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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **May 28, 2025**

RESHAPE LIFESCIENCES INC.
(Exact name of registrant as specified in its charter)

Delaware	**1-37897**	**26-1828101**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

18 Technology Drive, Suite 110 **Irvine, CA**	**92618**
(Address of principal executive offices)	(Zip Code)

(949) 429-6680
(Registrant's telephone number, including area code)

Not applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of Class	**Trading Symbol**	**Name of Exchange on which Registered**
Common stock, $0.001 par value per share	RSLS	The Nasdaq Capital Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ¨

Item 8.01 Other Events.

As previously disclosed, on July 8, 2024, ReShape Lifesciences Inc. (the "Company") entered into an Agreement and Plan of Merger (the "Merger Agreement") with Vyome Therapeutics, Inc. ("Vyome") and Raider Lifesciences Inc., a direct, wholly owned subsidiary of the Company ("Merger Sub"). Pursuant to the Merger Agreement, and subject to the satisfaction or waiver of the conditions specified therein, including Nasdaq's approval of a new listing application for the combined company, Merger Sub shall be merged with and into Vyome, with Vyome surviving as a subsidiary of the Company (the "Merger").

This Current Report on Form 8-K is being filed to provide (1) Vyome's financial statements for the quarter ended March 31, 2025, filed as Exhibit 99.1 hereto; (2) Vyome's Management's Discussion and Analysis of Financial Condition and Results of Operations for the quarter ended March 31, 2025, filed as Exhibit 99.2 hereto; (3) Vyome's Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2024, filed as Exhibit 99.3 hereto; (4) the Company's Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2024, filed as Exhibit 99.4 hereto; and (5) unaudited pro forma condensed combined financial statements giving effect to the Merger, filed as Exhibit 99.5 hereto; so that such information is incorporated by reference into the Company's shelf registration statement on Form S-3 (File No. 333-287168) filed with the Securities and Exchange Commission on May 9, 2025 under the Securities Act of 1933, as amended.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	Financial Statements of Vyome for the quarter ended March 31, 2025
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations of Vyome for the quarter ended March 31, 2025
99.3	Management's Discussion and Analysis of Financial Condition and Results of Operations of Vyome for the year ended December 31, 2024
99.4	Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company for the year ended December 31, 2024
99.5	Unaudited Pro Forma Condensed Combined Financial Statements
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

RESHAPE LIFESCIENCES INC.

By: /s/ Paul F. Hickey
Paul F. Hickey
Chief Executive Officer

Dated: May 28, 2025

Vyome Therapeutics, Inc. and Subsidiary

Vyome Therapeutics Inc. and Subsidiary
Consolidated financial statements (unaudited)
Three months ended March 31, 2025, and 2024

CONTENTS

Vyome Therapeutics Inc. and Subsidiary
Consolidated Balance Sheets

(Amount in USD)	March 31, 2025 (unaudited)	December 31, 2024
Assets		
Current assets		
Cash and cash equivalents	$ 58,370	$ 101,094
Accounts receivables, net	149,299	2,294
Deferred offering costs	111,415	111,415
Other current assets	73,260	86,433
Total current assets	**392,344**	**302,046**
Non-current assets		
Property and equipment, net	55,657	59,179
Intangible asset - shell company	314,191	314,191
Goods and service tax and other credits receivable	628,416	646,758
Right-of-use of asset, net	52,475	59,387
Total non-current assets	**1,050,739**	**1,079,515**
Total assets	**$ 1,443,083**	**$ 1,381,561**
Liabilities and stockholders' deficit		
Current liabilities		
Accounts payable and accrued expenses	$ 1,038,762	$ 965,607
Due to Affiliates	140,557	129,346
Operating lease liability - current portion	29,190	28,024
Salary and post-employment benefits payable	987,461	919,440
Other current liabilities	70,894	107,938
Convertible debt - Current portion	3,836,357	3,589,410
Total current liabilities	**6,103,221**	**5,739,764**
Non-current liabilities		
Operating lease liability - net of current portion	24,867	32,830
Total non-current liabilities	**24,867**	**32,830**
Total liabilities	**6,128,088**	**5,772,594**
Commitments and contingencies		
Stockholders' deficit		
Common stock, 20,000,000 shares authorized, 1,893,120 shares issued and outstanding at March 31, 2025 and December 31, 2024	1,892	1,892
Preferred stock, 16,000,000 shares authorized, 15,303,417 shares issued and outstanding as of March 31, 2025 and December 31, 2024	46,985,419	46,985,419
Additional paid in capital	4,097,570	4,097,570
Accumulated deficit	(55,716,716)	(55,422,744)
Accumulated other comprehensive loss	(53,170)	(53,170)
Total stockholders' deficit	**(4,685,005)**	**(4,391,033)**
Total liabilities and stockholders' deficit	**$ 1,443,083**	**$ 1,381,561**

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

Vyome Therapeutics Inc. and Subsidiary
Consolidated Statements of Comprehensive Loss (unaudited)

(Amount in USD)	Three months ended March 31, 2025	Three months ended March 31, 2024
Revenue	$ 198,582	$ 76,979
Cost of goods sold	(44,162)	-
Gross profit	**154,420**	**76,979**
Operating expenses		
Depreciation and amortization	3,523	4,548
Selling, general and administrative	259,626	194,728
Research and development expenses	90,268	42,720
Total operating expenses	**$ 353,416**	**$ 241,996**
Operating loss	$ (198,996)	$ (165,017)
Other income/(expense), net:		
Interest expense	(54,954)	(45,642)
Other income(loss), net	(4,014)	408
Fair value adjustment	(36,008)	81,949
Total other income, net	**$ (94,976)**	**$ 37,715**
Net loss	**$ (293,972)**	**$ (127,302)**
Other comprehensive income, net of tax		
Foreign currency translation adjustments	-	(81)
Other comprehensive income / (loss), net of tax	**-**	**(81)**
Total comprehensive loss	**$ (293,972)**	**$ (127,383)**
Net Loss per share:		
Loss per share – basic and diluted	**$ (0.16)**	**$ (0.07)**
Weighted average number of shares	1,893,120	1,893,120

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

Vyome Therapeutics Inc. and Subsidiary
Consolidated Statements of Changes in Stockholders Deficit (unaudited)
For the three months ended March 31, 2025 and 2024

	Common stock		Preferred stock		Additional Paid-	Accumulated	Accumulated Other Comprehensive	Total Stockholders
(Amount in USD)	Shares	Amount	Shares	Amount	in Capital	Deficit	Income (Loss)	Deficit
Balance at December 31, 2023	1,893,120	$ 1,892	14,759,760	$ 46,984,875	$ 868,596	$ (53,975,283)	$ (54,297)	$ (6,174,217)
Net loss for the period						$ (127,302)		(127,302)
Foreign currency translation adjustment							$ (81)	(81)
Balance at March 31, 2024	**1,893,120**	**$ 1,892**	**14,759,760**	**$ 46,984,875**	**$ 868,596**	**$ (54,102,585)**	**$ (54,378)**	**$ (6,301,600)**
Balance at December 31, 2024	1,893,120	$ 1,892	15,303,419	$ 46,985,419	$ 4,097,570	$ (55,422,744)	$ (53,170)	$ (4,391,033)
Net loss for the period						(293,972)		(293,972)
Balance at March 31, 2025	**1,893,120**	**$ 1,892**	**15,303,419**	**$ 46,985,419**	**$ 4,097,570**	**$ (55,716,716)**	**$ (53,170)**	$ (4,685,005)

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

Vyome Therapeutics Inc. and Subsidiary
Consolidated Statements Of Cash Flows (unaudited)

(Amount in USD)	Three months ended March 31, 2025	Three months ended March 31, 2024
Cash flows from operating activities		
Net loss	**$ (293,972)**	**$ (127,302)**
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,523	4,548
(Gain) loss on fair value adjustment of convertible debt	36,008	(81,949)
Non cash accrued interest expense	50,939	44,452
Changes in assets and liabilities:		
Accounts receivables, net	(147,005)	66,816
Prepaid expenses and other current assets	13,161	1,665
Other assets	25,254	(2,121)
Accounts payable & accrued expenses	73,170	(163,443)
Due to Affiliates	11,211	25,000
Salary and post-employment benefits payable	68,021	71,196
Other liabilities	(43,843)	25,548
Net cash used in operating activities	**$ (203,533)**	**$ (135,590)**
Cash flows from investing activities:		
(Purchases of)/ proceeds from sale of fixed assets	(1)	186
Net cash used in investing activities	**(1)**	**186**
Cash flows from financing activities:		
Proceeds from convertible debt	160,000	199,999
Advance from Affiliates	-	33,806
Net cash from financing activities	**$ 160,000**	**$ 233,805**
Effect of exchange rate changes on cash and cash equivalents	-	(81)
Net (Decrease)/Increase in cash and cash equivalents	(43,534)	98,320
Cash and cash equivalents at beginning of the period	101,904	16,646
Cash and cash equivalents at end of the period	**$ 58,370**	**$ 114,966**
Supplemental non-cash and financing activities:		
Reclassification of accounts payable to liability to be settled in equity		$ 1,680,211

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

Vyome Therapeutics Inc. and Subsidiary
Notes to the Consolidated Financial Statements
(All amounts are in US Dollars except per share data and as stated otherwise)

1. Organization and principal activities

Business:

Vyome Therapeutics, Inc. (”VTI”), a Delaware corporation, was incorporated on August 22, 2017. VTI was formed with the intent of operating the R&D business of Vyome Biosciences India Private Limited, India (the “R&D Business”), which was transferred to Vyome Therapeutics Limited (a wholly owned subsidiary of VTI) pursuant to a Demerged order of National Company law Tribunal (”NCLT”) in India, formally consummated in December 2018. VTI and the wholly owned subsidiary in India, Vyome Therapeutics Limited (“VTL”) are collectively referred to as the “Company” or “Vyome”. “R&D business” is defined as novel drug development in the area of immune-inflammatory diseases space and the commercial exploitation of the same.

The Company is a Princeton, NJ-based clinical-stage specialty pharmaceutical company working to treat immune-inflammatory and rare diseases of unmet need with next-generation therapeutic solutions. The lead program VT-1953, a topical gel with a novel molecule to treat signs and symptoms of Malignant Fungating wounds, is a potential orphan drug program. The Company is planning to have discussions with the Food & Drug Administration (FDA) on the pivotal trial protocol in the third quarter of 2025. The Company had initiated a Phase II investigator-initiated trial for VT-1953. The Company also has a Pre-Investigative New Drug application stage ophthalmic drops program, a potentially orphan drug program, and a repurposed immune modulator to treat steroid-sparing anterior uveitis. Another late clinical-stage program, VB 1953, for moderate to severe acne has successfully completed its Phase II clinical trial and this program is Phase III ready. The Company may experience delays in the conduct of clinical trials of its candidates. Clinical trials can be delayed for a variety of reasons, including delays in obtaining regulatory approval to commence a clinical trial, in securing clinical trial agreements with prospective sites with acceptable terms, in obtaining institutional review board approval to conduct a clinical trial at a prospective site, in recruiting patients to participate in a clinical trial or in obtaining sufficient supplies of clinical trial materials. Any delays in completing the Company’s clinical trials will increase its costs, slow down its product development, timeliness, and approval process, and delay its ability to generate revenue.

The Company also is developing other assets for treating immune-inflammatory diseases which are in pre-clinical or early clinical development.

The Company also has commercialized novel reformulated topical anti-fungal products using its patented technology after two such products successfully completed clinical testing in India. The Company has entered into a licensing and marketing agreement with the Sun Pharma group of companies in India (“Sun Pharma”) to sell a family of novel topical anti-fungal products owned by the Company. The Company used third-party entities to manufacture the products. In December 2024, the above arrangement was terminated.

The Company has entered into a Development and Licensing agreement for Lulicanazole (an anti-fungal product) with Sun Pharma for additional development and commercialization in India. Sales of Lulicanazole commenced in the third quarter of 2023 by Sun Pharma.

Since its inception, the Company has devoted substantially all its efforts to drug development, business planning, research and development, recruiting management and technical staff, acquiring operating assets, and raising capital. The Company is subject to risks common to companies in the biotechnology industry, including, but not limited to, successful development of technology, obtaining additional funding, protection of proprietary technology, compliance with government regulations, risks of failure of pre-clinical studies, clinical studies and clinical trials, the need to obtain marketing approval for its drug candidates and its consumer products, fluctuations in operating results, economic pressure impacting therapeutic pricing, dependence on key personnel, risks associated with changes in technologies, development by competitors of technological innovations and the ability to transition from pilot scale manufacturing to large scale production.

2. Summary of Significant Accounting Policies

a) Basis of Presentation

The unaudited condensed consolidated financial statements contained herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. Accordingly, the condensed consolidated financial statements reflect all normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the results of interim periods and may not include all disclosures required by accounting principles generally accepted in the United States ("GAAP"). The information as of March 31, 2025, and for the three months ended March 31, 2025, is unaudited, whereas the consolidated balance sheet as of December 31, 2024, is derived from the Company's audited consolidated financial statements as of that date. These condensed consolidated financial statements and notes hereto should be read in conjunction with the consolidated financial statements and notes thereto included in the audited financial statements for the year ended December 31, 2024.

The results of operations for the interim periods presented are not necessarily indicative of results to be expected for any other interim period or for the year.

Any reference in these notes to applicable guidance is meant to refer to GAAP as found in the Accounting Standards Codification ("ASC") and Accounting Standards Updates ("ASU") promulgated by the Financial Accounting Standards Board ("FASB").

b) Segments

The Company organized its operations into two operating segments. The segments reflect the way the Company evaluates its business performance and manages its operations by the Company's chief operating decision maker ("CODM") for making decisions, allocating resources and assessing performance. The Company's CODM has been identified as the chief executive officer. The Company determined it has in two operating segments: (1) Sale of Products and (2) biotechnology segment. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. See Note 14.

As the Company's long-lived assets, except for the intangible asset and deferred offering costs are substantially all located in India, and all of the Company's revenue and expense related to the sale of products are derived from within India, no geographical segments are presented.

c) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, VTL. All intercompany accounts and transactions have been eliminated in the consolidation.

d) Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. For the three months ended March 31, 2025, and 2024, the Company has generated a net loss of $ 293,972 and $ 127,302 respectively. As of March 31, 2025, the Company's current liabilities exceed its current assets by approximately $ 5.2 million. The Company's major sources of funds to date have been through the sale of preferred stock and the issuance of convertible debt. The Company does not believe it has sufficient funds to finance the operating requirements for at least the next 12 months from the issuance date of these consolidated financial statements. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Obtaining additional financing to support the successful development of the Company's contemplated plan of drug development and operations and its transition, ultimately, to the attainment of profitable operations is necessary for the Company to continue operations. The Company continues to raise additional capital through the issuance of additional convertible notes. In addition, a financial advisor has been engaged to pursue additional capital funding and/or a strategic transaction. The Company signed a definitive merger agreement ("Merger") with Reshape Lifesciences, Inc. ("Reshape") in July 2024, and Reshape has filed a Form S-4 with the SEC with respect to the Merger transaction. The Company will continue to seek funds through debt or equity financings, marketing and distribution arrangements, and other collaborations, strategic alliances and licensing arrangements, or other sources of financing. However, there can be no assurances that such financing, the Reshape merger or other strategic transactions will be available on acceptable terms, or at all. If the Company is unable to raise additional funds, it will need to do one or more of the following:

- Delay clinical trials and processes;
- License third parties to develop and commercialize products or technologies that it would otherwise seek to develop and commercialize itself;
- Seek strategic alliances or business combinations;
- Attempt to sell the Company;
- Cease operations; or
- Declare bankruptcy

The Company continues to raise additional capital through the issuance of convertible notes. The Company is in discussions with investment bankers to raise additional capital in the public or private markets. There is no assurance that such financing can be completed. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management is implementing plans to reduce expenses and seek additional financing. However, there can be no assurance that these plans will be successful. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. The consolidated financial statements do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

e) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results, as determined at a later date, could differ from those estimates. Significant estimates used in preparing these audited consolidated financial statements include the realization of deferred tax assets, timing of the recognition of research and development costs, fair value of debt and equity-based instruments, and future obligations under employee benefit plans.

f) Foreign Currency Translation and Transactions

The Company also operates in India, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility of foreign exchange rates between the US dollar and the Indian Rupee.

The Company's functional currency is the United States Dollar. The functional currency of its Indian subsidiary is Indian National Rupees. Consequently, revenues and expenses of operations of the Indian subsidiary are translated into United States Dollars using average period exchange rates, while assets and liabilities of the Indian subsidiary are translated into United States Dollars using the year-end exchange rate in effect at the balance sheet dates. Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as a part of Accumulated Other Comprehensive Income, a separate component of stockholders' equity in the accompanying consolidated balance sheets.

Transactions in foreign currencies are translated at the exchange rate prevailing on the date of the transaction. Resulting gains or losses from the settlement of such foreign currency transactions are included in the consolidated statements of operations. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates in effect on the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are expressed in functional currency at the historical exchange rates. Losses resulting from foreign currency transactions amounting to $- and $81 for the three months ended March 31, 2025, and 2024 respectively are included in the consolidated statements of operations under the caption selling, general and administrative expenses.

g) Cash and Cash Equivalents

Cash includes all highly liquid instruments with a maturity of three months or less when purchased. The Company maintains its cash balances in financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC"). At various times during the year, such balances may exceed the FDIC limit. The Company has not experienced any credit losses associated with its balances in such accounts. Cash held in the U.S. bank account as of March 31, 2025, and December 31, 2024, was approximately $22,426 and $ 3,197, respectively. Cash held in India as of March 31, 2025, and December 31, 2024, was approximately $35,944 and $98,707, respectively.

h) Accounts Receivable, net

Accounts receivable is generally recorded at the invoiced amounts, net of an allowance for expected losses. The Company establishes credit terms for new customers based upon management's review of their credit information and project terms and performs ongoing credit evaluations of its customers, adjusting credit terms when management believes appropriate based upon payment history and an assessment of the customer's current credit worthiness. The Company follows *Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instrumen*ts, which removed all current thresholds and requires entities under the new current expected credit loss ("CECL") model to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that an entity expects to collect over the instrument's contractual life. The new CECL model is based on expected losses rather than incurred losses. Management determined that no allowance for doubtful accounts was necessary as of March 31, 2025 and December 31, 2024.

i) Property and equipment, net

Property and equipment, is stated as net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, summarized as follows:

Computers and software	3 years
Office equipment	5 years
Furniture and Fixtures	10 years
Lab machinery	10 years
Leasehold improvements	Lower of estimated useful life or remaining period of lease term

Repairs and maintenance costs are expensed as incurred; major renewals and betterments are capitalized. When assets are disposed of, the assets and related allowances for depreciation and amortization are eliminated from the accounts, and any resulting gain or loss is reflected in operations.

j) Goods and Service Tax and Other Credits Receivable

The Company has indirect tax credit carryforwards arising in India, which may be utilized or refunded as VTL generates sales to third parties or invoices to VTI pursuant to intercompany transfer pricing arrangements. The Company expects to utilize these indirect tax credit carryforwards over a 4-to-5-year period.

k) Intangible Assets

On August 21, 2021, Vyome acquired the majority of the outstanding shares (purchase of substantially all of the outstanding shares of preferred stock) of Livechain, Inc., ("LICH") for $220,000. The total costs of the asset acquisition were $314,191. LICH is an inactive non-reporting shell ("Shell Company") that trades on the bulletin board under the ticker symbol LICH. As of the date of the transaction and through March 31, 2025, LICH had no operations. LICH did not meet the definition of a business and therefore was accounted for as an asset acquisition of the shell company, a single indefinite-lived asset.

Intangible assets with indefinite lives (i.e., non-reporting shell) are not amortized; rather, they are tested for impairment annually or whenever events or circumstances exist that would make it more likely than not that an impairment exists.

l) Impairment of Long-Lived Assets

The Company evaluates all long-lived assets for impairment annually, or sooner if events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount is not fully recoverable, an impairment loss is recognized to reduce the carrying amount to fair value and is charged to expense in the period of impairment. As of March 31, 2025, and December 31, 2024, management has determined that these assets are not impaired.

m) Revenue Recognition

The Company recognizes revenue under ASC Topic 606, "*Revenue from Contracts with Customers*" ("ASC 606"). The Company determines revenue recognition through the following steps:

- Step 1: Identify the contract with the customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognize revenue when the company satisfies a performance obligation.

The Company records sales of its dermatological products to the pharmaceutical company when performance obligations with customers are satisfied. The Company's performance obligation is a promise to transfer a distinct good to the customer and each distinct good represents a single performance obligation. Such performance obligations are satisfied at a point in time and revenues are recognized when all rights and rewards of ownership are transferred. The majority of the Company's products are shipped by common carriers resulting in recognition of revenues upon shipment at which time control passes to the customer. Revenue is measured at the amount of consideration the Company expects to receive in exchange for the transferring of products. Customers may be entitled to cash discounts, typically denoted at the time of invoicing and shipping. Such amounts are considered to be variable consideration under ASC 606. An estimate for cash discounts is included in the transaction price as a component of sales and is estimated based on the satisfaction of outstanding receivables and historical performance. The Company does not have any material financing terms as payment is received shortly after the transfer of control of the products to the customer within a period of 30-60 days.

Net service fee payment and agent fees for sales of products made by Sun Pharma are recorded as service fee revenue in the period earned.

Pursuant to licensing and marketing contracts, the Company receives payments from its pharmaceutical company marketing partner for the right to distribute the products ("royalties"). Such royalty payments are linked to the net sales value of the products by its marketing partner to third parties and are recognized in the period to which the royalty relates. Such amounts are recorded under Revenue from operations in the Consolidated Statements of Operation and Comprehensive Loss.

The Company recognizes milestone payments under the license and marketing agreements when all performance obligations related to the identified performance obligations are completed.

n) Cost of products sold

The cost of products sold represents the cost of manufacturing the products supplied by third-party manufacturers.

o) Research and Development Expenses

Research and development costs are expensed as incurred. Research and development expenses consist of internal and external expenses. Internal expenses include employee compensation and overheads. External expenses include development, clinical trials, statistical analysis and report writing, and regulatory compliance costs incurred with clinical research organizations and other third-party vendors. At the end of the reporting period, the Company compares payments made to third-party service providers to the estimated progress toward completion of the research or development objectives. Such estimates are subject to change as additional information becomes available. Depending on the timing of payments to the service providers and the progress that the Company estimates have been made as a result of the service provided, the Company may record net prepaid or accrued expenses relating to these costs. Payments made to third parties that perform research and development services on the Company's behalf are expensed as services are rendered, or as contractually agreed.

p) Stock-based Compensation

The Company accounts for stock options granted to employees and non-employees at fair value, which is measured using the Black-Scholes Option pricing model. The fair value measurement date for employee awards is the date of the grant. The Company recognizes stock-based compensation expense over the requisite service period of the individual grant, generally equal to the vesting period and uses the straight-line method to recognize stock-based compensation.

The Company's policy is to account for forfeitures of awards when they occur in accordance with ASC 718, *Compensation-Stock Compensation*. The Company reverses compensation cost previously recognized, in the period the award is forfeited, for an award that is forfeited before completion of the requisite service period.

The Company utilizes the Black-Scholes option-pricing model, which incorporates assumptions and estimates to value options granted. Estimates and assumptions impacting the fair value measurement include the fair value per share of the underlying stock issuable upon exercise of the options, expected life of the options, risk-free interest rate, expected dividend yield, and expected volatility from peer public companies of the price of the underlying stock.

As the Company's common stock has not been publicly traded, its board of directors periodically estimated the fair value of the Company's common stock considering, among other things, contemporaneous valuations of its common stock prepared by an independent valuation firm in accordance with the guidance provided by the American Institute of Certified Public Accountants 2013 Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. The expected life of the stock options in years is estimated using the "simplified method," as prescribed in SEC's Staff Accounting Bulletin (SAB) No. 107, as the Company has no historical information from which to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior for its stock option grants. The simplified method is the midpoint between the vesting period and the contractual term of the option. For stock price volatility, the Company uses comparable public companies as a basis for its expected volatility to calculate the fair value of option grants. The risk-free rate is based on the U.S. Treasury yield curve commensurate with the expected life of the option. The expected dividend yield is zero as the Company has no history of paying dividends and no plans to do so in the near term.

q) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards in the consolidated financial statement. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in unaudited consolidated statements of operations in the period that includes the enactment date.

Valuation allowances are recognized to reduce deferred tax assets to the amount that will more likely than not be realized. In assessing the need for a valuation allowance, management considers all available evidence for each jurisdiction including past operating results, estimates of future taxable income and the feasibility of ongoing tax planning strategies. When the Company changes its determination as to the amount of deferred tax assets that can be realized, the valuation allowance is adjusted with a corresponding impact to income tax expense in the period in which such determination is made.

