Regulation D of the Securities Act of 1933. If the Holder cannot make the foregoing affirmation because it is factually incorrect, it shall be a condition to the exercise of the Warrant that the Company receive such other representations as the Company considers necessary, acting reasonably, to assure the Company that the issuance of securities upon exercise of this Warrant shall not violate any United States or other applicable securities laws.

If the shares issuable upon this exercise of the Warrant are not all of the Warrant Shares which the Holder is entitled to acquire upon the exercise of the Warrant, the undersigned requests that a new Warrant evidencing the rights not so exercised be issued in the name of and delivered to:

(Please print name, address and social security or federal employer
identification number (if applicable))

Name of Holder (print): _____
(Signature): _____
(By:) _____
(Title:) _____
Dated: _____

EXHIBIT B

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers to each assignee set forth below all of the rights of the undersigned under the Warrant (as defined in and evidenced by the attached Warrant) to acquire the number of Warrant Shares set opposite the name of such assignee below and in and to the foregoing Warrant with respect to said acquisition rights and the shares issuable upon exercise of the Warrant:

Name of Assignee	Address	Number of Shares

If the total of the Warrant Shares are not all of the Warrant Shares evidenced by the foregoing Warrant, the undersigned requests that a new Warrant evidencing the right to acquire the Warrant Shares not so assigned be issued in the name of and delivered to the undersigned.

Name of Holder (print): _____

(Signature): _____

(By): _____

(Title): _____

Dated: _____

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT
TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Timothy P. Moran, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2018 of Motus GI Holdings, 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(s) 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)) 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) (Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313);
 - 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 (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 13, 2018

/s/ Timothy P. Moran
Timothy P. Moran
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT
TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Andrew Taylor, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2018 of Motus GI Holdings, 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(s) 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)) 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) (Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313);
 - 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 (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 13, 2018

/s/ Andrew Taylor
Andrew Taylor
Chief Financial Officer
(Principal Financial Officer)

**Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

This Certification is being filed pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002. This Certification is included solely for the purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act and is not intended to be used for any other purpose. In connection with the accompanying Quarterly Report on Form 10-Q of Motus GI Holdings, Inc. for the period ended September 30, 2018 (the "Report"), each of the undersigned hereby certifies in his capacity as an officer of Motus GI Holdings, Inc. (the "Company") that to such officer's 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.

Dated: November 13, 2018

By: /s/ Timothy P. Moran

Timothy P. Moran
Chief Executive Officer
(Principal Executive Officer)

Dated: November 13, 2018

By: /s/ Andrew Taylor

Andrew Taylor
Chief Financial Officer
(Principal Financial Officer)