The Company also accounts for uncertain tax positions in accordance with ASC Topic 740, *Income Taxes*. This guidance prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken in the Company's income tax returns. As of March 31, 2025, and December 31, 2024, the Company had no uncertain tax positions that affected its financial position and its results of operations or its cash flows and will continue to evaluate for uncertain tax positions in the future. There are no interest costs or penalties provided for in the Company's consolidated financial statements for the three months ended March 31, 2025, and 2024. If at any time the Company should record interest and penalties in connection with income taxes, the interest, and the penalties will be expensed within the general and administrative expenses category in the accompanying Consolidated Statements of Operations and Comprehensive Loss.

r) Leases

ASC Topic 842, "*Leases*", establishes a right-of-use ("ROU") model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. Lessor accounting under the new standard is substantially unchanged. Additional qualitative and quantitative disclosures are also required.

The Company adopted the following practical expedients and accounting policies elections related to this standard:

- Short-term lease accounting policy election allowing lessees to not recognize ROU assets and liabilities for leases with a term of 12 months or less; option to not separate lease and non-lease components in the Company's lease contracts; and

- The package of practical expedients applied to all of its leases, including (i) not reassessing whether any expired or existing contracts are or contain leases, (ii) not reassessing the lease classification for any expired or existing leases, and (iii) not reassessing the capitalization of initial direct costs for any existing leases.

Disclosures related to the amount, timing and uncertainty of cash flows arising from leases are included in Note 12.

s) Notes Payable

The Company has elected to account for notes payable to a shareholder using the fair value option in accordance with the guidance contained in ASC 825-10-25. The fair value option provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments. See Note 8 for additional information. ASC 815-40-65-1(d) also allows a reporting entity to make a one-time irrevocable election to apply the fair value option in ASC 825-10 as of the date of adoption for any liability classified convertible securities that are within the scope of ASC 825-10. The impact of electing the fair value option would be reflected through a cumulative effect adjustment to the opening retained earnings balance as of the beginning of the first reporting period a reporting entity adopted ASU 2020-06.

t) Fair Value Measurements

The Company considers its cash and cash equivalents, accounts receivable, and accounts payable to meet the definition of financial instruments, and the carrying amounts of such instruments approximated their fair values due to the short maturities of these instruments. The Company records the convertible debt at fair value.

The Company measures fair value as required by the ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC Topic 820"). ASC Topic 820 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. ASC Topic 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, there exists a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

Level 3 - Unobservable inputs for the asset or liability are only used when there is little if any, market activity for the asset or liability at the measurement date.

The Company utilizes a Probability Weighted Expected Return Model ("PWERM") to value the convertible debt. The quantitative information with respect to valuation methodology and significant unobservable inputs used for the Company's convertible debt that is categorized within Level 3 of the fair value hierarchy included the discount rate and expected financing date. The other factors used in the calculation of fair value are contractual terms of the convertible note instruments.

The following table sets forth the financial liabilities, measured at fair value, by level within the fair value hierarchy as of March 31, 2025, and December 31, 2024

	March 31, 2025	December 31, 2024
Level 3		
Convertible debt	$ 3,836,537	$ 3,589,410

u) Basic and diluted net loss per common share

Net loss per share information is determined using the two-class method, which includes the weighted average number of shares of common stock outstanding during the period and other securities that participate in dividends (a "participating security"). The Company considered its Preferred Stock to be participating securities because the shares included rights to participate in dividends with the common stock.

Under the two-class method, basic net loss per share attributable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. The net loss attributable to common stockholders is calculated by adjusting the net loss of the Company for the accretion on the Preferred Stock. Net losses are not allocated to preferred stockholders as they do not have an obligation to share in the Company's net losses. In periods with net income attributable to common stockholders, the Company would allocate net income first to preferred stockholders based on dividend rights under the Company's certificate of incorporation and then to preferred and common stockholders based on ownership interests. Diluted net loss per share attributable to common stockholders is computed using the more dilutive of (1) the two-class method or (2) the if-converted method.

During the three months ended March 31, 2025, and 2024, diluted earnings per common share is the same as basic earnings per common share because, as the Company incurred a net loss during each period presented, the potentially dilutive securities from the assumed exercise of all outstanding stock options would have an anti-dilutive effect. The dilutive shares as of March 31, 2025 and 2024 not included in the loss per share calculation, include 15,303,417 shares of common stock issuable upon conversion of preferred stock and 1,455,750 shares potentially issuable under stock options.

v) Post Employment benefits

The Subsidiary in India has a defined benefit gratuity scheme for its employees in India. This gratuity scheme provides for lump sum payment in accordance with the provisions of the Payment of Gratuity Act, 1972 to vested employees at retirement or death while in employment or on termination of employment of an amount equivalent to 15 days basic salary payable for each completed year of service or part thereof in excess of three months subject to a limit of INR 2,000,000 (equivalent to approximately $ 24,000). Vesting occurs upon completion of 5 years of continuous service.

Accumulated Compensated absences, which are expected to be encashed within 12 months from end of the year, are treated as short-term employee benefits. The obligation towards the same is measured at the expected cost of accumulating compensated absences as the additional amount expected to be paid as a result of the unused entitlement at the end of the year. Actuarial gains or losses are recognized in the Consolidated Statement of Operations and Comprehensive Loss in the year in which they arise.

w) Recent accounting pronouncements

From time to time, new accounting pronouncements are issued by the FASB and are early adopted by the Company or adopted as of the specified effective date. There were no recent accounting pronouncements that impacted the Company or are expected to have a significant effect on its consolidated financial statements.

3. Other current assets

Other current assets consist of the following:

	March 31, 2025	December 31, 2024
Advances to suppliers	$ 4,505	$ 12,134
Other receivables	51,828	48,648
Others	16,927	25,651
Total	$ 73,260	**$ 86,433**

4. Property and equipment, net

Property and equipment, net consist of the following:

	March 31, 2025	December 31, 2024
Buildings and Improvement	$ 128,778	$ 128,778
Computer and office equipment	52,412	52,412
Furniture & fixtures	13,865	13,865
Laboratory equipment	411,840	411,840
Total	606,895	606,895
Accumulated depreciation	(551,238)	(547,716)
Net fixed assets	**$ 55,657**	**$ 59,179**

Depreciation expense is included in selling, general, and administrative expenses in the accompanying Consolidated Statements of Operations and Comprehensive Loss and was $3,523 and $4,548 for the three months ended March 31, 2025, and March 31, 2024, respectively.

5. Goods and service tax and other credits receivable

The Company's balance of goods and service tax and other credits receivable from government authorities as of March 31, 2025, and December 31, 2024, consist of the following:

	March 31, 2025	December 31, 2024
Tax deducted at source and tax collected at source receivable	$ 15,015	$ 3,283
Input goods and service tax credit	613,401	643,475
	$ 628,416	**$ 646,758**

6. Accounts payable and Accrued expenses

Accounts payable and accrued expenses as of March 31, 2025, and December 31, 2024 consist of the following:

	March 31, 2025	December 31, 2024
Accounts payable	$ 578,379	$ 501,921
Accrued expenses	460,396	463.686
	$ 1,038,775	**$ 965,607**

7. Salary and post-employment benefits payable

Salary and post-employment benefits payable as of March 31, 2025, and December 31, 2024, consist of the following:

	March 31, 2025	December 31, 2024
Salaries payable	$ 820,302	$ 777,578
Accrued leave encashment (note 12)	81,140	72,768
Accrued gratuity plan (note 12)	86,019	69,094
	$ 987,461	**$ 919,440**

In June 2024, an officer and a director of the Company agreed to forgo accrued salaries, and consulting fees payable of $1,115,232 in exchange for the issuance of stock options for the purchase of 643,030 shares of common stock (see Note 10). The Company accounted for this debt extinguishment as a capital contribution since the liability was with related parties. Accordingly, the difference between the liability extinguished of $1,115,232 and the fair value of the stock options issued ($379,950) of $ 735,282 is considered a capital contribution.

8. Convertible debt

Commencing in October 2020, the Company began raising money under a compulsorily convertible promissory note (the "Promissory Notes") pursuant to a Subscription Agreement (the "Subscription Agreement"). The Promissory Note was issued as part of a private placement (the "Offering") for the sale of up to $2,395,542 (which was subsequently expanded) of secured convertible promissory notes (collectively, the "Promissory Notes") for a period until three years of maturity. The Promissory Notes bear interest at a rate of eight percent (8%) per annum, on a non-compounding basis, and are due and payable on the earlier of (i) the date upon which the Promissory Notes are converted into equity securities of the Company, or (ii) at maturity in three (3) years ("Maturity Date"). Significant conversion terms of the Promissory Notes are as follows:

a) In the event that the Company issues and sells shares of its equity securities ("**Equity Securities**") to investors (the "**Investors**") prior to the Maturity Date in an equity financing with total proceeds to the Company of not less than $10,000,000 (excluding the conversion of the Promissory Notes or other convertible securities issued for capital raising purposes (*e.g.*, Simple Agreements for Future Equity) (a "**Qualified Financing**"), then the outstanding principal amount of this Note and any unpaid accrued interest shall automatically convert in whole without any further action by the Holder into Equity Securities sold in the Qualified Financing at a conversion price equal to the cash price per share paid for Equity Securities by the Investors in the Qualified Financing multiplied by 0.75 in some notes or 0.8 in some other notes; provided, that if such Qualified Financing is also a Deemed Liquidation Event (as defined in the Company's Certificate of Incorporation, as amended, restated, and otherwise in effect from time to time, the "**Certificate of Incorporation**"), shall govern with respect to the conversion of this Note. The issuance of Equity Securities pursuant to the conversion of this Note shall be upon and subject to the same terms and conditions applicable to Equity Securities sold in the Qualified Financing. Notwithstanding this paragraph, if the conversion price of the Notes as determined pursuant to this paragraph (the "**Conversion Price**") is less than the price per share at which Equity Securities are issued in the Qualified Financing, the Company may, solely at its option, elect to convert this note into shares of a newly created series of preferred stock having the identical rights, privileges, preferences and restrictions as Equity Securities issued in the Qualified Financing, and otherwise on the same terms and conditions, other than with respect to (if applicable): (i) the per share liquidation preference and the conversion price for purposes of price-based anti-dilution protection, which will equal the Conversion Price; and (ii) the per share dividend, which will be the same percentage of the Conversion Price as applied to determine the per share dividends of the Investors in the Qualified Financing relative to the purchase price paid by the Investors. For the avoidance of doubt, such newly created series of preferred stock described in the preceding sentence shall be pari passu with the Equity Securities issued in the Qualified Financing.

b) If the Company consummates a transaction that is a Deemed Liquidation Event (as defined in the Certificate of Incorporation) while this Note remains outstanding, then the outstanding principal amount of this Note and any unpaid accrued interest shall, immediately prior to the closing of such Deemed Liquidation Event, automatically convert in whole without any further action by the Holder into shares of a newly created series of preferred stock ("**New Senior Preferred Stock**") at a conversion price equal to the Original Issue Price (as defined in the Certificate of Incorporation) for the most senior series of preferred stock of the Company outstanding at such time (the "**New Senior Preferred Conversion Price**"). The New Senior Preferred Stock shall have the identical rights, privileges, preferences and restrictions as the most senior series of preferred stock of the Company outstanding at the time of such conversion, other than with respect to: (i) the per share liquidation preference, which shall be equal to two (2) times in some notes three (3) times in the other notes the New Senior Preferred Conversion Price; (ii) the conversion price for purposes of price-based anti-dilution protection, which will equal the New Senior Preferred Conversion Price; and (iii) the per share dividend, which will be the same percentage of the New Senior Preferred Conversion Price as applied to determine the per share dividends of the holders of the most senior series of preferred stock of the Company outstanding at such time relative to the Original Issue Price for such shares. For the avoidance of doubt, the New Senior Preferred Stock shall be senior to the most senior series of preferred stock of the Company outstanding at such time and shall be pari passu with all other securities into which compulsory convertible notes issued by the Company convert.

c) If this Note has not otherwise been converted pursuant to the above transactions, then, effective as of the Maturity Date, all outstanding principal and accrued and unpaid interest under this Note shall be automatically converted into New Senior Preferred Stock, at a conversion price equal to the New Senior Preferred Conversion Price.

In August 2024, two Convertible Notes with an aggregate principal plus accrued interest of $ 434,077 were converted in 111,616 shares of Series D preferred stock at $3.889 per share. No other Convertible Notes have been converted through March 31, 2025.

During 2023 and through March 2025, certain Notes that had reached their maturity date were extended by an additional year. In connection with such extension, the conversion rate was amended from 0.80 to 0.75 and liquidation preference was amended from three times to two times in clause (b). All other terms remained the same. The Company accounted for such extension as a modification of the debt instrument. In the period of April to September 2024, seven Notes have matured out of which two noteholders converted to Series D Preferred stock at maturity as per the terms of the Notes. The Company and other Noteholders are discussing extending the term with the board and shareholders' approval.

In July 2024, the Company began offering investors the opportunity to participate in a Securities Purchase Agreement providing investors the right to certain equity instruments and other equity rights, some of which are dependent upon the completion of the Merger. An aggregate of 18 investors agreed to participate in such financing through March 31, 2025, for an aggregate of approximately $7.3 million, of which $ 413,542 was received through March 31, 2025, in the form of bridge notes. The bridge notes have similar terms to the above convertible notes except that there is a one-year maturity. The remainder large part committed funds will be placed in an escrow account six to seven days before the Merger, pending completion of the Merger, however, these funds have not been received as of March 31, 2025.

The fair value amount of the convertible debt and accrued expense is summarized as follows:

	March 31, 2025	December 31, 2024
Current portion		
Conversion rate at 70%	$ 2,662,018	$ 487,206
Conversion rate at 75%	1,174,339	3,102,204
Total	**$ 3,836,357**	**$ 3,589,410**

Interest expense on the above debt instruments was $50,939 and $44,552 for the three months ended March 31, 2025, and 2024, respectively. The Company has elected to record the convertible note at fair value. Changes in the fair value of the Convertible Notes for the three months ended March 31, 2025, and 2024 are summarized as follows:

	Three months ended March 31, 2025	Three months ended March 31, 2024
Balance, beginning of the period	$ 3,589,410	$ 2,930.888
Additional notes issued	160,000	200,000
Interest accrued	50,939	44,552
Change in fair value	36,008	(81,949)
Total	**$ 3,836,357**	**$ 3,093,391**

The fair value of the convertible notes is classified within Level 3 of the fair value hierarchy, using the inputs below to calculate the fair value. The Company used a probability-weighted scenario analysis to determine the fair value of the convertible notes. The risk-free rate used in the analysis is based on the yield on a US Government zero-coupon bond, interpolated for the period that corresponds to the time to liquidity as at the valuation date.

	March 31, 2025	December 31, 2024
Adjusted Interest rate	4.23% to 4.35%	4.16% to 4.40%
Time to Financing Date	3-4 months	6-8 months

9. Common stock and Preferred Stock

Authorized Capital

The Company had been authorized to issue 20,000,000 shares of common stock, $0.001 par value per share, and 15,000,000 shares of preferred stock, $0.001 par value per share. In June 2024, the number of authorized shares of preferred stock increased to 16,000,000 shares.

Preferred stock

As of March 31, 2025, and December 31, 2024, the Company has issued the following preferred stock:

Series	Number of shares issued as of March 31, 2025 and December 31, 2024	Conversion Price	Aggregate Liquidation Preference as of March 31, 2025	Aggregate Liquidation Preference as of December 31, 2024
Series seed	1,078,560	$ 0.83	$ 1,350,656	$ 1,332,687
Series A	2,592,080	$ 1.22	4,734,564	4,671,576
Series B	965,200	$ 2.47	3,576,758	3,529,173
Series B-1	1,480,560	$ 2.47	5,486,536	5,413,544
Series C	4,432,880	$ 2.64	17,573,222	17,339,432
Series C-1	530,040	$ 2.64	2,101,232	2,073,278
Series D	4,224,097	$ 3.89	23,765,557	23,437,007
Total	15,303,417		**$ 58,588,524**	**$ 57,796,697**

The significant terms of the preferred stock, are as follows:

Preferred stock carries an 8% cumulative preference dividend, payable when declared by the Board of Directors. No dividend has been paid on any series of preferred stock as of March 31, 2025. As of March 31, 2025, and December 31, 2024, cumulative dividends in arrears for all classes' preferred shares were approximately $18,900,000 and $18,100,000, respectively.

Each share of preferred stock shall be convertible at the option of the holder, without the payment of additional consideration, into units of common stock at the conversion price as defined in the shareholders' agreement. The conversion price is subject to adjustment in the event of subsequent issuance of common stock at a lower price than the original conversion price. Each series preferred stock is mandatorily convertible into common stock at the conversion price as defined in the shareholders' agreement on the occurrence of an initial public offering (IPO).

In the event of voluntary or involuntary liquidation, dissolution, or winding up of the Company, all classes of preferred stockholders would be entitled to receive, in preference to common shareholders, an amount equal to the original issue price plus accrued and unpaid dividends. All series of preferred stock rank pari passu with each other in terms of liquidation preference except series B1 and C1. Part of the amount invested by series B1 and C1 preferred stock as mentioned in the shareholders' agreement ranks junior to other preferred stockholders, however, rank pari passu with each other. After the liquidation preference payments to all classes of preferred stockholders have been met, preferred shareholders have unlimited right to participate on a prorated basis with common shareholders.

Holders of the preferred stock shall be entitled to elect 5 members of the Board of Directors and also hold certain protective rights with respect to significant corporate transactions as defined. Each holder of common stock shall be entitled to one vote in respect of each share held.

10. Stock-Based Compensation

On December 14, 2018, the Company authorized an Employee Stock Option Plan 2018 ('ESOP plan') under which 1,719,720 shares of common stock were reserved/authorized by the Company for issuance to directors, consultants, and employees of the Company. The ESOP plan entitles directors, consultants, and employees of the Company to purchase common stock for each option of the Company at a stipulated price, subject to compliance with vesting conditions i.e. employees remaining in employment during the vesting period and director and consultants to continue rendering services during the vesting period. The options of directors and consultants vest as per the schedule prescribed in the grant letter. These can be exercised any time after the vesting period and during their tenure with the Company. However, the exercise period lapses ninety (90) days after the employee, director or consultant leaves the Company.

The Company recognized $ Nil and $ Nil of stock-based compensation expense (which is included in research and development expenses) in the Company's Consolidated Statements of Operations and Comprehensive loss for the three months ended March 31, 2025, and 2024, respectively.

The fair value of stock-based compensation transactions is measured using the Black-Scholes option pricing model. Measurement inputs include share price on the measurement date, the exercise price of the instrument, expected volatility (based on weighted average historic volatility for a duration equal to the weighted average life of the instruments, life based on the average of the vesting and contractual periods for employee awards as minimal prior exercises of options in which to establish historical exercise experience), and the risk-free interest rate (based on government bonds). Service and performance conditions attached to the transactions, if any, are not considered in determining fair value. The expected life of the stock options is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome. The Company is a private company and lacks company-specific historical and implied volatility information. Therefore, it estimates its expected stock volatility based on the historical data regarding the volatility of a publicly traded set of peer companies. The expected term of stock options granted to non-employees is between 5 and 7 years. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award.

Stock-based compensation expense attributable to equity awards granted to employees is measured at the grant date based on the fair value of the award. The expense is recognized on a straight-line basis over the requisite service period for awards that vest, which is generally the period from the grant date to the end of the vesting period. Stock-based awards provided to non-employees are measured and expensed as the services are provided and are remeasured at each reporting period until these stock options vest. There were no stock options granted in the first quarter of 2025. In June 2024, the Company granted options to purchase 643,040 shares of common stock in settlement of accrued compensation (see Note 7). There was no expense recorded for these stock option grants since these were issued in lieu of previously recognized compensation.

The Company has estimated the fair value of the 2024 stock option awards as of the date of grant by applying the Black-Scholes option-pricing model. In applying the Black-Scholes option pricing model, the Company used the following assumptions:

Risk- free interest rate	5.2%
Expected term	5 years
Expected volatility	76%
Expected dividends	0
Grant date fair value of common stock	$0.90

The summary of stock options activity for the three months ended March 31, 2025, and the year ended December 31, 2024, is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Time to Expiry
Outstanding as of December 31, 2023	812,720	$ 0.55	4.7 years
Granted during 2024 year	643,040	$ 0.90	9.7 years
Exercised during 2024 year	-		
Outstanding as of December 31, 2024	1,455,750	$ 0.71	6.7 years
Granted during three months ended March 31, 2025	-	-	-
Exercised during three months ended March 31, 2025	-		
Outstanding as of March 31, 2025	1,455,750	$ 0.71	6.4 years
Exercisable as of December 31, 2024	1,455,750	$ 0.71	6.7 years
Exercisable as of March 31, 2025	1,455,750	$ 0.71	6.7 years

The following outlines the outstanding and vested stock options by exercise price as of March 31, 2025 and December 31, 2024.

Exercise price	Number of options outstanding	Number of options vested
$0.48	700,720	700,720
$0.90	643,030	643,090
$1.00	112,000	112,000
Total	**1,455,750**	**1,455,750**

As of March 31, 2025, there is no future compensation cost to be recognized in the Consolidated Statements of Operations and Comprehensive Loss related to stock options granted through March 31, 2025. The intrinsic value of vested and outstanding stock options was approximately $429,000.

11. Income taxes

Both VTI and VTL generated a current taxable loss for the three months ended March 31, 2025, and 2024, and therefore the only current income taxes payable were certain minimum taxes. The effective tax rate for the years ended March 31, 2025, and 2024 was NIL and differs from the federal statutory income tax rate of 21% principally due to the full valuation allowance recognized against deferred income tax assets, and to a lesser extent due to different tax rates in the jurisdiction of VTL and certain non-deductible expenses for income tax purposes.

As at December 31, 2024, VTI has net operating loss carry-forwards of approximately $19,300,000 in the United States which shall expire as follows: $7.4 million has no expiry, $10.2 million expiry in 2039 and $1.7 million expiry in 2038. At December 31, 2024, VTL has approximately $4.8 million of net operating loss carryforwards.

Due to the change in ownership provisions of the Internal Revenue Code, the availability of the Company's net operating loss carryforwards may be subject to annual limitations against taxable income in future periods, which could substantially limit the eventual utilization of such carryforwards. The Company has not analyzed the historical or potential impact of its equity financings on beneficial ownership and therefore no determination has been made whether the net operating loss carryforward is subject to any Internal Revenue Code Section 382 limitation. To the extent there is a limitation, there would be a reduction in the deferred tax asset with an offsetting reduction in the valuation allowance.

12. Leases

The Company leases offices and laboratory space in India which were automatically extended for a two one-year periods ending December 2026 with monthly payments ranging from $2,500 to $2,900 per month. The Company has an intention to renew the leases through December 2026 as allowed under the lease agreement. In the U.S., the Company has month-to-month shared space arrangements, and therefore there is no requirement to record a right to use asset and related liability.

Operating leases are presented in the Company’s consolidated balance sheets as right-of-use assets, net, operating lease liabilities – current portion, and operating lease liabilities, net of current portion. The assets and liabilities from our leases are recognized at the lease commencement date based on the present value of remaining lease payments over the lease term using the Company’s incremental borrowing rates. Short-term leases, which have an initial term of 12 months or less, are not recorded on the balance sheet. As the Company’s operating leases do not provide implicit rates, the Company has utilized its incremental borrowing rate, determined based on the long-term borrowing costs of companies with similar credit profiles, to record its lease obligations. For operating leases, the Company recognizes the minimum rental expense on a straight-line basis based on the fixed components of a lease arrangement. The Company will amortize this expense over the term of the lease beginning with the lease commencement date.

If the Company renews the lease for the entire three-year period, as expected, the annual lease payments will be approximately $32,000, and $34,000 in the years ending December 31,, 2025 and 2026, respectively. The following table presents information about the amount and timing of liabilities arising from the Company's operating leases as of March 31, 2025, and 2024:

Lease payments – From April 2025 to December 2025	$	23,751
Lease payments – 2026		34,043
Total undiscounted operating lease payments		57,794
Less: Imputed interest		(3,737)
Present value of operating lease liabilities	$	54,057
Current portion of lease liability	$	29,190
Long-term portion of lease liability		24,867
Total lease liability	$	54,057

	As of March 31, 2025	As of December 31, 2024
Weighted average remaining lease term in years	2.7	3.0
Weighted average discount rate	8.0%	8.0%

The Right of Use Asset on March 31, 2025, of $52,475 will be amortized over the 2.7 year remaining under the lease term. The Right of Use Asset balance on December 31, 2024, was $59,387. Rent expenses were approximately $10,783 and $15,292 for the three months ended March 31, 2025, and 2024 respectively

13. Commitments and contingencies

CRO contract

In December 2018, the Company entered into an agreement with a Contract Research Organization ("CRO") for services to be rendered with respect to the phase 2B clinical trials for the VB-1953 product. During 2022, the Company and the CRO signed a definitive agreement to convert the liability of $1,680,210 into shares of 432,041 shares of Series D preferred shares (based upon the then estimated fair value of such shares), however, the shares were not issued. In June 2024, the Company increased its authorized shares of preferred stock and issued 432,041 shares of Series D preferred stock to settle this liability.

Employee Benefits – Gratuity

The Company has a defined benefit gratuity scheme for its employees in India. This gratuity scheme provides for lump sum payment in accordance with the provisions of the Payment of Gratuity Act, 1972 to vested employees at retirement or death while in employment or on termination of employment of an amount equivalent to 15 days basic salary payable for each completed year of service or part thereof in excess of three months subject to a limit of INR 1,000,000 (equivalent to approximately $12,000). Vesting occurs upon completion of 5 years of continuous service. A roll forward of the liability balance for the three months ended March 31, 2025, and 2024 are as follows:

	Three months ending March 31, 2025	Three months ending March 31, 2024
Obligation recognized in balance sheet:		
Beginning of the three months	$ 73,108	$ 90,859
Benefits paid	-	(234)
Expenses charged to profit or loss	12,911	(4,452)
Currency translation differences	-	(193)
End of the three months	$ 86,019	$ 85,979

Employee Benefits – Leave Encashment

Accumulated Compensated absences or paid leave encashment, which are expected to be encashed within 12 months from the end of the year and are treated as short-term employee benefits. The obligation towards the same is measured at the expected cost of accumulating compensated absences as the additional amount expected to be paid as a result of the unused entitlement at the end of the year. Actuarial gains or losses are recognized in the Consolidated Statement of Operations and Comprehensive Loss in the year in which they arise. A roll forward of the liability balance for the three months ended March 31, 2025, and 2024 are as follows:

	Three months ending March 31, 2025	Three months ending March 31, 2024
Obligation recognized in balance sheet:		
Beginning of the three months	$ 72,768	$ 84,647
Benefits paid	-	(450)
Expenses charged to profit or loss	8.327	5,681
Currency translation differences	-	(218)
End of the three months	$ 81,140	$ 89,661

Employee Benefits – Provident Fund

In accordance with Indian law, all employees in India are entitled to receive benefits under the ‘Provident Fund’, which is a defined contribution plan. Both the employee and the employer make monthly contributions to the plan at a predetermined rate (presently at 12%) of the employee’s basic salary. These contributions are made to the fund which is administered and managed by the Government of India. The Company’s monthly contributions to the above-mentioned plans are charged to consolidated statements of operations loss in the year they are incurred and there are no further obligations under the plan beyond those monthly contributions. The Company‘s contribution towards the Provident Fund during the three months ended March 31, 2025, and 2024 was approximately $395 and $406, respectively.

Litigation

From time to time, the Company is involved in various disputes, claims, liens and litigation matters arising out of the normal course of business which could result in a material adverse effect on the Company's combined financial position, results of operations or cash flows. Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. As of March 31, 2025, and December 31, 2024, the Company had no outstanding claims or litigation and had no liabilities recorded for loss contingencies.

14. Segments

The Company operates in two segments – the sale of products and licensing/service income in India ("Pharmaceutical Segment") and the development of biotechnology products ("Biotechnology Segment"), with substantially all of the resources of the Company focused on its biotechnology activities. The Company purchases substantially all of the products for the Pharmaceutical Segment from a third-party manufacturer. Other income items relate to corporate financing activities outside of these two segments. Reporting by segment is summarized as follows:

	For the three months ended March 31, 2025			For the three months ended March 31, 2024		
Amount in USD	Biotechnology	Pharmaceutical	Total	Biotechnology	Pharmaceutical	Total
Revenues	$ -	$ 198,582	$ 198,582	$ -	$ 76,979	$ 76,979
Gross margin	-	154,420	154,420	-	76,979	76,979
Operating expenses						
Depreciation and amortization	3,523	-	3,523	4,548	-	4,548
Selling, general and administrative	236,537	23,089	259,626	175,126	19,602	194,728
Research and development	75,436	14,831	90,268	29,883	12,837	42,720
Total Operating expenses	**315,496**	**37,920**	**353,416**	**209,557**	**32,439**	**241,996**
Other expenses						
Interest expense	(54,954)		(54,954)	45,642		(45,642)
Fair value adjustment	(36,008)		(36,008)	81,949		81,949
Other income (loss), net	(4,014)		(4,014)	(1,408)		1,408
Other expenses	**(94,976)**	-	**(94,976)**	**126,183**	-	**37,715**
Net income	**$ (410,472)**	**$ 116,500**	**$ (293,972)**	**$ (83,375)**	**$ 44,540**	**$ (127,302)**
Assets of segment	$ 1,293,784	$ 149,299	$ 1,443,083	$ 1,284,724	$ -	$ 1,284,724

The Company derives revenues from the sale of products, including royalties related to sales of such products and from the license of technology. Substantially all revenues for the three months ended March 31, 2025, and 2024 are derived from one customer, a significant pharmaceutical company based in India ("Major Customer"). Revenues for the three months ended March 31, 2025, and 2024 are summarized as follows:

	Three months ending March 31, 2025	Three months ending March 31, 2024
Service fee for arrangements for sale of Dandruff products	$ 193,616	$ 75,147
Sale of Dandruff Lotion and Shampoo Trading	12	-
Royalty income related to above product sales	4,954	1,832
Total	$ 198,582	$ 76,979

In December 2020, the Company entered into a licensing contract for a product to such a Major Customer, whereby the Company would be entitled to development and sales-based milestones and royalties on future sales of the product by the Major Customer. No development milestones, sales-based milestones or royalties have been received under this license during the three months ended March 31, 2025 or 2024.

During 2024, the Company amended its arrangement with the Major Customer such that the Company will no longer be responsible for purchasing and selling inventory of the Dandruff Lotion and Shampoo, but instead will receive a net service fee payment for sales of such products made by the Major Customer. These payments are recorded as service fee revenue in the period earned.

15. Due to affiliates

The Company incurred consultancy charges to certain members of the Board of Directors of the Company ("Directors") recognized as selling, general and administrative expenses in the consolidated statements of operations amounting to approximately $25,000 for each of the three months ended March 31, 2025 and 2024. The amount outstanding to such Directors as of March 31, 2025, and December 31, 2024 is approximately $125,000 and $100,000, respectively, which is included in the due to affiliates in the consolidated balance sheet.

The Company incurred compensation expenses to the Chief Executive Officer of the Company ("CEO") recognized as selling, general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Loss amounting to approximately $65,000 for the three months ended March 31, 2025, and $65,000 for 2024. The amount outstanding as of the end of March 31, 2025, and December 31, 2024, to the CEO is $329,601 and $282,777, respectively, which is included in Salary and Employment benefits Payable in the Consolidated Balance Sheets. See also Note 7 for the settlement of a portion of the salary payable.

Certain Directors have provided short-term advances to the Company from time to time, amounting to $15,557 as of March 31, 2025. This is included in due to affiliates in the accompanying Consolidated Balance Sheets and was yet to be repaid as of the date of these financial statements.

16. Subsequent events

For the consolidated financial statements as at and for the three months ended March 31, 2025, we have evaluated subsequent events through the date the consolidated financial statements were available to be issued and determined that there have been no events that have occurred that would require adjustments to our disclosures in the consolidated financial statements.

The Company entered into a note payable with Reshape for $400,000, of which payments under such note are expected to be received in several installments. The first installment of $200,000, net of $20,000 of Reshape legal bills, was received on April 15, 2025. The note bears interest at 8% per annum and matures on September 30, 2025. If the Merger Agreement is terminated due to the Company's failure to close on the Concurrent financing that is already committed then the promissory note will become senior in right of payment to all other debt of the Company and will become a secured obligation of the Company.

VYOME MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations is to allow investors to view the Company from management's perspective, considering items that would have a material impact on future operations. This discussion should be read in conjunction with our consolidated financial statements for the three months ended March 31, 2025 and 2024 and related notes thereto attached as Exhibit 99.1 to this Current Report on Form 8-K. This discussion contains forward-looking statements based upon current plans, expectations and beliefs that involve risks and uncertainties. Our actual results and the timing of certain events could differ materially from those anticipated in or implied by these forward-looking statements as a result of several factors, including those discussed in the sections captioned "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" included in the Registration Statement on Form S-4 filed by ReShape Lifesciences Inc. on October 1, 2024, as subsequently amended.

Overview

The Company is a Cambridge, MA/Princeton, NJ/ New Delhi, India-based clinical-stage specialty pharmaceutical company working to treat immune-inflammatory and rare diseases of unmet need with next-generation therapeutic solutions, with a business advantage of the US-India innovation corridor. The lead program, VT-1953, is a topical gel that is being developed to treat signs and symptoms of malignant fungating wounds, a potentially orphan drug designation program. The Company is planning to have discussions with the Food & Drug Administration (FDA) on a pivotal trial protocol in the fourth quarter of 2025. The Company also has a Pre-Investigational New Drug application stage ophthalmic drops program, a potentially orphan drug program, VT-1908, a repurposed immune modulator to treat steroid-sparing anterior uveitis. Another late clinical-stage program, VB1953, for moderate to severe acne, has successfully completed its Phase II clinical trial, and this program is Phase 3 ready.

The Company may experience delays in the conduct of clinical trials of its candidates. Clinical trials can be delayed for a variety of reasons, including delays in obtaining regulatory approval to commence a clinical trial, in securing clinical trial agreements with prospective sites with acceptable terms, in obtaining institutional review board approval to conduct a clinical trial at a prospective site, in recruiting patients to participate in a clinical trial or in obtaining sufficient supplies of clinical trial materials. Any delays in completing the Company's clinical trials will increase its costs, slow down its product development, timeliness and approval process and delay its ability to generate revenue.

The Company also has commercialized two novel reformulated topical anti-fungal products based on the technology platform of Molecular Replacement Therapeutics ("MRT") in India — a dandruff lotion and shampoo. The Company has entered into a licensing and marketing agreement with Sun Pharma Laboratories Limited ("Sun Pharma") to sell such topical anti-fungal products in India. The Company used third-party entities to manufacture the products. During 2023, the Company amended its arrangement with Sun Pharma such that the Company will no longer be responsible for purchasing and selling inventory of the products, but instead will receive a net service fee payment for sales of such products made by Sun Pharma. One of the agreements for the supply of dandruff products to Sun Pharma is terminated in December 2024. The Company has also entered into an agreement with Sun Pharma for the development and licensing of MRT technology-based Luliconazole topical cream for skin fungal diseases.

The Company operates in two segments, biotechnology and pharmaceutical. Our biotechnology segment comprises our operations around our VT-1953, VT-1908, and VB-1953 programs that are in development and our pharmaceutical segment comprises our antifungal products.

Since inception, our operations have focused on organizing and staffing our biotechnology segment, business planning, raising capital, acquiring and developing our technology, establishing our intellectual property portfolio, identifying potential product candidates, undertaking preclinical and clinical studies and manufacturing. We do not have any products approved for sale and have not generated any revenue from product sales from the biotechnology segment. Our pharmaceutical segment represents the operations of a legacy business, and after the 2023 amendment to our licensing agreement with Sun Pharma, requires little further effort on our part. From inception through March 31, 2025, we raised an aggregate of approximately $37.5 million of gross proceeds through the sale and issuance of our preferred stock and common stock, approximately $ 2.86 million from the sale of convertible notes.

Since inception, we have incurred significant operating losses. Our net loss was $293,972 and $127,302 for the three months ended March 31, 2025 and 2024, respectively. We had an accumulated deficit of $55,716,716 as of March 31, 2025. We expect to continue to incur significant and increasing expenses and operating losses for the foreseeable future, as we advance our current and future product candidates through preclinical and clinical development, manufacturing of our drug product and drug supply, regulatory approval for our current and future product candidates, maintenance and expansion of our intellectual property portfolio, hiring of additional research, development and business personnel and operations as a public company.

We will not generate revenue from product sales for our biotechnology segment unless and until we successfully complete clinical development and obtain regulatory approval for our product candidates. In addition, if we obtain regulatory approval for our product candidates and do not enter a third-party commercialization partnership, we expect to incur significant expenses related to developing our commercialization capability to support product sales, marketing, manufacturing, and distribution activities.

As a result, we will need substantial additional funding to support our continuing operations and pursue our growth strategy. Until we can generate significant revenue from product sales, if ever, we expect to finance our operations through a combination of public or private equity offerings and debt financings or other sources, such as potential collaboration agreements, strategic alliances and licensing arrangements. We may be unable to raise additional funds or enter into such other agreements or arrangements when needed on acceptable terms, or at all. Our failure to raise capital or enter into such agreements as, and when needed, could have a material adverse effect on our business, results of operations and financial condition.

The report of our independent registered public accounting firm on our consolidated financial statements as of and for the year ended December 31, 2024, included an explanatory paragraph indicating that there was substantial doubt about our ability to continue as a going concern. See Note 1 to our annual consolidated financial statements attached as Exhibit 99.2 to the Registration Statement on Form S-3 filed by ReShape Lifesciences Inc. on May 9, 2025 for additional information on our assessment.

As of March 31, 2025, we had a cash balance of $58,370 and have operated under an austerity plan for several years. We received the proceeds from the issuance of $160,000 in convertible notes during the three months ended March 31, 2025. We believe that our existing cash, funds we may raise through the issuance of additional convertible notes and with the anticipated net proceeds from the Concurrent Financing, described below, will enable us to fund our operating expenses and capital expenditure requirements for at least the next 12 months.

Recent Developments

Merger Agreement

On July 8, 2024, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with ReShape Lifesciences Inc., and Raider Lifesciences Inc., a direct, wholly-owned subsidiary of ReShape (ReShape"). Pursuant to the Merger Agreement, and subject to the satisfaction or waiver of the conditions specified therein, Merger Sub shall be merged with and into Vyome, with Vyome surviving as a subsidiary of ReShape (the "Merger").

Concurrent Financing

Simultaneously with the execution of the Merger Agreement, ReShape, Vyome, and Vyome's wholly- owned subsidiary Vyome Therapeutics Limited ("Vyome India") entered into agreements with certain accredited investors, pursuant to which the investors have agreed to purchase up to approximately $6.9 million in securities of ReShape, Vyome and Vyome India (the "Concurrent Financing"). As part of the Concurrent Financing, certain accredited investors have agreed to purchase up to $6.0 million in shares of common stock of the Combined Company immediately following completion of the Merger. The price per share for the common stock of the Combined Company will be calculated as a 30% discount to the price per share of the common stock for the agreed upon valuation of the combined company obtained by dividing (i) the sum of $130,000,000 and ReShape Net Cash by (ii) the sum of Total ReShape Outstanding Shares and Vyome Merger Shares. ReShape and the investors also entered into registration rights agreements which provides for certain registration rights to the investors, including the filing of a registration statement, that includes the shares of common stock purchased by the investors, within 45 days of the closing of the Merger. Simultaneously with the execution of the subscription agreements, Vyome entered into a securities purchase agreement with each investor pursuant to which Vyome issued to each investor a convertible promissory note in the principal amount equal to 5% or more of such investor's total agreed upon investment amount, which convertible notes will bear interest at 8% per annum and immediately prior to completion of the Merger will convert into a number of shares of common stock of the Combined Company equal to 100% of the outstanding principal and interest of the convertible notes divided by the price per share of common stock of the Combined Company to be purchased in the Concurrent Financing, as set forth above. Through March 31, 2025, the Company including Vyome India has received $630,000 approximately pursuant to such convertible notes. ReShape and the investors are executing and delivering the subscription agreements in reliance upon the exemption from securities registration afforded by Section 4(a)(2) of the Securities Act of 1933, as amended.

Expected Use of Proceeds

The Combined Company currently expects to use the approximately $ 5.2 million in cash immediately after the completion of the Merger for up nine months, and the use of proceeds as follows after deducting estimated transaction expenses of approximately $1.7 million:

- approximately $2.75 million for continued research and development towards regulatory work and pivotal trial of VT-1953 for the therapeutic indication of treating malodor in malignant fungating wounds;
- approximately $1.00 million for continued advancement of VT-1908 into IND filing and Phase1/2 trial; and
- The remainder is for general corporate purposes.

The specific allocation of the expected cash immediately after the completion of the Merger towards specific programs will depend on, among other things, results from the Combined Company's research and development efforts for each program, the timing and success of its preclinical and clinical studies and the timing and outcome of regulatory submissions. However, based on the Combined Company's current planned use of the cash immediately after the completion of the Merger and after deducting estimated transaction expenses, such funds are estimated to be sufficient to enable the Combined Company to fund its operating expenses and capital expenditure requirements through the initiation of pivotal trial for VT-1953 product candidate for nine months after Merger Closing (subject to submission of regulatory filing and authorization to proceed), as well as other potentially value-creating milestones for VT-1908 in 2025. This estimate is based on assumptions that may prove to be wrong, and the Combined Company could use its expected capital resources sooner than currently anticipated.

The Combined Company does not expect the proceeds from the completion of the Merger (including the Concurrent Financing) and Vyome's existing cash will be sufficient for it to advance any of its programs through regulatory approval, and the Combined Company will need to raise additional capital to complete the development and potential commercialization of any of its programs. The Combined Company may also use a portion of its cash to acquire, in-license or invest in products, technologies, or businesses that are complementary to its business. The amounts and timing of actual expenditures will depend on numerous factors, including the progress of preclinical development efforts, operating costs, and other factors described under "*Risk Factors*" included in the Registration Statement on Form S-4 filed by ReShape Lifesciences Inc. on October 1, 2024, as subsequently amended.

The expected use of proceeds represents current intentions based on present plans and business conditions. As of May 28, 2025, the Combined Company cannot predict with complete certainty all of the particular uses for the expected cash that will be available upon the closing of the Merger or the actual amounts that it will spend on the uses set forth above.

Components of Results of Operations

Although we operate in two segments, all of our revenue relates to the pharmaceutical segment, and substantially all of our costs relate to the biotechnology segment. See the "Segments" footnote in our Financial Statements.

Revenue

We recorded sales of pharmaceutical products until October 2023. During 2023, the Company amended its arrangement with Sun Pharma such that the Company will no longer be responsible for purchasing and selling inventory of the dandruff lotion and shampoo, but instead will receive a net service fee payment for sales of such products made by Sun Pharma. This arrangement was terminated in December 2024. We have a development and licensing agreement for MRT technology-based Luliconazole topical cream product for skin fungal diseases, from where we get revenues from milestone payments, royalties and the sale of a proprietary ingredient. These payments are recorded as service fee revenue in the period earned. We have occasionally received payments for milestones specified under the license of our products to Sun Pharma, but do not expect to receive any significant further milestone payments. We expect to continue to receive a minor amount of royalties under such licenses. Such revenues are part of our pharmaceutical segment.

Operating Expenses

Our operating expenses consist of (i) research and development expenses, and (ii) cost of goods sold and (iii) general and administrative expenses.

Research and Development Expenses

Research and development expenses consist primarily of costs incurred for our research and development activities, including our product candidate discovery efforts and preclinical and clinical studies under our research programs, which include:

- employee-related expenses, including salaries, benefits and stock-based compensation expense for our research and development personnel;
- costs of funding research performed by third parties that conduct research and development and preclinical and clinical activities on our behalf;
- costs of manufacturing drug product and drug supply related to our current or future product candidates;
- costs of conducting preclinical studies and clinical trials of our product candidates;
- consulting and professional fees related to research and development activities, including equity- based compensation to non-employees;
- costs of maintaining our laboratory, including purchasing laboratory supplies and non-capital equipment used in our preclinical studies;
- costs related to compliance with clinical regulatory requirements; and
- facility costs and other allocated expenses, which include expenses for rent and maintenance of facilities, insurance, depreciation and other supplies.

Research and development costs are expensed as incurred. Costs for certain activities are recognized based on an evaluation of the progress to completion of specific tasks using data such as information provided to us by our vendors and analyzing the progress of our preclinical and clinical studies or other services performed.

The successful development of our product candidates is highly uncertain. We cannot reasonably estimate or know the nature, timing, and estimated costs of the efforts that will be necessary to complete development of our current or future product candidates. We are also unable to predict when, if ever, material net cash inflows will commence from the sale of our product candidates, if they are approved. This is due to the numerous risks and uncertainties associated with developing product candidates, including the uncertainty of:

- the scope, rate of progress, and expenses of our ongoing research activities as well as any preclinical studies and clinical trials and other research and development activities;
- establishing an appropriate safety profile;
- successful enrollment in and completion of clinical trials;
- whether our product candidates show safety and efficacy in our clinical trials;

- receipt of marketing approvals from applicable regulatory authorities;
- establishing commercial manufacturing capabilities or making arrangements with third-party manufacturers;
- obtaining and maintaining patent and trade secret protection and regulatory exclusivity for our product candidates;
- commercializing product candidates, if and when approved, whether alone or in collaboration with others; and
- continued acceptable safety profile of the products following any regulatory approval.

A change in the outcome of any of these variables with respect to the development of our current and future product candidates would significantly change the costs and timing associated with the development of those product candidates.

Research and development activities are central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect research and development costs to increase significantly for the foreseeable future as we commence clinical trials and continue the development of our current and future product candidates. However, we do not believe that it is possible, at this time, to accurately project expenses through commercialization. There are numerous factors associated with the successful commercialization of any of our product candidates, including future trial design and various regulatory requirements, many of which cannot be determined with accuracy at this time based on our stage of development. Additionally, future commercial and regulatory factors beyond our control will impact our clinical development programs and plans.

Cost of Goods Sold

Cost of goods sold represents the costs to obtain products from the third-party manufacturer of our pharmaceutical products and proprietary ingredients sold to Sun Pharma.

General and Administrative Expenses

General and administrative expenses include salaries and other compensation-related costs, including stock-based compensation, for personnel in executive, finance and accounting, business development, operations and administrative roles. Other significant costs include insurance costs, professional fees, travel costs, facility and office-related costs, not included in research and development expenses.

We anticipate that our general and administrative expenses will increase in the future as our business expands to support expected growth in research and development activities, including our future clinical programs. These increases will likely include increased costs related to the hiring of additional personnel and fees to outside service providers, among other expenses. In addition, if we obtain regulatory approval for any of our product candidates and do not enter into a third-party commercialization collaboration, we expect to incur significant expenses related to building a sales and marketing team to support product sales, marketing and distribution activities.

We also anticipate increased expenses associated with being a public company upon consummation of the Merger, including costs for audit, legal, regulatory and tax-related services related to compliance with the rules and regulations of the SEC, and listing standards applicable to companies listed on a national securities exchange, director and officer insurance premiums, and investor relations costs.

Interest Expense

Interest expense results from the stated interest rates under our convertible notes. Borrowings under the notes carry an 8% coupon interest rate.

Fair value adjustment

We record our convertible notes at fair value. Changes in the fair value of the convertible notes are recognized as a component of other income.

Comparison of the three months ended March 31, 2025 and 2024

Results of Operations

The following table summarizes our results of operations for the periods presented:

For the three months ended March 31,

	2025	2024	Change
Revenues			
Revenue	$ 198,582	$ 76,979	$ 121,603
Cost of goods sold	(44,162)	-	(44,162)
Gross profit	154,420	76,979	77,441
Operating expenses:			
Research and development	90,268	42,720	47,548
Depreciation and amortization	3,523	4,548	(1,025)
General and administrative	259,626	194,728	64,898
Total operating expenses	353,416	241,996	114,420
Loss from operations	(198,996)	(165,017)	(169,690)
Other income (expense):			
Fair value adjustment	(36,008)	81,949	(117,957)
Other, net	(4.014)	408	(4,422)
Interest expense	(54,954)	(45,642)	(9,312)
Net loss	$ (293,972)	$ (127,302)	$ (166,670)

Revenue

The Company derives revenues from the sale of products, including royalties related to sales of such products, and from the license of our technology. Substantially all revenues for the three months ended March 31, 2025, and 2024 were derived from one customer, Sun Pharma, based in India. During 2023, the Company amended its arrangement with Sun Pharma such that the Company will no longer be responsible for purchasing and selling inventory of the dandruff lotion and shampoo, but instead will receive a net service fee payment for sales of such products made by Sun Pharma. Revenues for the three months ended March 31, 2025 and 2024 are summarized as follows:

	March 31, 2025	March 31, 2024
Ingredient sales under Luliconazole Agreement	$ 12	$ -
Service fee for arrangements for sale of dandruff products	193,616	75,147
Royalty income related to above product sales	4,954	1,832
Total	$ 198,582	$ 76,979

Research and Development Expenses

Research and development expenses were $90,268 and $42,270 for the three months ended March 31, 2025 and 2024, respectively. The increase of $47,548 was primarily due to:

- Our compound VB-1953 completed its Phase 2 clinical trial for inflammatory acne in 2020, and we have been focused since then on organizing our plans to commence the pivotal trial of the same compound for a different program, VT-1953, for treating malodor in malignant fungating wounds, once sufficient funding is secured.

- Our pre-clinical programs have proceeded more slowly than we expected due to a lack of available funding. However, during the quarter ended March 31, 2025, we had some minimal R&D work related to VT-1953 program.

General and Administrative Expenses

General and administrative expenses were $259,626 and $194,728 for the three months ended March 31, 2025 and 2024, respectively. The increase of $64,898 was primarily due to an increase in legal, accounting, auditing and related professional fees associated with preparing for the Merger and preparation of quarterly reports.

Interest expense

Interest expense was $54,954 and $45,642 for the three months ended March 31, 2025 and 2024, respectively. The increase was driven by additional convertible note borrowings by the Company.

Fair value adjustment

The fair value adjustment related to the fair value of the convertible notes was favorable/(unfavorable) $(36,008) and $81,949 for the three months ended March 31, 2025 and 2024, respectively. The decrease in 2025 the fair value was primarily due to changes in the assumptions used for the three months ended March 31, 2025, to calculate the fair value, including the likelihood and timing of a "qualified financing" which would trigger a conversion of the convertible notes, under their terms.

Cash Flows

The following table summarizes our cash flows for the three months ended March 31, 2025 and 2024 indicated:

For the years ended December 31,

Net cash provided by (used in):	2025	2024	Change
Operating activities	$ (203,533)	$ (135,590)	$ (67,943)
Investing activities	(1)	186	(187)
Financing activities	160,000	233,805	(73,805)
Other	-	(81)	81
Net (decrease) increase in cash	$ (43,534)	$ 98,320	$ (141,854)

Operating Activities

During the three months ended March 31, 2025, net cash used in operating activities was $203,533, consisting primarily of net losses of $293,972 less the non-cash charge for interest and the loss on the fair value adjustment of convertible note debt of $50,939 and $36,008, respectively, an increase in accrued compensation and post-employment benefits of $68,021, a decrease in other assets of $25,254, an increase in due from affiliates of $11,211 and a increase in accounts payable of $73,170.

During the three year ended March 31, 2024, net cash used in operating activities was $135,590, consisting primarily of net losses of $127,302 less the non-cash charge for interest expense of $44,452 and an increase in accrued compensation and post-employment benefits of $71,196, offset by the gain on fair value adjustment of convertible debt of $81,949.

During 2025 and 2024, we have primarily used the proceeds of the sale of our convertible notes to incrementally develop our biotechnology products and prepare the Company for an offering of its securities and activities related thereto. We have operated under an austerity program for several years, delaying projects and payments until sufficient funds could be raised. We also settled certain liabilities for accrued compensation and a vendor payment by issuing stock or stock options. We had approximately $58,370 of cash at March 31, 2025.

Financing Activities

During the three months ended March 31, 2025, cash provided by financing activities was $160,000 from the sale of convertible notes. During the three months ended March 31, 2024, cash provided by financing was $233,805, consisting primarily of approximately $200,000 from the sale of convertible notes and $33,800 of advances from affiliates.

Liquidity and Capital Resources

Sources of Liquidity/Going Concern

Since our inception, we have funded our operations through the sale and issuance of preferred and common stock and convertible notes. From inception through March 31, 2025, we raised an aggregate of approximately $37.5 million in gross proceeds from sales of our equity securities (the last of such offering occurred in December 2018), and approximately $2.86 million in gross proceeds from our convertible notes.

In October 2020, we offered for sale an 8%, interest bearing convertible promissory note to investors, which provide for a three-year term from the date of issuance, unless earlier converted. This has been our primary source of funding since 2020. We received $160,000 and $200,000 from the sale of our convertible notes during the three months ended March 31, 2025 and 2024, respectively. Through March 31, 2025, eight of our convertible notes, were extended by an additional year. In connection with such extension, the conversion rate was amended from 0.80 to 0.75 of the price paid by investors in a qualified offering, as defined in the convertible notes, and the liquidation preference, in the event the Company consummates a Deemed Liquidation Event, as defined in the Company's Certificate of Incorporation, was amended.

In July 2024, the Company began offering investors the opportunity to participate in a Securities Purchase Agreement (the "Concurrent Financing") providing investors the right to certain equity instruments and other equity rights, some of which are dependent upon the completion of the Merger. An aggregate of 18 investors agreed to participate in such financing through December 31, 2024, for an aggregate of approximately $7.5 million, of which approximately $630,000 was received through March 31, 2025, in the form of bridge notes. The bridge notes have similar terms to the above convertible notes, except that there is a one-year maturity. The remainder of the committed funds will be placed in an escrow account six to seven days before the Merger, pending completion of the Merger, however, these funds have not been received as of March 31, 2025.

We have converted certain liabilities to vendors, employees, and board members into equity instruments during 2024 — see further discussion below in the sections captioned "Accrued Compensation" and "CRO Contract."

The accompanying consolidated financial statements as of March 31, 2025 and 2024 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. Since our inception, we have not generated any revenue from our biotechnology products, and we have incurred significant operating losses. We have not yet commercialized any biotechnology products, and we do not expect to generate revenue from sales of any biotechnology product candidates for a number of years, if ever. As reflected in the accompanying consolidated financial statements, we have incurred recurring net losses since our inception. During the three months ended March 31, 2025, we incurred a net loss of $293,972 and used cash in operations of $203,533 and had a stockholders' deficit of $4,685,005 as of March 31, 2025. These factors raise substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to raise additional funds and implement our strategies, such as executing additional licensing contracts. The consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

The ability to continue as a going concern is dependent on the Company raising additional capital and attaining and maintaining profitable operations in the future to meet its obligations and repay liabilities arising from normal business operations when they come due. Since inception, we have funded our operations primarily through equity and debt financings and licensing income, and we expect to continue to rely on these sources of capital in the future.

No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to us. Even if we are able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing, or cause substantial dilution for our stockholders, in the case of equity financing, or grant unfavorable terms in licensing agreements.

Funding Requirements

We expect our expenses to increase in connection with our ongoing activities, particularly as we continue our research and development, initiate and conduct preclinical studies and clinical trials, and seek marketing approval for our current and any of our future product candidates. In addition, if we obtain marketing approval for any of our current or future product candidates, we expect to incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution, which costs we may seek to offset through entry into collaboration agreements with third parties. Furthermore, we expect to incur additional costs associated with operating as a public company, upon consummation of the Merger Agreement. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on acceptable terms, we would be forced to delay, reduce or eliminate our research and development programs or future commercialization efforts.

We believe that our existing cash, together with the anticipated net proceeds from the Concurrent Financing, will enable us to fund our operating expenses and capital expenditure requirements for at least 9 months. We have based this estimate on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Our future capital requirements will depend on a number of factors, including:

- the costs of conducting preclinical studies and clinical trials;
- the costs of manufacturing;
- the scope, progress, results and costs of discovery, preclinical development, laboratory testing, and clinical trials for product candidates we may develop, if any;
- the costs, timing, and outcome of regulatory review of our product candidates;
- our ability to establish and maintain collaborations on favorable terms, if at all;
- the achievement of milestones or occurrence of other developments that trigger payments under any license or collaboration agreements we might have at such time;

- the costs and timing of future commercialization activities, including product sales, marketing, manufacturing and distribution, for any of our product candidates for which we receive marketing approval;

- the amount of revenue, if any, received from commercial sales of our product candidates, should any of our product candidates receive marketing approval;

- the costs of preparing, filing and prosecuting patent applications, obtaining, maintaining and enforcing our intellectual property rights, and defending intellectual property-related claims;

- our headcount growth and associated costs as we expand our business operations and research and development activities; and

- the costs of operating as a public company.

We believe that the net proceeds of the Concurrent Financing, together with our existing cash, will be sufficient to initiate the pivotal trial of our lead candidate, VT-1953, but will not be sufficient to complete the trial and or work on the other indications or the development of any other product candidate. Accordingly, we will be required to obtain further funding to further achieve our business objectives.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through equity offerings and debt financings or other sources, such as potential collaboration agreements, strategic alliances and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the interests of our stakeholders may be diluted, and the terms of these securities may include liquidation or other preferences that could adversely affect the rights of our stockholders. Additional debt financing, if available, may involve agreements that include restrictive covenants that limit our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends, that could adversely impact our ability to conduct our business.

If we raise funds through potential collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates, or to grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Bridge Loan and Convertible Notes

Commencing in October 2020, the Company began raising money through the issuance of compulsorily convertible promissory notes in a private placement offering of up to $2,132,000, which was subsequently expanded to approximately $2.8 million and extended through March 31, 2025.

The convertible notes bear interest at a rate of eight percent (8%) per annum, on a non-compounding basis, and are due and payable on the earlier of (i) the date upon which the convertible notes are converted into equity securities of the Company, pursuant to the conversion terms of the convertible notes, set forth therein, or (ii) at maturity, which is three (3) years from the date of issuance. The terms of the convertible notes provide for automatic conversion of the outstanding principal and any unpaid accrued interest in the event that the Company issues and sells shares of its equity securities to investors prior, to the maturity date of the convertible notes, for total proceeds to the Company of not less than $10,000,000, at a conversion price equal to the cash price per share paid for the equity securities by the investors in such financing transaction multiplied by 0.75 in the case of some of the convertible notes or 0.8 in the case of other convertible notes.

Through March 31, 2025, certain of our convertible notes, were extended by an additional year. In connection with such extension, the conversion rate was amended from 0.80 to 0.75 of the price paid by investors in a qualified offering, as defined in the convertible notes, and the liquidation preference, in the event the Company consummates a Deemed Liquidation Event, as defined in the Company's Certificate of Incorporation, was amended. All other terms of the convertible terms remained the same. The Company accounted for such extension as a modification of the debt instrument, however there is no impact on the financial statements as a result of such modification.

In August 2024, two Convertible Notes with an aggregate principal plus accrued interest of $434,077 were converted in 111,616 shares of Series D preferred stock at $3.889 per share. No other Convertible Notes have been converted through December 31, 2024. As of December 31, 2024, several Convertible Notes have reached their maturity date, and the Company is negotiating further extensions with the noteholders.

In July 2024, the Company began offering investors the opportunity to participate in a Securities Purchase Agreement (the "Concurrent Financing") providing investors the right to certain equity instruments and other equity rights, some of which are dependent upon the completion of the Merger. An aggregate of 18 investors agreed to participate in such financing through December 31, 2024, for an aggregate of approximately $7.5 million, of which approximately $630,000 was received through March 31, 2025, in the form of bridge notes. The bridge notes have similar terms to the above convertible notes, except that there is a one-year maturity. The remainder of the committed funds will be placed in an escrow account six to seven days before the Merger, pending completion of the Merger, however, these funds have not been received as of March 31, 2025.

The fair value of the Company's convertible notes is summarized as follows:

Current portion	**As of March 31, 2025**	**As of December 31, 2024**
Conversion rate at 75%	$ 1,174,339	$ 3,102,204
Conversion rate at 70%	2,662,018	487,206
Total	**$ 3,836,357**	**$ 3,589,410**

Interest expense on the above debt instruments was $50,939 and $44,552 for the three months ended March 31, 2025 and 2024, respectively. The Company has elected to record the convertible note at fair value. Changes in the fair value of the Convertible Notes for the three months ended March 31, 2025 and 2024 are summarized as follows:

	Three months ended March 31, 2025	**Three months ended March 31, 2024**
Balance, beginning of the period	$ 3,589,410	$ 2,930,888
Additional notes issued	160,000	200,000
Notes and accrued interest converted to preferred stock	(434,076)	—
Interest accrued	50,939	44,552
Change in fair value	36,008	(81,949)
Total	**$ 3,836,357**	**$ 3,093,391**

The fair value of the convertible notes is classified within Level 3 of the fair value hierarchy, using the inputs below to calculate the fair value. The Company used a probability weighted scenario analysis to determine the fair value of the convertible notes. The risk-free rate used in the analysis is based on the yield on a US Government zero-coupon bond, interpolated for the period that corresponds to the time to liquidity as at the valuation date.

	March 31, 2025	**March 31, 2024**
Adjusted Interest rate	4.23% to 4.35%	4.16% to 4.40%
Time to Financing Date	3 – 4 months	6 – 8 months

Preferred stock

During the year ended December 31, 2024, the Company issued 432,041 shares of Series D preferred stock in connection with a CRO contract and 111,616 upon conversion of debt.

There were no preferred stock share transactions during the three months ended March 31, 2025. As of March 31, 2025, the Company has issued the following preferred stock:

	Number of shares		Aggregate Liquidation Preference
Series	March 31, 2025	Conversion Price	March 31, 2025
Series seed	1,078,560	$ 0.83	$ 1,350,656
Series A	2,592,080	$ 1.22	4,734,564
Series B	965,200	$ 2.47	3,576,758
Series B-1	1,480,560	$ 2.47	5,486,536
Series C	4,432,880	$ 2.64	17,573,222
Series C-1	530,040	$ 2.64	2,101,232
Series D	4,224,097	$ 3.89	23,765,557
Total	15,303,417		**$ 58,588,524**

The significant terms of the preferred stock, are as follows:

Preferred stock carries an 8% cumulative preference dividend, payable when declared by the Board of Directors. No dividend has been paid on any series of preferred stock as of March 31, 2025. As of March 31, 2025 and 2024, cumulative dividends in arrears for all classes' preferred shares were approximately $18,900,000 and $18,100,000, respectively.

Each share of preferred stock shall be convertible at the option of the holder, without the payment of additional consideration, into units of common stock at the conversion price as defined in the shareholders' agreement. The conversion price is subject to adjustment in the event of subsequent issuance of common stock at a lower price than the original conversion price. Each series preferred stock is mandatorily convertible into common stock at the conversion price as defined in the shareholders' agreement on the occurrence of an initial public offering (IPO).

In the event of voluntary or involuntary liquidation, dissolution, or winding up of the Company, all classes of preferred stockholders would be entitled to receive, in preference to common shareholders, an amount equal to the original issue price plus accrued and unpaid dividends. All series of preferred stock rank pari passu with each other in terms of liquidation preference except series B1 and C1. Part of the amount invested by series B1 and C1 preferred stock as mentioned in the shareholders' agreement ranks junior to other preferred stockholders, however, rank pari passu with each other. After the liquidation preference payments to all classes of preferred stockholders have been met, preferred shareholders have unlimited right to participate on a prorated basis with common shareholders.

Holders of the preferred stock shall be entitled to elect 5 members of the Board of Directors and also hold certain protective rights with respect to significant corporate transactions as defined. Each holder of common stock shall be entitled to one vote in respect of each share held.

Accrued compensation

Accrued compensation payable to the chief executive officer, a board member/consultant of the Company and another consultant was $1,115,232 as of December 31, 2023. In June 2024, these individuals to forgo accrued compensation of $1,115,232 as of December 31, 2023, in exchange for the issuance of stock options for the purchase of 643,030 shares of common stock. The Company accounted for this debt extinguishment as a capital contribution since the liability was with related parties.

Accordingly, the difference between the liability extinguished of $1,115,232 and the fair value of the stock options issued ($379,950 as determined using a Black Scholes model) of $735,282 is considered a capital contribution, collectively included in the condensed consolidated statement of stockholder's deficit as "Issuance of shares in settlement of accrued liability".

CRO contract

In December 2018 as amended in July 2021, the Company entered into an agreement with a Contract Research Organization ("CRO") for services to be rendered with respect to the phase 2B clinical trials for the Company's VB-1953 product. Also, pursuant to the July Agreement, the parties agreed that if the balance remained outstanding as of March 2021, then such balance could convert to Series D preferred stock of the Company at Series D preferred conversion price as of the July Agreement date. During 2022, the Company and the CRO agreed by signing a definitive agreement to convert the amount owed of $1,680,210 into 432,041 shares of Series D preferred stock (based upon the then estimated fair value of such shares). However, the shares were not issued. At that time, in order to issue the shares, the Company would have had to authorize additional shares of its Series D preferred stock in order to consummate the transaction, and accordingly, as of December 31, 2023, $1,680,210 was recorded as a liability to be settled in equity in the consolidated balance sheet. In June 2024, the Company increased its authorized shares of preferred stock and issued the 432,041 shares of Series D preferred stock to settle this liability.

Due to Affiliates

The amount outstanding to two of our board directors as of March 31, 2025 is $140,557, which is included in the "due to affiliates" in the consolidated balance sheet. There is no interest or scheduled repayment dates of such advances.

Contractual Obligations and Commitments

We enter into agreements in the normal course of business for sponsored research, preclinical studies, contract manufacturing, and other services and products for operating purposes, which are generally cancellable upon written notice.

Licenses, employment agreements or other commitments

The Company leases offices and laboratory space in India which were extended for a one-year period ending December 2024 with an automatic renewal for two years with monthly payments ranging from $2,500 to $2,900 per month. The Company has an intention to renew the leases for the two additional years allowed under the lease agreement.

We also have offices in Princeton NJ, and Cambridge MA, on short-term rentals.

We may enter into contracts in the normal course of business with clinical research organizations for clinical trials and clinical supply manufacturing and with vendors for preclinical research studies, research supplies and other services and products for operating purposes. These contracts generally provide for termination on notice, and therefore, we believe that our non-cancelable obligations under these agreements will not be material.

We also have employment agreements with certain employees and consulting agreements which require the funding of a specific level of payments, if certain events, such as a change in control, termination without cause or retirement, occur. We also have an agreement on Resignation and Separation Letter dated January 11, 2021 Craig Tooman, a past employee to pay certain amount on change of control.

Controls and Procedures

A company's internal control over financial reporting is a process designed by, or under the supervision of, that company's principal executive and principal financial officers, or persons performing similar functions, and effected by that company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with US GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may deteriorate.

We have concluded that there were material weaknesses in internal control over financial reporting. Historically, and as a private company, we had not maintained sufficient resources with various levels of accounting knowledge, experience, and expertise that are commensurate with our prospective financial reporting needs. These material weaknesses relate to the fact that we (1) do not maintain a comprehensive policies and procedures manual designed to establish internal controls over financial reporting to reduce the risk of publishing materially misstated financial statements (2) do not have well defined segregate incompatible duties to reduce the risk of unauthorized transactions, and (3) insufficient accounting expertise to calculate certain technical matters. Collectively, this could result in difficulties in meeting our internal reporting needs and our external reporting requirements and assessing the appropriate accounting treatment for various events and/or circumstances.

Although we have initiated various remediation efforts, we have concluded that the material weaknesses have not been fully remediated. Our remediation efforts to date have included the following:

We have assessed our current accounting personnel, financial reporting, and information system environments and capabilities. Based on our preliminary findings, we have found these resources and systems lacking and have concluded that these resources and systems will need to be supplemented and/or upgraded. We have hired a fractional Chief Financial Officer and, thereafter will implement additional accounting procedures and controls as resources permit.

We engaged external consultants with public company and technical accounting experience to facilitate accurate and timely accounting closes and to accurately prepare and review our financial statements and related footnote disclosures. We plan to retain these financial consultants until such a time that our internal resources have been upgraded and the required financial controls have been fully implemented.

The actions that have been taken are subject to continued review, implementation, and testing by management, as well as audit committee oversight. While we have implemented a variety of steps to remediate these weaknesses, we cannot assure you that we will be able to fully remediate them, which could impair our ability to accurately and timely meet our public company reporting requirements.

Notwithstanding the assessment that our internal controls over financial reporting are not effective and that material weaknesses exist, we believe that we have employed supplementary procedures to ensure that the consolidated financial statements contained in this filing fairly present our financial position, results of operations, and cash flows for the reporting periods covered herein in all material respects.

Critical Accounting Policies and Significant Judgments and Estimates

Convertible Promissory Notes

The Company evaluates its convertible instruments to determine if those contracts or embedded components of those contracts qualify as derivative financial instruments to be separately accounted for in accordance with *Topic 815* "*Derivatives and Hedging*" ("ASC 815") of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The accounting treatment of derivative financial instruments requires that the Company record any bifurcated embedded features at their fair values as of the inception date of the agreement and at fair value as of each subsequent balance sheet date. Any change in fair value is recorded in earnings each period as non-operating, non-cash income or expense. The Company reassesses the classification of its derivative instruments at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification. Bifurcated embedded features are recorded at their initial fair values which create additional debt discount to the host instrument.

We have elected to account for the convertible notes to a shareholder using the fair value option in accordance with the guidance contained in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 825-10-25. The fair value option provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments. See Note 4 for additional information.

Stock options

Our company accounted for the issuance of stock options in accordance with ASC 718, *Compensation-Stock Compensation*. We estimate the fair value of stock option awards granted using the Black-Scholes option-pricing model, which uses as inputs the fair value of our common stock and subjective assumptions we make, including expected stock price volatility, the expected term of the award, the risk-free interest rate, and expected dividends. Due to the lack of a public market for the trading of our common stock and a lack of company-specific historical and implied volatility data, we base the estimate of expected stock price volatility on the historical volatility of a representative group of publicly traded companies for which historical information is available. The historical volatility is generally calculated based on a period of time commensurate with the expected term assumption. We use the simplified method to calculate the expected term for options granted to employees and directors. We utilize this method as we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term. For options granted to non-employees, we utilize the contractual term. The risk-free interest rate is based on a U.S. treasury instrument whose term is consistent with the expected term of the stock options. The expected dividend yield is assumed to be zero, as we have never paid dividends and do not have current plans to pay any dividends on our common stock. We determine the fair value of common stock awards based on the fair value of our common stock on the date of grant.

Fair value measurements

FASB ASC Topic 820, "*Fair Value Measurements and Disclosures*" ("ASC 820"), defines fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements. Fair value is the price received to sell an asset or paid to transfer a liability in an orderly transaction between the buyer and the seller at the measurement date. In determining fair value, the valuation techniques consistent with the market approach, income approach and cost approach shall be used to measure fair value. ASC 820 establishes a fair value hierarchy for inputs, representing the assumptions the buyer and seller use in pricing the asset or liability. These inputs are further defined as observable and unobservable inputs. Observable inputs are those that the buyer and seller would use in pricing the asset or liability based on market data obtained from sources independent of our company. Unobservable inputs reflect our company's assumptions about the inputs the buyer and seller would use to price the asset or liability developed based on the best information available in the circumstances.

The note payable — related party is reported at fair value as the Company elected the fair value option for such note. The key determinants of the fair value of the notes payable is the expected date and type of transaction that would require conversion or repayment of the notes, and the discount rate/term used to compute the present value of such future payments.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 — Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that our company has the ability to access. Valuation adjustments and block discounts are not being applied. Since valuations are based on quoted prices that are readily and regularly available in an active market, the valuation of these securities does not entail a significant degree of judgment.

- Level 2 — Valuations based on (i) quoted prices in active markets for similar assets and liabilities, (ii) quoted prices in markets that are not active for identical or similar assets, (iii) inputs other than quoted prices for the assets or liabilities, or (iv) inputs that are derived principally from or corroborated by the market through correlation or other means.

- Level 3 — Valuations based on unobservable inputs and significant to the overall fair value measurement.

Determination of the Fair Value of Equity-Based Awards

As there has been no public market for our common stock, the estimated fair value of our common stock has been approved by our board of directors, with input from management, as of the date of each award grant, considering our most recently available sale of our common stock to independent investors and our board of directors' assessment of additional objective and subjective factors deemed relevant that may have changed from the date of the most recent determination through the date of the grant. The additional objective and subjective factors considered by our board of directors in determining the fair value of our common stock included the following:

- the prices of our common stock and preferred stock sold to outside investors in arm's length transactions, if any, and the rights, preferences and privileges of our preferred stock as compared to those of our common stock, including the liquidation preferences of our preferred stock;
- the progress of our research and development efforts, including the status of preclinical studies and planned clinical trials for our product candidates;
- the lack of liquidity of our equity as a private company;
- our stage of development and business strategy and the material risks related to our business and industry;
- the valuation of publicly traded companies in the biotechnology industry, as well as recently completed mergers and acquisitions of peer companies;
- any external market conditions affecting the biotechnology industry, and trends within the biotechnology industry;
- the likelihood of achieving a liquidity event, such as an IPO or a sale of our company in light of prevailing market conditions; and
- the analysis of IPOs and the market performance of similar companies in the biotechnology industry.

The assumptions underlying our board of directors' valuation determinations represented our board's best estimates, which involved inherent uncertainties and the application of our board's judgment. As a result, if factors or expected outcomes had changed or our board of directors had used significantly different assumptions or estimates, our equity-based compensation expense could have been materially different. Following the completion of this offering, our board of directors will determine the fair value of our common stock based on the quoted market prices of our common stock.

Inflation

Inflation generally affects us by increasing our cost of labor. We do not believe that inflation had a material effect on our business, financial condition or results of operations during the three months ended March 31, 2025 or 2024.

VYOME MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations is to allow investors to view the Company from management's perspective, considering items that would have a material impact on future operations. This discussion should be read in conjunction with our consolidated financial statements for the year ended December 31, 2024, and 2023 and related notes thereto attached as Exhibit 99.2 to the Registration Statement on Form S-3 filed by ReShape Lifesciences Inc. on May 9, 2025. This discussion contains forward-looking statements based upon current plans, expectations and beliefs that involve risks and uncertainties. Our actual results and the timing of certain events could differ materially from those anticipated in or implied by these forward-looking statements as a result of several factors, including those discussed in the sections captioned "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" included in the Registration Statement on Form S-4 filed by ReShape Lifesciences Inc. on October 1, 2024, as subsequently amended.

Overview

The Company is a Cambridge, MA/Princeton, NJ/ New Delhi, India-based clinical-stage specialty pharmaceutical company working to treat immune-inflammatory and rare diseases of unmet need with next- generation therapeutic solutions, with a business advantage of the US-India innovation corridor. The lead program, VT-1953, is a topical gel that is being developed to treat signs and symptoms of malignant fungating wounds, a potentially orphan drug designation program. The Company is planning to have discussions with the Food & Drug Administration (FDA) on a pivotal trial protocol in the fourth quarter of 2025. The Company also has a Pre-Investigational New Drug application stage ophthalmic drops program, a potentially orphan drug program, VT-1908, a repurposed immune modulator to treat steroid-sparing anterior uveitis. Another late clinical-stage program, VB1953, for moderate to severe acne, has successfully completed its Phase II clinical trial, and this program is Phase 3 ready.

The Company may experience delays in the conduct of clinical trials of its candidates. Clinical trials can be delayed for a variety of reasons, including delays in obtaining regulatory approval to commence a clinical trial, in securing clinical trial agreements with prospective sites with acceptable terms, in obtaining institutional review board approval to conduct a clinical trial at a prospective site, in recruiting patients to participate in a clinical trial or in obtaining sufficient supplies of clinical trial materials. Any delays in completing the Company's clinical trials will increase its costs, slow down its product development, timeliness and approval process and delay its ability to generate revenue.

The Company also has commercialized two novel reformulated topical anti-fungal products based on the technology platform of Molecular Replacement Therapeutics ("MRT") in India — a dandruff lotion and shampoo. The Company has entered into a licensing and marketing agreement with Sun Pharma Laboratories Limited ("Sun Pharma") to sell such topical anti-fungal products in India. The Company used third-party entities to manufacture the products. During 2023, the Company amended its arrangement with Sun Pharma such that the Company will no longer be responsible for purchasing and selling inventory of the products, but instead will receive a net service fee payment for sales of such products made by Sun Pharma. One of the agreements for the supply of dandruff products to Sun Pharma was terminated in December 2024. The Company has also entered into an agreement with Sun Pharma for the development and licensing of MRT technology-based Luliconazole topical cream for skin fungal diseases.

The Company operates in two segments, biotechnology and pharmaceutical. Our biotechnology segment comprises our operations around our VT-1953, VT-1908, and VB-1953 programs that are in development and our pharmaceutical segment comprises our antifungal products.

Since inception, our operations have focused on organizing and staffing our biotechnology segment, business planning, raising capital, acquiring and developing our technology, establishing our intellectual property portfolio, identifying potential product candidates, undertaking preclinical and clinical studies and manufacturing. We do not have any products approved for sale and have not generated any revenue from product sales from the biotechnology segment. Our pharmaceutical segment represents the operations of a legacy business, and after the 2023 amendment to our licensing agreement with Sun Pharma, requires little further effort on our part. From inception through December 31, 2024, we raised an aggregate of approximately $37.5 million of gross proceeds through the sale and issuance of our preferred stock and common stock, approximately $2.7 million from the sale of convertible notes.

Since inception, we have incurred significant operating losses. Our net loss was $1,447,461 and $799,858 for the years ended December 31, 2024 and 2023, respectively. We had an accumulated deficit of $55,422,744 as of December 31, 2024. We expect to continue to incur significant and increasing expenses and operating losses for the foreseeable future, as we advance our current and future product candidates through preclinical and clinical development, manufacturing of our drug product and drug supply, regulatory approval for our current and future product candidates, maintenance and expansion of our intellectual property portfolio, hiring of additional research, development and business personnel and operations as a public company.

We will not generate revenue from product sales for our biotechnology segment unless and until we successfully complete clinical development and obtain regulatory approval for our product candidates. In addition, if we obtain regulatory approval for our product candidates and do not enter a third-party commercialization partnership, we expect to incur significant expenses related to developing our commercialization capability to support product sales, marketing, manufacturing, and distribution activities.

As a result, we will need substantial additional funding to support our continuing operations and pursue our growth strategy. Until we can generate significant revenue from product sales, if ever, we expect to finance our operations through a combination of public or private equity offerings and debt financings or other sources, such as potential collaboration agreements, strategic alliances and licensing arrangements.

We may be unable to raise additional funds or enter into such other agreements or arrangements when needed on acceptable terms, or at all. Our failure to raise capital or enter into such agreements as, and when needed, could have a material adverse effect on our business, results of operations and financial condition.

The report of our independent registered public accounting firm on our consolidated financial statements as of and for the year ended December 31, 2024, included an explanatory paragraph indicating that there was substantial doubt about our ability to continue as a going concern. See Note 1 to our annual consolidated financial statements attached as Exhibit 99.2 to the Registration Statement on Form S-3 filed by ReShape Lifesciences Inc. on May 9, 2025 for additional information on our assessment.

As of December 31, 2024, we had a cash balance of $101,904 and have operated under an austerity plan for several years. We received the proceeds from the issuance of approximately $667,000 in convertible notes during 2024. We believe that our existing cash, funds we may raise through the issuance of additional convertible notes and with the anticipated net proceeds from the Concurrent Financing, described below, will enable us to fund our operating expenses and capital expenditure requirements for at least the next
9 months.

Recent Developments

Merger Agreement

On July 8, 2024, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with ReShape Lifesciences Inc., and Raider Lifesciences Inc., a direct, wholly-owned subsidiary of ReShape (ReShape"). Pursuant to the Merger Agreement, and subject to the satisfaction or waiver of the conditions specified therein, Merger Sub shall be merged with and into Vyome, with Vyome surviving as a subsidiary of ReShape (the "Merger").

Concurrent Financing

Simultaneously with the execution of the Merger Agreement, ReShape, Vyome, and Vyome's wholly- owned subsidiary Vyome Therapeutics Limited ("Vyome India") entered into agreements with certain accredited investors, pursuant to which the investors have agreed to purchase up to approximately $6.9 million in securities of ReShape, Vyome and Vyome India (the "Concurrent Financing"). As part of the Concurrent Financing, certain accredited investors have agreed to purchase up to $6.0 million in shares of common stock of the Combined Company immediately following completion of the Merger. The price per share for the common stock of the Combined Company will be calculated as a 30% discount to the price per share of the common stock for the agreed upon valuation of the combined company obtained by dividing (i) the sum of $130,000,000 and ReShape Net Cash by (ii) the sum of Total ReShape Outstanding Shares and Vyome Merger Shares. ReShape and the investors also entered into registration rights agreements which provides for certain registration rights to the investors, including the filing of a registration statement, that includes the shares of common stock purchased by the investors, within 45 days of the closing of the Merger.

Simultaneously with the execution of the subscription agreements, Vyome entered into a securities purchase agreement with each investor pursuant to which Vyome issued to each investor a convertible promissory note in the principal amount equal to 5% or more of such investor's total agreed upon investment amount, which convertible notes will bear interest at 8% per annum and immediately prior to completion of the Merger will convert into a number of shares of common stock of the Combined Company equal to 100% of the outstanding principal and interest of the convertible notes divided by the price per share of common stock of the Combined Company to be purchased in the Concurrent Financing, as set forth above. Through December 31, 2024, the Company including Vyome India has received approximately $470,000 pursuant to such convertible notes. ReShape and the investors are executing and delivering the subscription agreements in reliance upon the exemption from securities registration afforded by Section 4(a)(2) of the Securities Act
of 1933, as amended.

Expected Use of Proceeds

The Combined Company currently expects to use the approximately $ 5.2 million in cash immediately after the completion of the Merger for up nine months, and the use of proceeds as follows after deducting estimated transaction expenses of approximately $1.7 million:

- approximately $2.75 million for continued research and development towards regulatory work and pivotal trial of VT-1953 for the therapeutic indication of treating malodor in malignant fungating wounds;

- approximately $1.0 million for continued advancement of VT-1908 into IND filing and Phase1/2 trial; and

- The remainder is for general corporate purposes.

The specific allocation of the expected cash immediately after the completion of the Merger towards specific programs will depend on, among other things, results from the Combined Company's research and development efforts for each program, the timing and success of its preclinical and clinical studies and the timing and outcome of regulatory submissions. However, based on the Combined Company's current planned use of the cash immediately after the completion of the Merger and after deducting estimated transaction expenses, such funds are estimated to be sufficient to enable the Combined Company to fund its operating expenses and capital expenditure requirements through the initiation of pivotal trial for VT-1953 product candidate for nine months after Merger Closing (subject to submission of regulatory filing and authorization to proceed), as well as other potentially value-creating milestones for VT-1908 in 2025. This estimate is based on assumptions that may prove to be wrong, and the Combined Company could use its expected capital resources sooner than currently anticipated.

The Combined Company does not expect the proceeds from the completion of the Merger (including the Concurrent Financing) and Vyome's existing cash will be sufficient for it to advance any of its programs through regulatory approval, and the Combined Company will need to raise additional capital to complete the development and potential commercialization of any of its programs. The Combined Company may also use a portion of its cash to acquire, in-license or invest in products, technologies, or businesses that are complementary to its business. The amounts and timing of actual expenditures will depend on numerous factors, including the progress of preclinical development efforts, operating costs, and other factors described under "*Risk Factors*" included in the Registration Statement on Form S-4 filed by ReShape Lifesciences Inc. on October 1, 2024, as subsequently amended.

The expected use of proceeds represents current intentions based on present plans and business conditions. As of May 28, 2025, the Combined Company cannot predict with complete certainty all of the particular uses for the expected cash that will be available upon the closing of the Merger or the actual amounts that it will spend on the uses set forth above.

Components of Results of Operations

Although we operate in two segments, all of our revenue relates to the pharmaceutical segment, and substantially all of our costs relate to the biotechnology segment. See the "Segments" footnote in our Financial Statements.

Revenue

We recorded sales of pharmaceutical products until October 2023. During 2023, the Company amended its arrangement with Sun Pharma such that the Company will no longer be responsible for purchasing and selling inventory of the dandruff lotion and shampoo, but instead will receive a net service fee payment for sales of such products made by Sun Pharma. This arrangement was terminated in December 2024. We have a development and licensing agreement for MRT technology-based Luliconazole topical cream product for skin fungal diseases, from where we get revenues from milestone payments, royalties and the sale of a proprietary ingredient. These payments are recorded as service fee revenue in the period earned. We have occasionally received payments for milestones specified under the license of our products to Sun Pharma, but do not expect to receive any significant further milestone payments. We expect to continue to receive a minor amount of royalties under such licenses. Such revenues are part of our pharmaceutical segment.

Operating Expenses

Our operating expenses consist of (i) research and development expenses, and (ii) cost of goods sold and (iii) general and administrative expenses.

Research and Development Expenses

Research and development expenses consist primarily of costs incurred for our research and development activities, including our product candidate discovery efforts and preclinical and clinical studies under our research programs, which include:

- employee-related expenses, including salaries, benefits and stock-based compensation expense for our research and development personnel;
- costs of funding research performed by third parties that conduct research and development and preclinical and clinical activities on our behalf;
- costs of manufacturing drug product and drug supply related to our current or future product candidates;
- costs of conducting preclinical studies and clinical trials of our product candidates;
- consulting and professional fees related to research and development activities, including equity- based compensation to non-employees;
- costs of maintaining our laboratory, including purchasing laboratory supplies and non-capital equipment used in our preclinical studies;
- costs related to compliance with clinical regulatory requirements; and
- facility costs and other allocated expenses, which include expenses for rent and maintenance of facilities, insurance, depreciation and other supplies.

Research and development costs are expensed as incurred. Costs for certain activities are recognized based on an evaluation of the progress to completion of specific tasks using data such as information provided to us by our vendors and analyzing the progress of our preclinical and clinical studies or other services performed.

The successful development of our product candidates is highly uncertain. We cannot reasonably estimate or know the nature, timing, and estimated costs of the efforts that will be necessary to complete development of our current or future product candidates. We are also unable to predict when, if ever, material net cash inflows will commence from the sale of our product candidates, if they are approved. This is due to the numerous risks and uncertainties associated with developing product candidates, including the uncertainty of:

- the scope, rate of progress, and expenses of our ongoing research activities as well as any preclinical studies and clinical trials and other research and development activities;
- establishing an appropriate safety profile;

- successful enrollment in and completion of clinical trials;
- whether our product candidates show safety and efficacy in our clinical trials;
- receipt of marketing approvals from applicable regulatory authorities;
- establishing commercial manufacturing capabilities or making arrangements with third-party manufacturers;
- obtaining and maintaining patent and trade secret protection and regulatory exclusivity for our product candidates;
- commercializing product candidates, if and when approved, whether alone or in collaboration with others; and
- continued acceptable safety profile of the products following any regulatory approval.

A change in the outcome of any of these variables with respect to the development of our current and future product candidates would significantly change the costs and timing associated with the development of those product candidates.

Research and development activities are central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect research and development costs to increase significantly for the foreseeable future as we commence clinical trials and continue the development of our current and future product candidates. However, we do not believe that it is possible, at this time, to accurately project expenses through commercialization. There are numerous factors associated with the successful commercialization of any of our product candidates, including future trial design and various regulatory requirements, many of which cannot be determined with accuracy at this time based on our stage of development. Additionally, future commercial and regulatory factors beyond our control will impact our clinical development programs and plans.

Cost of Goods Sold

Cost of goods sold represents the costs to obtain products from the third-party manufacturer of our pharmaceutical products and proprietary ingredients sold to Sun Pharma.

General and Administrative Expenses

General and administrative expenses include salaries and other compensation-related costs, including stock-based compensation, for personnel in executive, finance and accounting, business development, operations and administrative roles. Other significant costs include insurance costs, professional fees, travel costs, facility and office-related costs, not included in research and development expenses.

We anticipate that our general and administrative expenses will increase in the future as our business expands to support expected growth in research and development activities, including our future clinical programs. These increases will likely include increased costs related to the hiring of additional personnel and fees to outside service providers, among other expenses. In addition, if we obtain regulatory approval for any of our product candidates and do not enter into a third-party commercialization collaboration, we expect to incur significant expenses related to building a sales and marketing team to support product sales, marketing and distribution activities.

We also anticipate increased expenses associated with being a public company upon consummation of the Merger, including costs for audit, legal, regulatory and tax-related services related to compliance with the rules and regulations of the SEC, and listing standards applicable to companies listed on a national securities exchange, director and officer insurance premiums, and investor relations costs.

Interest Expense

Interest expense results from the stated interest rates under our convertible notes. Borrowings under the notes carry an 8% coupon interest rate.

Fair value adjustment

We record our convertible notes at fair value. Changes in the fair value of the convertible notes are recognized as a component of other income.

Comparison of the Years Ended December 31, 2024 and 2023

Results of Operations

The following table summarizes our results of operations for the years presented:

	For the years ended December 31,		
	2024	**2023**	**Change**
Revenues			
Revenue	$ 256,944	$ 415,940	$ (158,996)
Cost of goods sold	(61,974)	(146,617)	84,643
Gross profit	194,970	269,323	(74,353)
Operating expenses:			
Research and development	285,390	316,784	(31,394)
Depreciation and amortization	17,347	21,193	(3,846)
General and administrative	898,573	767,996	130,577
Total operating expenses	1,201,310	1,105,973	95,337
Loss from operations	(1,006,340)	(836,650)	(169,690)
Other income (expense):			
Interest expense	(206,004)	(175,712)	(30,292)
Other, net	3,814	(1,566)	5,370
Fair value adjustment	(238,931)	214,060	(452,991)
Net loss	$ (1,447,461)	$ (799,858)	$ 647,603

Revenue

The Company derives revenues from the sale of products, including royalties related to sales of such products, and from the license of our technology. Substantially all revenues for the years ended December 31, 2023, and 2022 were derived from one customer, Sun Pharma, based in India. During 2023, the Company amended its arrangement with Sun Pharma such that the Company will no longer be responsible for purchasing and selling inventory of the dandruff lotion and shampoo, but instead will receive a net service fee payment for sales of such products made by Sun Pharma. One of the agreements for the supply of dandruff products to Sun Pharma was terminated in December 2024. The Company has also entered into an agreement with Sun Pharma for the development and licensing of MRT technology-based Luliconazole topical cream for skin fungal diseases. Revenues for the years ended December 31, 2024, and 2023 are summarized as follows:

	December 31, 2024	**December 31, 2023**
Sale of dandruff lotion and shampoo	$ —	$ 221,351
Licensing and milestone fees under Luliconazole Agreement	—	121,100
Ingredient sales under Luliconazole Agreement	134,325	—
Service fee for arrangements for sale of dandruff products	75,217	67,762
Royalty income related to above product sales	47,402	5,727
Total	$ 256,944	$ 415,940

Research and Development Expenses

Research and development expenses were $285,390 and $316,784 for the years ended December 31, 2024, and 2023, respectively. The decrease of $31,394 was primarily due to:

- Our compound VB-1953 completed its Phase 2 clinical trial for inflammatory acne in 2020, and we have been focused since then on organizing our plans to commence the pivotal trial of the same compound for a different program, VT-1953, for treating malodor in malignant fungating wounds, once sufficient funding is secured.

- Our pre-clinical programs have proceeded more slowly than we expected due to a lack of available funding.

General and Administrative Expenses

General and administrative expenses were $898,573 and $767,996 for the years ended December 31, 2024, and 2023, respectively. The increase of $130,577 was primarily due to an increase in legal, accounting, auditing and related professional fees associated with preparing for the Merger.

Interest expense

Interest expense was $206,004 and $175,712 for the years ended December 31, 2024, and 2023, respectively. The increase was driven by additional convertible note borrowings by the Company.

Fair value adjustment

The fair value adjustment related to the fair value of the convertible notes was favorable/(unfavorable) $(238,931) and $214,060 for the years ended December 31, 2024, and 2023, respectively. The decrease in 2024 the fair value was primarily due to changes in the assumptions used for the year ended December 31, 2024, to calculate the fair value, including the likelihood and timing of a "qualified financing" which would trigger a conversion of the convertible notes, under their terms.

Cash Flows

The following table summarizes our cash flows for the years indicated:

	For the years ended December 31,		
	2024	**2023**	**Change**
Net cash provided by (used in): Operating activities	$ (614,136)	$ (566,398)	$ (47,738)
Investing activities	315	486	171
Financing activities	697,951	124,783	573,168
Other	1,127	(468)	1,595
Net (decrease) increase in cash	$ 85,257	$ (441,597)	$ 526,854

Operating Activities

During the year ended December 31, 2024, net cash used in operating activities was $614,316, consisting primarily of net losses of $1,447,461 less the non-cash charge for interest and the loss on the fair value adjustment of convertible note debt of $186,659 and $238,931, respectively, an increase in accrued compensation and post-employment benefits of $197,935, a decrease in other assets of $78,742, an increase in due from affiliates of $95,972 and a decrease in accounts payable of $58,861.

During the year ended December 31, 2023, net cash used in operating activities was $563,398, consisting primarily of net losses of $799,858 less the non-cash charge for interest expense of $162,741 and an increase in accrued compensation and post-employment benefits of $215,315, offset by the gain on fair value adjustment of convertible debt of $214,060.

During 2024 and 2023, we have primarily used the proceeds of the sale of our convertible notes to incrementally develop our biotechnology products and prepare the Company for an offering of its securities and activities related thereto. We have operated under an austerity program for several years, delaying projects and payments until sufficient funds could be raised. We also settled certain liabilities for accrued compensation and a vendor payment by issuing stock or stock options. We had approximately $101,904 of cash at December 31, 2024.

Financing Activities

During the year ended December 31, 2024, cash provided by financing activities was $697,951, consisting primarily of net proceeds of $667,000 from the sale of convertible notes. During the year ended December 31, 2023, cash provided by financing was $124,783, consisting primarily of $150,002 from the sale of convertible notes.

Liquidity and Capital Resources

Sources of Liquidity/Going Concern

Since our inception, we have funded our operations through the sale and issuance of preferred and common stock and convertible notes. From inception through December 31, 2024, we raised an aggregate of approximately $37.5 million in gross proceeds from sales of our equity securities (the last of such offering occurred in December 2018), and approximately $2.7 million in gross proceeds from our convertible notes.

In October 2020, we offered for sale an 8%, interest bearing convertible promissory note to investors, which provide for a three-year term from the date of issuance, unless earlier converted. This has been our primary source of funding since 2020. We received $667,000 and $150,000 from the sale of our convertible notes during the years ended December 31, 2024, and 2023, respectively. During 2023 and 2024, eight of our convertible notes, were extended by an additional year. In connection with such extension, the conversion rate was amended from 0.80 to 0.75 of the price paid by investors in a qualified offering, as defined in the convertible notes, and the liquidation preference, in the event the Company consummates a Deemed Liquidation Event, as defined in the Company's Certificate of Incorporation, was amended.

In July 2024, the Company began offering investors the opportunity to participate in a Securities Purchase Agreement (the "Concurrent Financing") providing investors the right to certain equity instruments and other equity rights, some of which are dependent upon the completion of the Merger. An aggregate of 18 investors agreed to participate in such financing through December 31, 2024, for an aggregate of approximately $7.5 million, of which approximately $470,000 was received through December 31, 2024, in the form of bridge notes. The bridge notes have similar terms to the above convertible notes, except that there is a one-year maturity. The remainder of the committed funds will be placed in an escrow account six to seven days before the Merger, pending completion of the Merger, however, these funds have not been received as of December 31, 2024.

We have converted certain liabilities to vendors, employees, and board members into equity instruments during 2024 — see further discussion below in the sections captioned "Accrued Compensation" and "CRO Contract."

The accompanying consolidated financial statements as of December 31, 2024, and 2023 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. Since our inception, we have not generated any revenue from our biotechnology products, and we have incurred significant operating losses. We have not yet commercialized any biotechnology products, and we do not expect to generate revenue from sales of any biotechnology product candidates for a number of years, if ever. As reflected in the accompanying consolidated financial statements, we have incurred recurring net losses since our inception. During the year ended December 31, 2024, we incurred a net loss of $1,447,461 and used cash in operations of $614,136 and had a stockholders' deficit of $4,391,033 as of December 31, 2024. These factors raise substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to raise additional funds and implement our strategies, such as executing additional licensing contracts. The consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

The ability to continue as a going concern is dependent on the Company raising additional capital and attaining and maintaining profitable operations in the future to meet its obligations and repay liabilities arising from normal business operations when they come due. Since inception, we have funded our operations primarily through equity and debt financings and licensing income, and we expect to continue to rely on these sources of capital in the future.

No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to us. Even if we are able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing, or cause substantial dilution for our stockholders, in the case of equity financing, or grant unfavorable terms in licensing agreements.

Funding Requirements

We expect our expenses to increase in connection with our ongoing activities, particularly as we continue our research and development, initiate and conduct preclinical studies and clinical trials, and seek marketing approval for our current and any of our future product candidates. In addition, if we obtain marketing approval for any of our current or future product candidates, we expect to incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution, which costs we may seek to offset through entry into collaboration agreements with third parties. Furthermore, we expect to incur additional costs associated with operating as a public company, upon consummation of the Merger Agreement. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on acceptable terms, we would be forced to delay, reduce or eliminate our research and development programs or future commercialization efforts.

We believe that our existing cash, together with the anticipated net proceeds from the Concurrent Financing, will enable us to fund our operating expenses and capital expenditure requirements for at least 9 months. We have based this estimate on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Our future capital requirements will depend on a number of factors, including:

- the costs of conducting preclinical studies and clinical trials;
- the costs of manufacturing;
- the scope, progress, results and costs of discovery, preclinical development, laboratory testing, and clinical trials for product candidates we may develop, if any;
- the costs, timing, and outcome of regulatory review of our product candidates;
- our ability to establish and maintain collaborations on favorable terms, if at all;
- the achievement of milestones or occurrence of other developments that trigger payments under any license or collaboration agreements we might have at such time;
- the costs and timing of future commercialization activities, including product sales, marketing, manufacturing and distribution, for any of our product candidates for which we receive marketing approval;
- the amount of revenue, if any, received from commercial sales of our product candidates, should any of our product candidates receive marketing approval;
- the costs of preparing, filing and prosecuting patent applications, obtaining, maintaining and enforcing our intellectual property rights, and defending intellectual property-related claims;
- our headcount growth and associated costs as we expand our business operations and research and development activities; and
- the costs of operating as a public company.

We believe that the net proceeds of the Concurrent Financing, together with our existing cash, will be sufficient to initiate the pivotal trial of our lead candidate, VT-1953, but will not be sufficient to complete the trial and or work on the other indications or the development of any other product candidate. Accordingly, we will be required to obtain further funding to further achieve our business objectives.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through equity offerings and debt financings or other sources, such as potential collaboration agreements, strategic alliances and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the interests of our stakeholders may be diluted, and the terms of these securities may include liquidation or other preferences that could adversely affect the rights of our stockholders. Additional debt financing, if available, may involve agreements that include restrictive covenants that limit our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends, that could adversely impact our ability to conduct our business.

If we raise funds through potential collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates, or to grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Bridge Loan and Convertible Notes

Commencing in October 2020, the Company began raising money through the issuance of compulsorily convertible promissory notes in a private placement offering of up to $2,132,000, which was subsequently expanded to approximately $2.8 million and extended through December 31, 2024.

The convertible notes bear interest at a rate of eight percent (8%) per annum, on a non-compounding basis, and are due and payable on the earlier of (i) the date upon which the convertible notes are converted into equity securities of the Company, pursuant to the conversion terms of the convertible notes, set forth therein, or (ii) at maturity, which is three (3) years from the date of issuance. The terms of the convertible notes provide for automatic conversion of the outstanding principal and any unpaid accrued interest in the event that the Company issues and sells shares of its equity securities to investors prior, to the maturity date of the convertible notes, for total proceeds to the Company of not less than $10,000,000, at a conversion price equal to the cash price per share paid for the equity securities by the investors in such financing transaction multiplied by 0.75 in the case of some of the convertible notes or 0.8 in the case of other convertible notes.

During 2024 and 2023, certain of our convertible notes, were extended by an additional year. In connection with such extension, the conversion rate was amended from 0.80 to 0.75 of the price paid by investors in a qualified offering, as defined in the convertible notes, and the liquidation preference, in the event the Company consummates a Deemed Liquidation Event, as defined in the Company's Certificate of Incorporation, was amended. All other terms of the convertible terms remained the same. The Company accounted for such extension as a modification of the debt instrument, however there is no impact on the financial statements as a result of such modification.

In August 2024, two Convertible Notes with an aggregate principal plus accrued interest of $434,077 were converted in 111,616 shares of Series D preferred stock at $3.889 per share. No other Convertible Notes have been converted through December 31, 2024. As of December 31, 2024, several Convertible Notes have reached their maturity date, and the Company is negotiating further extensions with the noteholders.

In July 2024, the Company began offering investors the opportunity to participate in a Securities Purchase Agreement (the "Concurrent Financing") providing investors the right to certain equity instruments and other equity rights, some of which are dependent upon the completion of the Merger. An aggregate of 18 investors agreed to participate in such financing through December 31, 2024, for an aggregate of approximately $7.5 million, of which approximately $470,000 was received through December 31, 2024, in the form of bridge notes. The bridge notes have similar terms to the above convertible notes, except that there is a one-year maturity. The remainder of the committed funds will be placed in an escrow account six to seven days before the Merger, pending completion of the Merger, however, these funds have not been received as of December 31, 2024.

The fair value of the Company's convertible notes is summarized as follows:

	As of December 31, 2024	As of December 31, 2023
Current portion		
Conversion rate at 75%	$ 3,102,204	$ 1,356,796
Conversion rate at 70%	487,206	—
Conversion rate at 80%	—	606,590
Total current portion	**$ 3,589,410**	**$ 1,963,386**
Long Term portion		
Conversion rate at 75%	—	967,503
Total long term Portion	**$ —**	**967,503**
Total	**$ 3,589,410**	**$ 2,930,889**

Interest expense on the above debt instruments was $186,657 and $162,743 for the years ended December 31, 2024, and 2023, respectively. The Company has elected to record the convertible note at fair value. Changes in the fair value of the Convertible Notes for the years ended December 31, 2024, and 2023 are summarized as follows:

	Year ended December 31, 2024	Year ended December 31, 2023
Balance, beginning of the period	$ 2,930,889	$ 2,832,205
Additional notes issued	667,009	150,001
Note and accrued interest converted to preferred stock	(434,076)	—
Interest accrued	186,657	162,743
Change in fair value	238,931	(214,060)
Total	**$ 3,589,410**	**$ 2,930,889**

The fair value of the convertible notes is classified within Level 3 of the fair value hierarchy, using the inputs below to calculate the fair value. The Company used a probability weighted scenario analysis to determine the fair value of the convertible notes. The risk-free rate used in the analysis is based on the yield on a US Government zero-coupon bond, interpolated for the period that corresponds to the time to liquidity as at the valuation date.

	December 31, 2024	December 31, 2023
Adjusted Interest rate	4.21% to 4.40%	4.79% to 5.41%
Time to Financing Date	6 – 8 months	8 – 10 months

Preferred stock

During the year ended December 31, 2024, the Company issued 432,041 shares of Series D preferred stock in connection with a CRO contract (see Note 13) and 111,616 upon conversion of debt (see Note 8).

As of December 31, 2024 and 2023, the Company has issued the following preferred stock:

Series	Number of shares issued as of December 31, 2024	Number of shares issued as of December 31, 2023	Conversion Price	Aggregate Liquidation Preference as of December 31, 2024	Aggregate Liquidation Preference as of December 31, 2023
Series seed	1,078,560	1,078,560	$ 0.83	$ 1,332,687	$ 1,260,811
Series A	2,592,080	2,592,080	$ 1.22	4,671,576	4,419,626
Series B	965,200	965,200	$ 2.47	3,529,173	3,338,836
Series B-1	1,480,560	1,480,560	$ 2.47	5,413,544	5,121,578
Series C	4,432,880	4,432,880	$ 2.64	17,339,432	16,404,271
Series C-1	530,040	530,040	$ 2.64	2,073,278	1,961,461
Series D	4,224,097	3,680,440	$ 3.89	23,437,007	20,086,235
Total	15,303,417	14,759,760		**$ 57,796,697**	**$ 52,592,817**

The significant terms of the preferred stock, are as follows:

Preferred stock carries an 8% cumulative preference dividend, payable when declared by the Board of Directors. No dividend has been paid on any series of preferred stock as of December 31, 2024. As of December 31, 2024, and 2023, cumulative dividends in arrears for all classes' preferred shares were approximately $18,100,000 and $14,991,000, respectively.

Each share of preferred stock shall be convertible at the option of the holder, without the payment of additional consideration, into units of common stock at the conversion price as defined in the shareholders' agreement. The conversion price is subject to adjustment in the event of subsequent issuance of common stock at a lower price than the original conversion price. Each series preferred stock is mandatorily convertible into common stock at the conversion price as defined in the shareholders' agreement on the occurrence of an initial public offering (IPO).

In the event of voluntary or involuntary liquidation, dissolution, or winding up of the Company, all classes of preferred stockholders would be entitled to receive, in preference to common shareholders, an amount equal to the original issue price plus accrued and unpaid dividends. All series of preferred stock rank pari passu with each other in terms of liquidation preference except series B1 and C1. Part of the amount invested by series B1 and C1 preferred stock as mentioned in the shareholders' agreement ranks junior to other preferred stockholders, however, rank pari passu with each other. After the liquidation preference payments to all classes of preferred stockholders have been met, preferred shareholders have unlimited right to participate on a prorated basis with common shareholders.

Holders of the preferred stock shall be entitled to elect 5 members of the Board of Directors and also hold certain protective rights with respect to significant corporate transactions as defined. Each holder of common stock shall be entitled to one vote in respect of each share held.

Accrued compensation

Accrued compensation payable to the chief executive officer, a board member/consultant of the Company and another consultant was $1,115,232 as of December 31, 2023. In June 2024, these individuals to forgo accrued compensation of $1,115,232 as of December 31, 2023, in exchange for the issuance of stock options for the purchase of 643,030 shares of common stock. The Company accounted for this debt extinguishment as a capital contribution since the liability was with related parties.

Accordingly, the difference between the liability extinguished of $1,115,232 and the fair value of the stock options issued ($379,950 as determined using a Black Scholes model) of $735,282 is considered a capital contribution, collectively included in the condensed consolidated statement of stockholder's deficit as "Issuance of shares in settlement of accrued liability".

CRO contract

In December 2018 as amended in July 2021, the Company entered into an agreement with a Contract Research Organization ("CRO") for services to be rendered with respect to the phase 2B clinical trials for the Company's VB-1953 product. Also, pursuant to the July Agreement, the parties agreed that if the balance remained outstanding as of March 2021, then such balance could convert to Series D preferred stock of the Company at Series D preferred conversion price as of the July Agreement date. During 2022, the Company and the CRO agreed by signing a definitive agreement to convert the amount owed of $1,680,210 into 432,041 shares of Series D preferred stock (based upon the then estimated fair value of such shares).

However, the shares were not issued. At that time, in order to issue the shares, the Company would have had to authorize additional shares of its Series D preferred stock in order to consummate the transaction, and accordingly, as of December 31, 2023, $1,680,210 was recorded as a liability to be settled in equity in the consolidated balance sheet. In June 2024, the Company increased its authorized shares of preferred stock and issued the 432,041 shares of Series D preferred stock to settle this liability.

Due to Affiliates

The amount outstanding to two of our board directors as of December 31, 2024 is $129,346, which is included in the "due to affiliates" in the consolidated balance sheet. There is no interest or scheduled repayment dates of such advances.

Contractual Obligations and Commitments

We enter into agreements in the normal course of business for sponsored research, preclinical studies, contract manufacturing, and other services and products for operating purposes, which are generally cancellable upon written notice.

Licenses, employment agreements or other commitments

The Company leased offices and laboratory space in India under a 5-year lease terminating in December 2023, with a monthly rental payment which ranged from approximately $2,000 to $4,000 per month. The leases were extended for a one-year period ending December 2024 with an automatic renewal for two years with monthly payments ranging from $2,500 to $2,900 per month. The Company has an intention to renew the leases for the two additional years allowed under the lease agreement.

We also have offices in Princeton NJ, and Cambridge MA, on short-term rentals.

We may enter into contracts in the normal course of business with clinical research organizations for clinical trials and clinical supply manufacturing and with vendors for preclinical research studies, research supplies and other services and products for operating purposes. These contracts generally provide for termination on notice, and therefore, we believe that our non-cancelable obligations under these agreements will not be material.

We also have employment agreements with certain employees and consulting agreements which require the funding of a specific level of payments, if certain events, such as a change in control, termination without cause or retirement, occur. We also have an agreement on Resignation and Separation Letter dated January 11, 2021 Craig Tooman, a past employee to pay certain amount on change of control.

Controls and Procedures

A company's internal control over financial reporting is a process designed by, or under the supervision of, that company's principal executive and principal financial officers, or persons performing similar functions, and effected by that company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with US GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may deteriorate.

We have concluded that there were material weaknesses in internal control over financial reporting. Historically, and as a private company, we had not maintained sufficient resources with various levels of accounting knowledge, experience, and expertise that are commensurate with our prospective financial reporting needs. These material weaknesses relate to the fact that we (1) do not maintain a comprehensive policies and procedures manual designed to establish internal controls over financial reporting to reduce the risk of publishing materially misstated financial statements (2) do not have well defined segregate incompatible duties to reduce the risk of unauthorized transactions, and (3) insufficient accounting expertise to calculate certain technical matters. Collectively, this could result in difficulties in meeting our internal reporting needs and our external reporting requirements and assessing the appropriate accounting treatment for various events and/or circumstances.

Although we have initiated various remediation efforts, we have concluded that the material weaknesses have not been fully remediated. Our remediation efforts to date have included the following:

We have assessed our current accounting personnel, financial reporting, and information system environments and capabilities. Based on our preliminary findings, we have found these resources and systems lacking and have concluded that these resources and systems will need to be supplemented and/or upgraded. We have hired a fractional Chief Financial Officer and, thereafter will implement additional accounting procedures and controls as resources permit.

We engaged external consultants with public company and technical accounting experience to facilitate accurate and timely accounting closes and to accurately prepare and review our financial statements and related footnote disclosures. We plan to retain these financial consultants until such a time that our internal resources have been upgraded and the required financial controls have been fully implemented.

The actions that have been taken are subject to continued review, implementation, and testing by management, as well as audit committee oversight. While we have implemented a variety of steps to remediate these weaknesses, we cannot assure you that we will be able to fully remediate them, which could impair our ability to accurately and timely meet our public company reporting requirements.

Notwithstanding the assessment that our internal controls over financial reporting are not effective and that material weaknesses exist, we believe that we have employed supplementary procedures to ensure that the consolidated financial statements contained in this filing fairly present our financial position, results of operations, and cash flows for the reporting periods covered herein in all material respects.

Critical Accounting Policies and Significant Judgments and Estimates

Convertible Promissory Notes

The Company evaluates its convertible instruments to determine if those contracts or embedded components of those contracts qualify as derivative financial instruments to be separately accounted for in accordance with *Topic 815* "*Derivatives and Hedging*" ("ASC 815") of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The accounting treatment of derivative financial instruments requires that the Company record any bifurcated embedded features at their fair values as of the inception date of the agreement and at fair value as of each subsequent balance sheet date. Any change in fair value is recorded in earnings each period as non-operating, non-cash income or expense. The Company reassesses the classification of its derivative instruments at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification. Bifurcated embedded features are recorded at their initial fair values which create additional debt discount to the host instrument.

We have elected to account for the convertible notes to a shareholder using the fair value option in accordance with the guidance contained in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 825-10-25. The fair value option provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments. See Note 4 for additional information.

Stock options

Our company accounted for the issuance of stock options in accordance with ASC 718, *Compensation- Stock Compensation*. We estimate the fair value of stock option awards granted using the Black-Scholes option-pricing model, which uses as inputs the fair value of our common stock and subjective assumptions we make, including expected stock price volatility, the expected term of the award, the risk-free interest rate, and expected dividends. Due to the lack of a public market for the trading of our common stock and a lack of company-specific historical and implied volatility data, we base the estimate of expected stock price volatility on the historical volatility of a representative group of publicly traded companies for which historical information is available. The historical volatility is generally calculated based on a period of time commensurate with the expected term assumption. We use the simplified method to calculate the expected term for options granted to employees and directors. We utilize this method as we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term. For options granted to non-employees, we utilize the contractual term. The risk-free interest rate is based on a U.S. treasury instrument whose term is consistent with the expected term of the stock options. The expected dividend yield is assumed to be zero, as we have never paid dividends and do not have current plans to pay any dividends on our common stock. We determine the fair value of common stock awards based on the fair value of our common stock on the date of grant.

Fair value measurements

FASB ASC Topic 820, "*Fair Value Measurements and Disclosures*" ("ASC 820"), defines fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements. Fair value is the price received to sell an asset or paid to transfer a liability in an orderly transaction between the buyer and the seller at the measurement date. In determining fair value, the valuation techniques consistent with the market approach, income approach and cost approach shall be used to measure fair value. ASC 820 establishes a fair value hierarchy for inputs, representing the assumptions the buyer and seller use in pricing the asset or liability. These inputs are further defined as observable and unobservable inputs. Observable inputs are those that the buyer and seller would use in pricing the asset or liability based on market data obtained from sources independent of our company. Unobservable inputs reflect our company's assumptions about the inputs the buyer and seller would use to price the asset or liability developed based on the best information available in the circumstances.

The note payable — related party is reported at fair value as the Company elected the fair value option for such note. The key determinants of the fair value of the notes payable is the expected date and type of transaction that would require conversion or repayment of the notes, and the discount rate/term used to compute the present value of such future payments.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 — Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that our company has the ability to access. Valuation adjustments and block discounts are not being applied. Since valuations are based on quoted prices that are readily and regularly available in an active market, the valuation of these securities does not entail a significant degree of judgment.

- Level 2 — Valuations based on (i) quoted prices in active markets for similar assets and liabilities, (ii) quoted prices in markets that are not active for identical or similar assets, (iii) inputs other than quoted prices for the assets or liabilities, or (iv) inputs that are derived principally from or corroborated by the market through correlation or other means.

- Level 3 — Valuations based on unobservable inputs and significant to the overall fair value measurement.

Determination of the Fair Value of Equity-Based Awards

As there has been no public market for our common stock, the estimated fair value of our common stock has been approved by our board of directors, with input from management, as of the date of each award grant, considering our most recently available sale of our common stock to independent investors and our board of directors' assessment of additional objective and subjective factors deemed relevant that may have changed from the date of the most recent determination through the date of the grant. The additional objective and subjective factors considered by our board of directors in determining the fair value of our common stock included the following:

- the prices of our common stock and preferred stock sold to outside investors in arm's length transactions, if any, and the rights, preferences and privileges of our preferred stock as compared to those of our common stock, including the liquidation preferences of our preferred stock;

- the progress of our research and development efforts, including the status of preclinical studies and planned clinical trials for our product candidates;
- the lack of liquidity of our equity as a private company;
- our stage of development and business strategy and the material risks related to our business and industry;
- the valuation of publicly traded companies in the biotechnology industry, as well as recently completed mergers and acquisitions of peer companies;
- any external market conditions affecting the biotechnology industry, and trends within the biotechnology industry;
- the likelihood of achieving a liquidity event, such as an IPO or a sale of our company in light of prevailing market conditions; and
- the analysis of IPOs and the market performance of similar companies in the biotechnology industry.

The assumptions underlying our board of directors' valuation determinations represented our board's best estimates, which involved inherent uncertainties and the application of our board's judgment. As a result, if factors or expected outcomes had changed or our board of directors had used significantly different assumptions or estimates, our equity-based compensation expense could have been materially different.

Following the completion of this offering, our board of directors will determine the fair value of our common stock based on the quoted market prices of our common stock.

Inflation

Inflation generally affects us by increasing our cost of labor. We do not believe that inflation had a material effect on our business, financial condition or results of operations during the years ended December 31, 2024, or 2023.

RESHAPE MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of ReShape's financial condition and results of operations together with its consolidated financial statements and related notes thereto attached as Exhibit 99.3 to our Registration Statement on Form S-3 filed on May 9, 2025. Some of the information contained in this discussion and analysis includes forward-looking statements that involve risks, uncertainties and assumptions. You should read the "forward-looking statements and associated risks" and "Risk Factors" section included in our most recent Annual Report on Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a premier physician-led weight-loss solutions company, offering an integrated portfolio of proven products and services that manage and treat obesity and associated metabolic disease. Our primary operations are in the following geographical areas: United States, Australia and certain European and Middle Eastern countries. Our current portfolio includes the Lap-Band Adjustable Gastric Banding System, the Obalon Balloon System, and the Diabetes Bloc-Stim Neuromodulation device, a technology under development as a new treatment for type 2 diabetes mellitus. There has been no revenue recorded for the Obalon Balloon System, or the Diabetes Bloc-Stim Neuromodulation as these products are still in the development stage.

Recent Developments

January 13, 2025, the Company and Vyome, provided an update on the definitive merger agreement under which ReShape and Vyome will combine in an all-stock transaction. The combined company will focus on advancing the development of Vyome's immune-inflammatory assets and identifying additional opportunities between the world-class Indian innovation corridor and the U.S. market. The Company also provided an update on the asset purchase agreement with Biorad Medisys.

February 3, 2025, the Company was granted a key international patent from the State of Israel for its Diabetes Neuromodulation technology. This patent for "Simultaneous Multi-Site Vagus Nerve Modulation for Improved Glycemic Control Systems and Methods," will provide protection until December 4, 2039. The Diabetes Neuromodulation system utilizes its proprietary vagus nerve block (vBlocTM) technology platform, combined with vagus nerve stimulation, for the treatment of Type 2 diabetes, a prominent disorder associated with obesity.

On February 15, 2025, the Company entered into a Securities Purchase Agreement to issue and sell 103,005 shares of common stock and warrants to purchase up to 103,005 shares of common stock at an initial price of $145.75 per share, subject to adjustments. The securities were sold at a price of $58.25 per unit. Following the required stockholder approval, which the Company obtained on April 1, 2025, all of the holders of warrants elected a "zero exercise price" alternative pursuant to which they received an aggregate number of shares equal to the product of (x) the aggregate number of shares of common stock that would be issuable upon a cash exercise of the warrant and (y) 1.2, without the holder having to make any exercise payment. The exercise price of the warrants was reset to the floor price of $31.25 per share, which resulted in the issuance of 576,507 shares of common stock for the warrants issued to the investors in the offering. Between April 2, 2025 and April 4,2025, a total of 576,416 shares were issued upon the cashless exercise of the warrants for no exercise price.

On February 25, 2025, the Company entered into an exclusive distribution agreement with Liaison Medical Ltd. for the Lap-Band® 2.0 FLEX system and Tubing Kit, expanding the Company's commercial presence into Canada. Under the terms of the agreement, Liaison Medical was granted the exclusive right to market and distribute the covered products to licensed medical professionals within the Canadian territory. The initial term of the agreement runs through December 31, 2028, with automatic one-year renewal periods thereafter unless terminated by either party with at least 90 days' prior written notice before the end of the then-current term.

Equity Line of Credit and Secured Convertible Note

On December 19, 2024, the Company entered into a common stock purchase agreement (the "Equity Purchase Agreement") with Ascent Partners Fund LLC ("Ascent") pursuant to which Ascent has agreed to purchase from the Company, at its direction from time to time, in its sole discretion, from and after the effectiveness of the definitive documentation (the "Effective Date"), and until the earlier of (i) the 36- month anniversary of the Effective Date or (ii) the termination of the Equity Purchase Agreement in accordance with the terms thereof (the "Commitment Period"), shares of its common stock having a total maximum aggregate purchase price of $5,000,000 (the "Purchase Shares"), upon the terms and subject to the conditions and limitations set forth therein.

In a private transaction, on October 16, 2024, the Company entered into a securities purchase agreement (the "SPA") with Ascent. Pursuant to the SPA, the Company agreed to issue to Ascent a senior secured convertible note in the aggregate original principal amount of $833,333 (the "Note"), and also issued to Ascent 320 shares of common stock as "commitment shares" to Ascent. On January 14, 2025, the Company entered into an amendment to the Note with Ascent to (a) extend the maturity date to the earlier of the closing of the Company's merger with Vyome or 90 days after the date of the amendment, (b) provide that Ascent would not be obligated to convert any part of the Note at the closing of the merger, (c) reduce the mandatory prepayment provision for funds raised by the Company in subsequent financings from 66% to 50%, and (d) require a $45,000 cash extension fee to be paid by the Company at the maturity of the Note. On February 18, 2025, the Company repaid the Note in full.

Pending Merger and Asset Sale

On July 8, 2024, the Company entered into an Agreement and Plan of Merger ("Merger Agreement") with Vyome Therapeutics, Inc. ("Vyome") and Raider Lifesciences Inc., a Delaware corporation, and a direct, wholly owned subsidiary of ReShape ("Merger Sub"). Pursuant to the Merger Agreement, and subject to the satisfaction or waiver of the conditions specified therein, Merger Sub shall be merged with and into Vyome, with Vyome surviving as a subsidiary of ReShape (the "Merger"). The combined company intends to change its name to Vyome Holdings, Inc. and will focus on Vyome's business of advancing the development of its immuno- inflammatory assets and on identifying additional opportunities between the world-class Indian innovation corridor and the U.S. market.

Simultaneously with the execution of the Merger Agreement, the Company entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with Ninjour Health International Limited, a company incorporated under the laws of the United Kingdom ("Ninjour"). Pursuant to the Asset Purchase Agreement, and subject to the satisfaction or waiver of the conditions specified therein, the Company will sell substantially all of its assets (excluding cash) to Ninjour (or an affiliate thereof), and Ninjour will assume substantially all of its liabilities, for a purchase price of $5.16 million in cash, subject to adjustment based on ReShape's actual accounts receivable and accounts payable at the closing compared to such amounts as of March 31, 2024 (the "Asset Sale"). Ninjour is an affiliate of Biorad Medisys, Pvt. Ltd., which is party to a previously disclosed exclusive license agreement, dated September 19, 2023, with ReShape for ReShape's Obalon® Gastric Balloon System.

On October 1, 2024, the Company filed a Registration Statement on Form S-4 in connection with the Merger and Asset Sale, which the Company anticipates will close in the second quarter of 2025, assuming the conditions to closing are satisfied. On December 6, 2024, the Company filed an Amendment No. 1 to that Registration Statement on Form S-4 and on January 15, 2025 the Company filed an Amendment No. 2 to that Registration Statement on Form S-4.

The Company entered into the Equity Purchase Agreement and Convertible Note transactions in order to fund its operations through the closing of the Merger and Asset Sale. The description of its business set forth above reflects its current business operations, but if the Merger and Asset Sale are completed, the Company will sell substantially all of its assets to Ninjour Health International Limited (or an affiliate thereof) and the combined company following the Merger intends to focus on Vyome's business. However, the completion of the Merger and Asset Sale both remain subject to a number of conditions to closing, including the approval of its stockholders and, with respect to the Merger, the approval of the Nasdaq Stock Market, and there can be no assurance that the Merger and Asset Sale will be consummated. Failure to complete the Merger and Asset Sale could negatively impact its future operations, financial results and stock price.

Reverse Stock Split

Effective May 9, 2025, the Company effected a 1-for-25 reverse stock split of its issued and outstanding common stock (the "Reverse Stock Split"). All references to shares of its common stock herein refer to the number of shares of common stock after giving effect to the Reverse Stock Split and are presented as if the Reverse Stock Split had occurred at the beginning of the earliest period presented.

Effective September 23, 2024, the Company effected a 1-for-58 reverse stock split of its issued and outstanding common stock (the "Reverse Stock Split"). All references to shares of its common stock herein refer to the number of shares of common stock after giving effect to the Reverse Stock Split and are presented as if the Reverse Stock Split had occurred at the beginning of the earliest period presented.

Financial Overview

Results of Operations

The following table sets forth certain data from our operating results from the years ended December 31, 2024 and 2023, expressed as percentages of net revenue (in thousands):

	Year Ended December 31,			
	2024		2023	
Revenue	$ 8,006	100.0%	$ 8,678	100.0%
Cost of revenue	2,949	36.8%	3,130	36.1%
Gross profit	5,057	63.2%	5,548	63.9%
Operating expenses:				
Sales and marketing	2,991	37.4%	7,548	87.0%
General and administrative	6,931	86.6%	10,324	119.0%
Research and development	1,803	22.5%	2,315	26.7%
Transaction costs	1,024	12.8%	—	—%
Impairment of long-lived assets	36	0.4%	777	9.0%
Gain on disposal of assets, net	—	—%	(33)	(0.4)%
Total operating expenses	12,785	159.7%	20,931	241.3%
Operating loss	(7,728)	(96.5)%	(15,383)	(177.4)%
Other expense (income), net:				
Interest expense, net	(14)	(0.2)%	(26)	(0.3)%
Gain on changes in fair value of liability warrants	(52)	(0.6)%	(3,878)	(44.7)%
Gain on extinguishment of debt	(429)	(5.4)%	—	—%
Loss (gain) on foreign currency exchange, net	51	0.6%	(22)	(0.3)%
Other	(193)	(2.4)%	(122)	(1.4)%
Loss before income tax provision	(7,091)	(88.5)%	(11,335)	(130.7)%
Income tax expense	39	0.5%	52	0.6%
Net loss	$ (7,130)	(89.1)%	$ (11,387)	(131.2)%

Non-GAAP Disclosures

In addition to the financial information prepared in conformity with GAAP, we provide certain historical non-GAAP financial information. Management believes that these non-GAAP financial measures assist investors in making comparisons of period-to-period operating results and that, in some respects, these non-GAAP financial measures are more indicative of the Company's ongoing core operating performance than their GAAP equivalents.

Management believes that the presentation of this non-GAAP financial information provides investors with greater transparency and facilitates comparison of operating results across a broad spectrum of companies with varying capital structures, compensation strategies, derivative instruments, and amortization methods, which provides a more complete understanding of our financial performance, competitive position, and prospects for the future. However, the non-GAAP financial measures presented herein have certain limitations in that they do not reflect all of the costs associated with the operations of our business as determined in accordance with GAAP. Therefore, investors should consider non-GAAP financial measures in addition to, and not as a substitute for, or as superior to, measures of financial performance prepared in accordance with GAAP. Further, the non-GAAP financial measures presented by the Company may be different from similarly named non-GAAP financial measures used by other companies.

Adjusted EBITDA

Management uses Adjusted EBITDA in its evaluation of the Company's core results of operations and trends between fiscal periods and believes that these measures are important components of its internal performance measurement process. Adjusted EBITDA is defined as net loss before interest, taxes, depreciation and amortization, stock-based compensation, and other one-time costs. Therefore, investors should consider non-GAAP financial measures in addition to, and not as a substitute for, or as superior to, measures of financial performance prepared in accordance with GAAP. Further, the non-GAAP financial measures presented by the Company may be different from similarly named non-GAAP financial measures used by other companies.

The following table contains a reconciliation of GAAP net loss to non-GAAP net loss attributable to common stockholders for the years ended December 31, 2024 and 2023 (in thousands).

	Year Ended December 31,	
	2024	**2023**
GAAP net loss	$ (7,130)	$ (11,387)
Adjustments:		
Interest income, net	(14)	(26)
Income tax expense	39	52
Depreciation and amortization	22	154
Stock-based compensation expense	184	766
Transaction costs	1,024	—
Impairment of long-lived assets	36	777
Gain on disposal of assets, net	—	(33)
Gain on changes in fair value of liability warrants	(52)	(3,878)
Gain on extinguishment of debt	(429)	—
Adjusted EBITDA	$ (6,320)	$ (13,575)

Comparison of Results of Operations

Revenue. The following table summarizes our net revenue by geographic location based on the location of customers for the years ended December 31, 2024 and 2023, as well as the percentage by location of total revenue and the amount of change and percentage of change (dollars in thousands):

	Year Ended December 31,				Amount	Percentage
	2024		2023		Change	Change
United States	$ 6,887	86.0%	$ 7,134	82.2%	$ (247)	(3.5)%
Australia	392	4.9%	526	6.1%	(134)	(25.5)%
Europe	687	8.6%	956	11.0%	(269)	(28.1)%
Rest of world	40	0.5%	62	0.7%	(22)	(35.5)%
Total revenue	$ 8,006	100.0%	$ 8,678	100.0%	$ (672)	(7.7)%

Revenue totaled $8.0 million for the year ended December 31, 2024, which represents a contraction of 7.7%, or $0.7 million compared to the same period in 2023. The primary reason for the decrease is due to the continued popularity of GLP-1 pharmaceuticals within the U.S. With the introduction of Lap-Band 2.0, we did experience a slight growth in units sold of 6.5%, however the Lap-Band accessories units decreased by 26.4% within the U.S. markets. World-wide Lap-Band units decreased by 8.5% and accessories decreased 25.9%. The Company did increase the price of Lap-Band systems including accessories, which helped revenues not decrease at the same ratio as the decline in unit sales.

Cost of Revenue and Gross Profit: The following table summarizes our cost of goods sold and gross profit for the years ended December 31, 2024 and 2023, as well as percentage of total revenue and the amount of change and percentage of change (dollars in thousands):

	Year Ended December 31,				Amount	Percentage
	2024		2023		Change	Change
Revenue	$ 8,006	100.0%	$ 8,678	100.0%	$ (672)	(7.7)%
Cost of revenue	2,949	36.8%	3,130	36.1%	(181)	(5.8)%
Gross profit	$ 5,057	63.2%	$ 5,548	63.9%	$ (491)	(8.9)%

Gross profit. Gross profit for the year ended December 31, 2024, was $5.1 million, compared to $5.5 million for the year ended December 31, 2023, a decrease of $0.5 million or 8.9%. Gross profit as a percentage of revenue for the year ended December 31, 2024, was 63.2% compared to 63.9% for the same period in 2023. The slight reduction in gross profit margin is primarily due to the write off of certain inventories, offset by the Company allocating resources to increase efficiencies and a slight raise in product pricing.

Operating Expenses: The following table summarizes our operating expenses for the years ended December 31, 2024 and 2023, as well as the percentage of total revenue, and the amount of changes and percentage of change (dollars in thousands):

	Year Ended December 31,				Amount	Percentage
	2024		2023		Change	Change
Sales and marketing	$ 2,991	37.4%	$ 7,548	87.0%	$ (4,557)	(60.4)%
General and administrative	6,931	86.6%	10,324	119.0%	(3,393)	(32.9)%
Research and development	1,803	22.5%	2,315	26.7%	(512)	(22.1)%
Transaction costs	1,024	12.8%	—	—%	1,024	100.0%
Impairment of long-lived assets	36	0.4%	777	9.0%	(741)	(95.4)%
Gain on disposal of assets, net	—	—%	(33)	(0.4)%	33	(100.0)%
Total operating expenses	$ 12,785	159.7%	$ 20,931	241.3%	$ (8,146)	(38.9)%

Sales and Marketing Expense. Sales and marketing expenses for the year ended December 31, 2024, decreased by $4.6 million, or 60.4%, to approximately $3.0 million, compared to $7.5 million for the same period in 2023. The decrease is primarily due to a decrease of $2.2 million in advertising and marketing expenses, including consulting and professional marketing services, as the Company has continued to scale down its marketing efforts to a targeted digital marketing campaign. We also had reductions in payroll expenditures, including commissions, travel and stock-based compensation of $2.2 million, due to reductions in workforce during the year due to declining revenues.

General and Administrative Expense. General and administrative expenses for the year ended December 31, 2024, decreased by approximately $3.4 million, or 32.9%, to approximately $6.9 million, compared to $10.3 million for the same period in 2023. This decrease was primarily driven by a $1.8 million reduction in general legal, audit, and other professional fees, as the Company reduced its reliance on consultants and professional services to conserve cash. In addition, payroll-related expenses, including stock-based compensation, decreased by $1.3 million due to changes in personnel and workforce reductions during the year. The Company also recorded a $0.2 million decrease in rent and insurance expense as a result of the lease expiration of its former Carlsbad, CA location in mid-2023. Lastly, there was a $0.2 million reduction in bad debt expense and other miscellaneous items.

Research and Development Expense. Research and development expenses for the year ended December 31, 2024, decreased by $0.5 million, or 22.1%, to $1.8 million, compared to $2.3 million for the same period in 2023. The decrease is primarily due to a decrease of $0.3 million in consulting and clinical trials, as the Company halted clinical trials during 2023 and reduced the use of consultants once Lap-Band 2.0 was released early 2024. We also had reductions in payroll expenditures, including stock-based compensation of $0.2 million, due to reductions in workforce during the year.

Transaction Costs. Transaction costs for the year ended December 31, 2024, were $1.0 million. These expenses primarily consisted of $0.7 million in legal fees and $0.2 million in audit-related fees incurred in connection with the Company's pending merger and asset sale.

Impairment of Long-Lived Assets. During the year ended December 31, 2024, the Company recognized an impairment charge of $36 thousand related to its ROU asset, as the present value of the expected cash flows from the sublease of its facility in Irvine was lower than the carrying value. During the year ended December 31, 2023, the Company recorded an impairment of approximately $0.8 million, consisting of fixed assets and intangible assets due to the overall decline in value of the Company.

Gain loss on disposal of assets, net. During 2023, the Company had a gain of approximately $33 thousand related to the sale of fully depreciated assets.

Gain on changes in fair value of liability warrants. Gain on changes in fair value of liability warrants of $52 thousand for the year ended December 31, 2024, and $3.9 million for the year ended December 31, 2023, respectively, are related to warrants issued in a public offering on Feb 8, 2023.

Gain on Extinguishment of Debt. Gain on extinguishment of debt for the year ended December 31, 2024 of $0.4 million is primarily related to the write-off of payables aged beyond the statute of limitation.

Liquidity and Capital Resources

We have financed our operations to date principally through the sale of equity securities and debt financings. During the years ended December 31, 2024 and 2023, we received proceeds of $0.7 million and $17.6 million, respectively, from convertible notes payable, securities sales and exercises of warrants. As of December 31, 2024, we had $0.7 million of cash and cash equivalents, and $100 thousand of restricted cash.

The following table summarizes our change in cash and cash equivalents (in thousands):

	Year Ended December 31,	
	2024	**2023**
Net cash used in operating activities	$ (4,427)	$ (16,960)
Net cash used in investing activates	—	(10)
Net cash provided by financing activities	677	17,574
Effect of exchange rate changes	(16)	—
Net change in cash and cash equivalents and restricted cash	$ (3,766)	$ 604

Net Cash Used in Operating Activities

Net cash used in operating activities was $4.4 million and $17.0 million for the years ended December 31, 2024 and December 31, 2023, respectively.

For the year ended December 31, 2024, net cash used in operating activities was primarily the result of our net loss of $7.1 million, partially offset by non-cash adjustments for stock-based compensation expense of $0.2 million and inventory reserve of $0.4 million and $0.1 million of amortization of deferred interest. This was offset by a negative cash impact of $0.4 million related to old accounts payable that have passed their statute of limitations and $0.1 million of gains related to the warrants classified as liabilities. We show a positive cash impact on accounts payable of $0.8 million, inventory of approximately $0.9 million and accounts receivable of $0.6 million.

For the year ended December 31, 2023, net cash used in operating activities was primarily the result of our net loss of $11.4 million, partially offset by non-cash adjustments of loss on impairment of long-lived asset of $0.8 million, stock-based compensation expense of $0.8 million, provision for bad debt expense of $0.4 million, provision for excess and obsolete inventory of $0.3 million, depreciation expense of $0.1 million, offset by non-cash reductions of expense non-cash gains recognized related to changes in fair value of liability warrants of 3.9 million. This was offset by a positive impact to accounts receivable of $0.1 million and a negative impact to cash from inventory of $0.5 million, prepaid expenses of $0.2 million and accounts payable and accrued liabilities of $3.5 million and a decrease in warranty liabilities of $0.2 million.

Net Cash Used in Investing Activities

Net cash used in investing activities for both the years ended December 31, 2024 and 2023, was insignificant as the Company was focused on preserving cash.

Net Cash Provided by Financing

Net cash provided by financing activities was $0.7 million for the year ended December 31, 2024, primarily related to net proceeds from the issuance of convertible notes payable.

Net cash provided by financing activities was $17.6 million for the year ended December 31, 2023, as the Company completed multiple public offerings with proceeds of approximately $13.5 million and $4.1 million of warrants exercised during 2023.

Operating Capital and Capital Expenditure Requirements

The Company's anticipated operations include plans to (i) merge with Vyome Therapeutics, Inc and sell certain assets to Biorad, which will continue the operations, (ii) grow sales and operations of the Company with the Lap-Band product line both domestically and internationally as well as to obtain cost savings synergies, (iii) expand sales in the market Lap-Band 2.0 FLEX, (iv) continue development of the Diabetes Bloc- Stim Neuromodulation ("DBSN") device, and (v) prior to such merger, explore and capitalize on synergistic opportunities to expand our portfolio and offer future minimally invasive treatments and therapies in the obesity continuum of care. The Company believes that it has the flexibility to manage the growth of its expenditures and operations depending on the amount of available cash flows, which could include reducing expenditures for marketing and product development activities.

In February 2025, the Company raised $4.5 million after costs in a public offering of common shares and stock warrants. These funds will be used for operations and additional transaction costs. At the current burn rate, management expects to run out of cash during the fourth quarter of 2025. However, based on our available cash resources, we may not have sufficient cash on hand to fund our current operations for more than 12 months from April 2025. This condition raises substantial doubt about our ability to continue as a going concern.

Because of the numerous risks and uncertainties associated with the development of medical devices, such as our Diabetes Bloc-Stim Neuromodulation, we are unable to estimate the exact amounts of capital outlays and operating expenditures necessary to complete the development of the Diabetes Bloc-Stim Neuromodulation or other additional products and successfully deliver a commercial product to the market. Future capital requirements will depend on many factors and will be decided by Biorad, once the pending asset sale is complete.

Our future capital requirements will depend on many factors, including, but not limited to, the following:

- the cost and timing of establishing sales, marketing and distribution capabilities;
- the cost of establishing clinical and commercial supplies of our DBNS, and any products that we may develop;
- the rate of market acceptance of our DBNS, and any other product candidates;
- the cost of filing and prosecuting patent applications and defending and enforcing our patent and other intellectual property rights;
- the cost of defending, in litigation or otherwise, any claims that we infringe third-party patent or other intellectual property rights;
- the effect of competing products and market developments;
- the cost of explanting clinical devices;
- the terms and timing of any collaborative, licensing or other arrangements that we may establish;
- any revenue generated by sales of our Lap-Band, Obalon Balloon System, DBNS or our future products;
- the scope, rate of progress, results and cost of our clinical trials and other research and development activities;
- the cost and timing of obtaining any further required regulatory approvals; and
- the extent to which we invest in products and technologies, although we currently have no commitments or agreements relating to any of these types of transactions.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported expenses during the reporting periods. We evaluate our estimates and judgments on an ongoing basis. Actual results may differ materially from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully described in Note 2 to our consolidated financial statements attached as Exhibit 99.3 to our Registration Statement on Form S-3 filed on May 9, 2025, we believe that the following accounting policies and estimates are most critical to a full understanding and evaluation of our reported financial results.

Revenue Recognition

We recognize revenue when we satisfy a performance obligation by transferring control of the promised goods or services to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Product sales consist of a single performance obligation, which we satisfy at a point in time. We recognize product revenue when the following conditions are met: (a) physical possession of the products has been transferred, (b) we have a present right to payment, (c) the customer has obtained legal title to the products, and (d) the customer assumes significant risks and rewards of ownership.

For our Lap-Band product, these criteria are typically met upon shipment, including sales to distributors who take title and assume all ownership risks at the time of shipment. Distributors are required to pay within specified terms regardless of when, or if, they sell the products.

Taxes collected from customers and remitted to governmental authorities are recorded on a net basis and are therefore excluded from revenue. Amounts billed to customers related to shipping and handling are included in revenue. Corresponding shipping and handling costs related to revenue-producing activities are included in cost of sales.

Variable Consideration

We record revenue in an amount that reflects the transaction price we expect to receive after transferring control of the goods. Customers and distributors of the Lap-Band product generally have the right to return or exchange products within thirty days of shipment, subject to a 10% restocking fee. Any such returns or exchanges are recorded as reductions of revenue in the period incurred.

Certain Lap-Band customers may also be eligible for volume rebates or discounts. These discounts are treated as reductions in the sales price — and therefore revenue — at the point of sale. We estimate and reserve for any volume rebates as a reduction in revenue.

Warranty

We generally provide warranties against defects in materials and workmanship, offering replacements at no charge to customers who notify us within 30 days of delivery and return the products in accordance with our instructions. These warranties are considered assurance-type and are not accounted for as separate performance obligations. We establish warranty reserves based on specific assessments of claims related to product defects.

For our vBloc product line, we provided a five-year warranty on all implantable components. vBloc sales began in 2015 and ended in 2018, with the final warranty period concluding in 2023.

Stock-based Compensation

We measure and recognize compensation expenses for all stock-based awards based on estimated fair values. Stock-based awards consist of stock options and restricted stock units. The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. The Black-Scholes models require various highly judgmental assumptions, including stock price volatility, risk-free interest rate, and expected option term. Stock-based compensation expense is recorded net of estimated forfeitures.

Accounts Receivable Reserve

The Company provides reserves against accounts receivable for estimated losses that may result from a customer's inability to pay based on customer-specific analysis and general matters such as current assessments of past due balances, economic conditions and forecasts, and historical credit loss activity. Amounts determined to be uncollectible are charged or written-off against the reserve. Additionally, under the current expected credit loss model, we utilize historical loss rates based on number of days past due, adjusted to reflect current economic conditions and forecasts of future economic conditions.

Inventory Reserve

The Company establishes inventory reserves for obsolescence based upon specific identification of expired or unusable units with a corresponding provision included in cost of revenue.

Fair Value of Warrants

We analyze warrants to determine if the warrant instrument should be treated as a liability or equity. Based on the outcome of this analysis, we measure the fair value of the instrument using a Black-Scholes valuation model, bifurcated Black-Scholes valuation model or a Monte Carlo valuation model. Each of these models require various highly judgmental assumptions, including stock price volatility, risk-free interest rate, and expected term.

Recent Accounting Pronouncements

See Note 2 to the Consolidated Financial Statements attached as Exhibit 99.3 to our Registration Statement on Form S-3 filed on May 9, 2025, for a discussion of new accounting standards that have been adopted and those not yet adopted.

Exhibit 99.5

RESHAPE AND VYOME UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On July 8, 2024, ReShape, Vyome, and Merger Sub, entered into the Merger Agreement ("Merger"). Pursuant to the Merger Agreement, and subject to the satisfaction or waiver of the conditions specified therein, Merger Sub shall be merged with and into Vyome, with Vyome surviving as a subsidiary of ReShape.

At the Effective Time of the Merger, each Vyome Share issued and outstanding immediately prior to the Effective Time (other than the shares that are owned by ReShape, Vyome, or Merger Sub and shares that will be subject to a put-call option agreement with certain stockholders of Vyome located in India) will be converted into the right to receive a number of fully paid and non-assessable ReShape Shares according to an Exchange Ratio determined at least 10 calendar days prior to the ReShape Special Meeting that will result in the holders of such Vyome Shares, together with holders of Vyome securities convertible into Vyome Shares, owning 92.54% of the outstanding ReShape Shares on a fully-diluted basis immediately after the Effective Time.

The Merger Agreement provides that, at the Effective Time, each outstanding stock option or other equity award to purchase capital stock of Vyome will be converted into equity awards to purchase a number of ReShape Shares equal to the number of shares of Vyome Common Stock issuable upon exercise of such Vyome equity award multiplied by the Exchange Ratio, with an exercise price, in the case of warrants and stock options, equal to the exercise price of such Vyome option divided by the Exchange Ratio. The exercise price and number of shares will be determined in a manner consistent with the requirements of Section 409A, and as applicable, Section 424(a) of the Internal Revenue Code, and the applicable regulations promulgated thereunder.

Simultaneously with the execution of the Merger Agreement, ReShape entered into the Asset Purchase Agreement with Biorad ("Asset Sale"). Pursuant to the Asset Purchase Agreement, and subject to the satisfaction or waiver of the conditions specified therein, ReShape will sell substantially all of its assets (excluding cash) to Biorad, and Biorad will assume substantially all of ReShape's liabilities, for a purchase price of $2.25 million in cash, subject to adjustment based on ReShape's actual accounts receivable and accounts payable at the closing compared to such amounts as of March 31, 2024. Biorad is party to a previously disclosed exclusive license agreement, dated September 19, 2023, with ReShape for ReShape's Obalon® Gastric Balloon System. The proforma financials below included the anticipated impact the Asset Sale might have on our combined financial information.

Simultaneously with the execution of the Merger Agreement, ReShape, Vyome, and Vyome's wholly- owned subsidiary Vyome Therapeutics Limited ("Vyome India") entered into agreements with certain existing accredited investors, pursuant to which the investors have agreed to purchase of approximately $7.57 million in securities of ReShape, Vyome and Vyome India (the "Concurrent Financing"), of which approximately $0.6 million has been received in the form of bridge notes through April 21, 2025. As part of the Concurrent Financing, certain accredited investors have agreed to purchase up to $5.9 million in shares of common stock of the combined company immediately following completion of the Merger. The price per share for the common stock of the Combined Company will be calculated as a 30% discount to the price per share of the common stock for the agreed upon valuation of the combined company obtained by dividing (i) the sum of $130,000,000 and ReShape Net Cash by (ii) the sum of Total ReShape Outstanding Shares and Vyome Merger Shares. Simultaneously with the execution of the subscription agreements, Vyome entered into a securities purchase agreement with each investor pursuant to which Vyome issued to each investor a convertible promissory note in the principal amount equal to approximately 5% of such investor's total agreed upon investment amount, which convertible notes will bear interest at 8% per annum and immediately prior to completion of the Merger will convert into a number of shares of common stock of the combined company equal to 100% of the outstanding principal and interest of the Note divided by the price per share of common stock to be purchased in the financing as set forth above. ReShape and the investors are executing and delivering the subscription agreements in reliance upon the exemption from securities registration afforded by Section 4(a)(2) of the Securities Act of 1933, as amended, and contemporaneously with the sale of the shares of common stock will execute and deliver a registration rights agreement in substantially the form attached to the subscription agreement.

The pro forma ownership percentages of the ReShape and Vyome stockholders of the Combined Company of 7.46% and 92.54%, respectively, subject to adjust as described in the Registration Statement on Form S-4 filed by ReShape on October 1, 2024, as subsequently amended, is prior to taking into account the Concurrent Financing. Therefore, the actual ownership percentages will be different following the completion of the Concurrent Financing and, because certain of the investors in the Concurrent Financing are existing Vyome stockholders, the actual ownership percentage of the ReShape stockholders will be decreased compared to that of the Vyome stockholders after the closing of the Concurrent Financing.

The following unaudited pro forma condensed combined financial statements have been prepared to illustrate the estimated effects of the Merger. The ReShape and Vyome unaudited pro forma combined balance sheet data combine the ReShape and Vyome historical balance sheets at March 31, 2025. The ReShape and Vyome unaudited pro forma condensed combined statements of operations data assume that the Asset Sale and the Merger closed as of January 1, 2024 and combine the historical results of operations of ReShape and Vyome for the three months ended March 31, 2025, and for the year ended December 31, 2024. The unaudited pro forma condensed combined financial information was prepared pursuant to the rules and regulations of Article 11 of SEC Regulation S-X, as amended.

The Merger is accounted for as a reverse recapitalization under U.S. GAAP since ReShape will have nominal operations and assets at the time of the closing of the Merger. Vyome was determined to be the accounting acquirer based upon the terms of the Merger and other factors including (i) holders of such Shares, together with holders of Vyome securities convertible into Vyome Shares are expected to own 91.62% of the outstanding ReShape Shares on a fully-diluted basis immediately after the Effective Time, (ii) Vyome will hold substantially all of the board seats of the combined company and (iii) Vyome's management will hold all key positions in the management of the combined company.

The unaudited pro forma condensed combined financial statements are based on and should be read in conjunction with both Vyome and ReShape Management's Discussion and Analysis of Financial Condition and Results of Operations and Vyome and ReShape's financial statements and related notes attached to this Current Report on Form 8-K and appearing in the Registration Statement on Form S-4 filed by ReShape on October 1, 2024, as subsequently amended.

The unaudited pro forma condensed combined financial statements have been prepared for illustrative purposes only and are not necessarily indicative of the consolidated financial position or results of operations that would have been realized had the Merger occurred as of the dates indicated, nor is it meant to be indicative of any future consolidated financial position or future results of operations that the Combined Company will experience. The unaudited pro forma condensed combined financial statements combine the historical statements of ReShape and Vyome, the Concurrent Financing undertaken, financings done by ReShape in the first quarter of 2025, and reflects the impact of the sale of substantially all of ReShape's assets and liabilities to Biorad, for the period on a pro forma basis along with the Merger and related transactions, summarized below. The pro forma adjustments included in the accompanying unaudited pro forma condensed combined financial statements are based on currently available data and assumptions that management of ReShape believes are reasonable.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2025
(Amounts in thousands, except per share data)

	Historical 3 months ended		Vyome Pro Forma Adjustments		ReShape Pro Forma Adjustments		Total Pro Forma Adjustments	Pro Forma Combined
	March 31, 2025 Vyome	March 31, 2025 Reshape	*Note 6*	Notes	*Note 6*	Notes		
Revenue	$ 199	$ 1,113	$ —		$ (1,113)	B	$ (1,113)	$ 199
Cost of revenue	45	432	—		(432)	B	(432)	45
Gross profit	154	681	—		(681)		(681)	154
Operating expenses:								
Selling, General and Administrative	263	2,156	—		(2,068)	B	(2,068)	351
Research and development	90	364	—		(364)	B	(364)	90
Transaction costs	—	367	—		(367)	B	(367)	—
Impairment of long-lived assets	—	—	—		-	B	—	—
Total operating expenses	353	2,887	—		(2,799)		(2,799)	441
Operating loss	(199)	(2,206)	—		2,118		2,118	(287)
Other expense (income), net:								
Interest expense (income), net	55	40	(55)	E	(40)	B	(95)	—
Gain on extinguishment of debt	—	(24)	—		24		24	—
Gain on changes in fair value of liability warrants	—	(3,661)	—		3,661	B	3,661	—
Loss on change in fair value of convertible debt	36	—	(36)	E	—		(36)	—
Loss on foreign currency exchange	—	12	—		(12)	B	(12)	—
Other, net	4	(54)	—		54	B	54	4
Income (loss) before income tax provision	(294)	1,481	91		(1,569)		(1,478)	(291)
Income tax benefit	—	7	—		(7)	B	(7)	—
Net income (loss) attributable to common shareholders	$ (294)	$ 1,474	$ 91		$ (1,562)		$ (1,471)	$ (291)
Net income (loss) per share - basic and diluted:	$ (0.16)	$ 18.98						$ (0.04)
Weighted-average shares used to compute net loss per share attributable to ordinary shareholders	1,893,120	77,668						8,183,952

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2024
(Amounts in thousands, except per share data)

	Historical 12 months ended		Vyome Pro Forma Adjustments		ReShape Pro Forma Adjustments		Total Pro Forma Adjustments	Pro Forma Combined
	December 31, 2024 Vyome	December 31, 2024 Reshape	*Note 6*	Notes	*Note 6*	Notes		
Revenue	$ 257	$ 8,006	$ —		$ (8,006)	B	$ (8,006)	$ 257
Cost of revenue	62	2,949	—		(2,949)	B	(2,949)	62
Gross profit	195	5,057	—		(5,057)		(5,057)	195
Operating expenses:								
Selling, General and Administrative	916	9,922	—		(9,834)	B	(9,834)	1,004
Research and development	284	1,803	—		(1,803)	B	(1,803)	284
Transaction costs	—	1,024	—		(1,024)	B	(1,024)	—
Impairment of long-lived assets	—	36	—		(36)	B	(36)	—
Total operating expenses	1,201	12,785	—		(12,697)		(12,697)	1,289
Operating loss	(1,006)	(7,728)	—		7,640		7,640	(1,094)
Other expense (income), net:								
Interest expense (income), net	206	(14)	(206)	E	14	B	(199)	—
Gain on extinguishment of debt	—	(429)	—		429		429	—
Gain on changes in fair value of liability warrants	—	(52)	—		52	B	52	—
Loss on change in fair value of convertible debt	239	—	(239)	E	—		(239)	—
Loss on foreign currency exchange	(1)	51	—		(51)	B	(51)	(1)
Other, net	(4)	(193)	—		193	B	193	(4)
Loss before income tax provision	(1,446)	(7,091)	445		7,003		7,455	1,089
Income tax benefit	—	39	—		(39)	B	(39)	—
Net loss attributable to common shareholders	$ (1,446)	$ (7,130)	$ 452		$ 7,042		$ 7,494	$ 1,089
Net loss per share - basic and diluted:	$ (0.76)	$ (345.26)						$ (0.13)
Weighted-average shares used to compute net loss per share attributable to ordinary shareholders	1,893,120	20,651						8,183,952

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Information.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF MARCH 31, 2025
(Amounts in thousands, except per share data)

	Historical March 31, 2025 Vyome	Historical March 31, 2025 ReShape	Vyome Pro Forma Adjustments *Note 5*	Note	ReShape Pro Forma Adjustments *Note 5*	Note	Total Pro Forma Adjustments	Pro Forma Combined
Assets								
Current assets:								
Cash and cash equivalents	$ 58	$ 2,515	$ 5,294	**D, G**	$ (5,194)	**A**	$ 100	$ 2,673
Restricted cash	—	100	—		(100)	**B**	(100)	—
Accounts and other receivables (net of allowance for doubtful accounts)	150	734	—		(734)	**B**	(734)	150
Inventory	—	2,532	—		(2,532)	**B**	(2,532)	—
Prepaid expenses and other current assets	184	414	(111)		(414)	**B**	(525)	73
Total current assets	392	6,295	5,183		(8,974)		(3,791)	2,896
Property and equipment, net	56	34	—		(34)	**B**	(34)	56
Operating lease right-of-use assets	52	99	—		(99)	**B**	(99)	52
Deferred tax asset, net	—	26	—		(26)	**B**	(26)	—
Other intangible assets, net	315	—	—		—		—	315
Other assets	628	29	—		(29)	**B**	(29)	628
Total Assets	$ 1,443	$ 6,483	$ 5,183		$ (9,162)		$ (3,979)	$ 3,947
Liabilities and Shareholders' (Deficit) Equity								
Current liabilities:								
Accounts payable	$ 1,039	$ 1,686	$ —		$ (1,686)	**B**	$ (1,686)	$ 1,039
Accrued and other liabilities	1,059	2,158	—		(2,158)	**B**	(2,158)	1,059
Warranty liability, current	—	163	—		(163)	**B**	(163)	—
Due to affiliates	141	—	—		—		—	141
Convertible debt – current portion	3,836	—	(3,836)	**E**	—		(3,836)	—
Operating lease liabilities, current	29	116	—		(116)	**B**	(116)	29
Total current liabilities	6,104	4,123	(3,836)		(4,123)		(7,959)	2,268
Operating lease liabilities, noncurrent	24	14	—		(14)	**B**	(14)	24
Common stock warrant liability	—	1,116	—		(1,116)	**B**	(1,116)	—
Total liabilities	6,128	5,253	(3,836)		(5,253)		(9,089)	2,292
Shareholders' (deficit) equity:								
Preferred stock	46,985	—	(46,985)	**F**	—		(46,985)	—
Common stock	2	—	—		5	**C**	5	7
Additional paid-in capital	4,098	642,570	57,704	**D, E**	(645,342)	**C**	(587,638)	59,030
Accumulated other comprehensive loss	(53)	(110)	—		110	**B**	110	(53)
Accumulated deficit	(55,717)	(641,230)	(1,700)		641,318	**C**	639,618	(57,329)
Total shareholders' (deficit) equity	(4,685)	1,230	9,019		(3,909)		5,110	1,655
Total liabilities and shareholders' (deficit) equity	$ 1,443	$ 6,483	$ 5,183		$ (9,162)		$ (3,979)	$ 3,947

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Information.

Notes to the Unaudited Pro Forma Condensed Combined Financial Statements

1. Description of the Merger

On July 8, 2024, ReShape, Vyome, and Merger Sub, entered into the Merger Agreement. Pursuant to the Merger Agreement, and subject to the satisfaction or waiver of the conditions specified therein, Merger Sub shall be merged with and into Vyome, with Vyome surviving as a subsidiary of ReShape.

At the Effective Time of the Merger, each Vyome Share issued and outstanding immediately prior to the Effective Time (other than the shares that are owned by ReShape, Vyome, or Merger Sub and shares that will be subject to a put-call option agreement with certain stockholders of Vyome located in India) will be converted into the right to receive a number of fully paid and non-assessable ReShape Shares according to an Exchange Ratio determined at least 10 calendar days prior to the ReShape Special Meeting that will result in the holders of such Vyome Shares, together with holders of Vyome securities convertible into Vyome Shares, owning 92.54% of the outstanding ReShape Shares on a fully-diluted basis immediately after the Effective Time.

The Merger Agreement provides that, at the Effective Time, each outstanding stock option or other equity award to purchase capital stock of Vyome will be converted into equity awards to purchase a number of ReShape Shares equal to the number of shares of Vyome Common Stock issuable upon exercise of such Vyome equity award multiplied by the Exchange Ratio, with an exercise price, in the case of stock options, equal to the exercise price of such Vyome option divided by the Exchange Ratio. The exercise price and number of shares will be determined in a manner consistent with the requirements of Section 409A, and as applicable, Section 424(a) of the Internal Revenue Code, and the applicable regulations promulgated thereunder.

In connection with the transactions contemplated by the Merger Agreement ReShape entered into an agreement with a majority of the holders of its outstanding Series C Preferred Stock pursuant to which the holders of the Series C Preferred Stock agreed, subject to and contingent upon the completion of the Merger and the Asset Sale, to reduce the liquidation preference of the Series C Preferred Stock from $26.2 million to the greater of (i) $1 million, (ii) 20% of the purchase price paid for the Asset Sale and (iii) the excess of ReShape's actual net cash at the effective time of the Merger over the minimum net cash required as a condition to the closing of the Merger as set forth in the Merger Agreement and described below (the "Series C Amendment"). Under the terms of the Series C Amendment, the Series C Preferred Stock would automatically terminate at the effective time of the Merger and would be paid the agreed upon reduced liquidation preference.

In the Merger, ReShape stockholders will continue to own and hold their existing ReShape Shares. Each ReShape restricted stock unit award that is outstanding and unvested immediately prior to the Effective Time, shall become fully vested as of immediately prior to, and contingent upon, the Effective Time. Each ReShape stock option that is outstanding, whether vested or unvested, immediately prior to the Effective Time shall be canceled and terminated without any payment.

2. Basis of Presentation

The unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11, as amended by SEC Final Rule Release No. 33-10786, *Amendments to Financial Disclosures About Acquired and Disposed Businesses*. In accordance with Release No. 33-10786, the unaudited condensed combined pro forma balance sheet and statements of operations reflect transaction accounting adjustments, as well as other adjustments deemed to be directly related to the Proposed Transactions, irrespective of whether or not such adjustments are deemed to be recurring.

Reverse Stock Split

On May 9, 2025, at the commencement of trading, ReShape effected a 1-for-25 reverse stock split. Accordingly, all share and per share amounts presented in the accompanying pro forma financial statements and notes thereto have been adjusted retroactively, where applicable, to reflect the reverse stock split. No fractional shares were issued in connection with the reverse stock split.

On September 23, 2024, at the commencement of trading, ReShape effected a 1-for-58 reverse stock split. Accordingly, all share and per share amounts presented in the accompanying pro forma financial statements and notes thereto have been adjusted retroactively, where applicable, to reflect the reverse stock split. No fractional shares were issued in connection with the reverse stock split.

For accounting purposes, Vyome is considered to be the acquiring company and the Merger will be accounted for as a reverse recapitalization of ReShape by Vyome because, at the time of the Merger, ReShape is expected to have nominal assets and operations as a result of the closing of the Asset Sale.

Under reverse recapitalization accounting, the financial statement of the combined entity will represent a continuation of the financial statements of Vyome. No goodwill or intangible assets will be recognized. The unaudited pro forma condensed combined financial information of Vyome reflects the operations of the acquirer for accounting purposes together with the shares held by the stockholders of the legal acquirer and the issuance of the shares to be held by the accounting acquirer. The pro forma adjustments represent management's best estimates and are based upon currently available information and certain assumptions that management believes are reasonable under the circumstances.

The unaudited pro forma information is not necessarily indicative of what the Combined Company's financial position or results of operations would have been had the Merger been completed on the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the Combined Company.

There were no material transactions between ReShape and Vyome during the periods presented in the unaudited pro forma condensed combined financial statements.

3. Accounting Policies and Reclassification Adjustments

The accounting policies used in the preparation of this unaudited pro forma condensed combined financial information are those set out in Vyome's consolidated financial statements as of and for the year ended December 31, 2024. Based on Vyome management's assessment to date, the accounting policies of ReShape are similar in all material respects to Vyome's accounting policies.

The Combined Company may, as a result, identify additional differences between the accounting policies of the two companies which, when conformed, could have a material impact on the combined consolidated financial statements.

Certain reclassifications have been made ReShape's financial statements to conform to classifications used by Vyome.

4. Share Issuances

At the Effective Time, each Vyome Share (other than the shares that are owned by ReShape, Vyome, or Merger Sub and shares that will be subject to a put-call option agreement with certain Indian stockholders of Vyome and its' subsidiary in India) will be converted into the right to receive a number of ReShape Shares, according to a ratio determined at least 10 days prior to the ReShape Special Meeting that will result in the holders of such Vyome Shares (not including the investors in the Concurrent Financing) owning 86.06% of the outstanding Combined Company Shares immediately after the effective time of the Merger, subject to adjustment based on whether ReShape's net cash is greater than or less than $5 million and assuming the Concurrent Financing occurs. Based on the number of shares outstanding as of April 15, 2025, and assuming ReShape's net cash is equal to $400,000, the Exchange Ratio would be equal to 0.7174 ReShape Shares for each share of Vyome common stock outstanding or underlying the Vyome preferred stock, without giving effect to the proposed reverse stock split of ReShape Shares described in the Registration Statement on Form S-4 filed by ReShape on October 1, 2024, as subsequently amended. However, that estimated Exchange Ratio is not final and is subject adjustment based on the actual shares outstanding, and ReShape's actual net cash, as of the Determination Date.

Because the exact number of ReShape Shares that will be issued in exchange for each Vyome Share will not be determined until a later date, the market value of the Merger Consideration that Vyome stockholders will receive will depend both on the number of ReShape Shares to be issued and the price per ReShape Share at the Effective Time. The exact number of ReShape Shares to be Vyome and the market price per ReShape Share will not be known at the time of the ReShape Special Meeting and may be less or more than the current market price or the market price at the time of the ReShape Special Meeting.

Based on the closing price per share of ReShape Shares on The Nasdaq Capital Market on May 21, 2025 of $5.12, the date on which the assumed Exchange Ratio of 0.7174 ReShape Shares for each Vyome Share was calculated for purposes of this Current Report on Form 8-K, the estimated value of each Vyome Share in the Merger would be approximately $3.67. The exact dollar value of the ReShape Shares that the Vyome stockholders and the ReShape stockholders will hold upon consummation of the Merger will not be known at the time of the ReShape Special Meeting and may be greater than, the same as or less than the current market price of ReShape Shares at the time of the ReShape Special Meeting. The market price of the ReShape Shares is subject to general price fluctuations in the market for publicly traded equity securities and has experienced volatility in the past and may vary significantly from the date of the ReShape Special Meeting. As a result of these fluctuations, the value of the Merger Consideration will also vary. For example, based on the range of closing prices of ReShape Shares during the period from July 8, 2024, the last trading day before public announcement of the Merger, through May 21, 2025, of $5.12 to $339.30, the assumed Exchange Ratio represented a value ranging from a low of $3.67 to a high of $243.41 for each Vyome share.

The following table shows the shares outstanding pre- and post-Merger for purposes of this pro forma financial statement, as adjusted for the share exchange ratio.

	Shares Issued	Entitlement Shares in Combined Company to honor put/call option agreement using Vyome-USA and Vyome-India shares	Fully Diluted shares outstanding
		(in thousands)	(in thousands)
Shares of Reshape, post reverse stock split	741,554	—	741,554
Shares to be issued to former Vyome debtholders, common and preferred shareholders, penny warrants (which will be exercised and convert to common shares prior to Merger date) for participation in Concurrent financing - a portion of which are subject to the put/call option agreement	4,930,409	946,854	5,877,263
Underlying entitlement of common Shares in the Combined company for former Indian resident shareholders for participation in Concurrent Financing by putting money in Vyome-India-subject to the put/call option agreement	—	920,460	920,460
	5,671,963	1,867,314	7,539,277
Shares to be issued in Concurrent Financing only for those amounts that come at merger closing in Combined company and the entitlement shares thru a put/call option agreement using the shares of Vyome's subsidiary as a result of such an investment at merger closing in Vyome's India subsidiary	552,062	92,613	644,675
Post-merger, proforma shares outstanding in Combined company and Vyome subsidiary in India	6,224,025	1,959,927	8,183,952

The following table shows the split fully diluted shares outstanding for purposes of this pro forma financial statement:

	Shares
	(in thousands)
Post-merger Vyome stock options outstanding	1,758,668
Post-merger, proforma shares outstanding	8,183,952
Fully diluted shares outstanding	9,942,620

As a result of the conversion of the Vyome Convertible Debt, preferred stock and Bridge Financing to common shares prior to the Merger, Vyome will have an estimated 6.8 million common shares outstanding and 2.6 million shares subject to the put/call option described below.

ReShape completed a 1-for-58 reverse stock split in September 2024 and a 1-for-25 reverse stock split in May 2025, prior to the Merger such that approximately 0.7 million common shares will be outstanding. In connection with the Merger and pursuant to the Exchange ratio, ReShape will issue approximately 4.9 million shares to former Vyome shareholders. At the Merger date, there will be 0.9 million entitled shares of the Combined Company which are subject to put/ call option agreement using Vyome shares owned by certain Indian resident shareholders. At the Merger date, there will be 0.9 million entitled shares of the Combined Company which are subject to put/call Option agreement using Vyome' subsidiary shares owned by certain Indian resident shareholders. At the Merger date, there will be Vyome stock options outstanding for the purchase of approximately 1.8 million shares of common stock.

Post Merger, the combined company is expected to issue approximately 0.6 million shares of common stock from the Concurrent Financing, raising expected gross proceeds of approximately $6.9 million. Also, as part of Concurrent financing for the investments made by certain India resident shareholders in Vyome's subsidiary in India, there will be approximately 0.1 million entitled shares of the Combined Company which are subject to put/call option agreement using this investment-related shares in Vyome's subsidiary in India. The actual value of the Merger Consideration will be subject to change based on the final Exchange Ratio determined as of the Determination Date and the underlying market price of the ReShape Shares. As a result, changes in Reshape's stock price will impact the market value of the ReShape Shares to be issued in the Merger. This is also indicated below through the sensitivity analysis performed using the hypothetical change in the closing price of ReShape Shares to assess the impact on the number of shares issued to holders of Vyome Shares and the number of ReShape Shares underlying the ReShape preferred stock and warrants to be issued in exchange for Vyome Series C Preferred Stock and warrants, respectively, as part of Merger Consideration on the Effective Date.

Based on ReShape's closing share price of $5.12 on May 21, 2025, the value of shares to be issued in connection with the Merger will be approximately $34.8 million. This amount reflects the following:

- Shares to be issued to former Vyome debtholders, common and preferred shareholders, penny warrants (which will be exercised and convert to common shares prior to Merger date) for participation in Concurrent financing — a portion of which are subject to the put/call option agreement.

- Underlying entitlement of common shares in the combined company for former Indian resident shareholders for participation in Concurrent Financing by putting money in Vyome-India-subject to the put/call option agreement

The value of shares to be issued post Merger, in connection with the Concurrent Financing, will be approximately $3.3 million. This amount reflects the following:

- Shares to be issued in Concurrent Financing only for those amounts that come at merger closing in combined company and the entitlement shares thru a put/call option agreement using the shares of Vyome's subsidiary as a result of such an investment at merger closing in Vyome's India subsidiary

This amount will change based on fluctuations in the market price of ReShape common shares. Vyome believes that a 10% fluctuation in market price of ReShape common shares is reasonably possible based on historical volatility, and the potential effect on the value of shares to be issued would be:

	ReShape's share price	Value of shares to be issued in connection with Merger	Value of shares to be issued Post Merger
		(in thousands)	
As presented	$ 5.12	$ 34,804	$ 3,301
10% increase	5.63	38,285	3,631
10% decrease	4.61	31,324	2,971

5. Notes to Unaudited Pro Forma Condensed Combined Balance Sheet — Pro Forma Adjustments

ReShape Pro Forma Adjustments:

A: The proceeds from the sales of the ReShape operating business to BioRad will be used primarily pay costs related to Merger costs, employee costs and other matters. A portion of the remaining cash available after payment of such expenses will be paid to the ReShape Series C preferred shareholders and left in the Combined Company subject to various considerations, including whether ReShape undertakes a bridge loan. The tables below reflect adjustments to cash and cash equivalents as of March 31, 2025, based upon the assumption that no additional bridge loan is undertaken:

March 31, 2025:

	Amount
	(in thousands)
Change in control bonus - paid to Preferred Series C shareholders [1]	$ (1,000)
Contingent success fee [2]	(1,500)
Cash paid for third party expenses [3]	(291)
Consideration to Vyome for Legal and Audit fees [4]	(80)
Cash paid for PTO and Severance [5]	(1,532)
Cash paid for D&O Tail [6]	(773)
Cash proceeds from Asset Sale to Biorad [7]	2,250
AR-AP Adjustment [8]	(1,196)
Other miscellaneous[9]	(1,072)
Total pro forma adjustment to cash and cash equivalents	$ (5,194)

(1) Reflects payment of $1.0 million to Preferred Series C shareholders related to change in control payout under the Series C purchase agreements.

(2) Reflects contingent success fee to be paid to Maxim upon completion of transaction.

(3) Reflects costs paid related to the Merger transaction. Amounts include printer, legal, and audit fees.

(4) Reflects payment to Vyome for Legal and Audit fees as a condition to the closing of the Merger.

(5) Reflects severance, termination, or similar payments due to certain current and former employees.

(6) Reflects costs for the “tail” D&O insurance policies paid in accordance with the Merger Agreement.

(7) Reflects cash proceeds from the Asset Sale to Biorad ReShape will sell substantially all of its assets (excluding cash) to Biorad, and Biorad will assume substantially all of ReShape’s liabilities, for a purchase price of $2.5 million in cash.

(8) Reflects payment for the net settlement of remaining accounts payable and accounts receivable from Reshape at closing of the Merger.

(9) Reflects other estimated costs to be incurred by Reshape through the closing of the Merger, primarily consisting of an estimated $1.0 million operating cashflow to be incurred by Reshape.

B: Reflects the elimination of ReShape’s assets and liabilities as of March 31, 2025 to the standalone operating entity, as Vyome is not assuming any of ReShape’s assets or liabilities in the transaction. These adjustments reflect the impact of the sale of substantially all ReShape’s assets and liabilities to BioRad, and the elimination of the operating accounts of ReShape as a result of the Asset Sale.

C: To record the (i) elimination of ReShape's historical equity, (ii) issuance of ReShape Shares to Vyome stockholders upon closing of the Merger, (iii) transaction costs associated with the Merger, and (iv) impact of reverse capitalization transaction.

	Amount (in thousands)
Elimination of Reshape's historical APIC balance	$ (642,570)
Reverse Recapitalization of Reshape Equity	1,230
Change in control bonus - paid to Preferred Series C shareholders	(1,000)
Entitlement Shares in Combined Company to honor put/call option agreement and issuance of common stock to Vyome as part of merger	(5)
Payment of contingent success fee	(1,500)
Payment of third party expenses	(291)
Payment of PTO and Severance	(1,532)
Payment of D&O Tail	(773)
Gain from Asset Sale to Biorad	3,535
Transaction costs booked to APIC	(2,437)
Total pro forma adjustments to APIC	$ (645,342)

	Amount (in thousands)
Elimination of Reshape's historical accumulated deficit	$ 641,230
Payment of other miscellaneous transaction costs	88
Total pro forma adjustment to accumulated deficit	$ 641,318

Vyome Pro Forma Adjustments:

D: Through August 2024, Vyome continued its compulsory note payable bridge offering ("Bridge Financing"), which could be raised prior to the Merger. The term of these Bridge Financing notes is similar to the convertible notes issued by Vyome since 2020 and may be issued by either the Vyome US parent company or the Vyome subsidiary in India. Through March 31, 2025, the Vyome US parent company raised approximately $0.6 million of these Bridge Financing notes which, along with accrued interest, will convert immediately prior to the Merger at a 25% discount to the 30% discount to the valuation determined through the Merger. The Bridge Financing notes issued by the Vyome subsidiary in India of approximately $86,000 (of which approximately $31,250 is yet to come into Vyome subsidiary due to delay in closing conditions precedent) have the same terms and are also subject to a "put/call option" — see discussion below. Immediately prior to the Merger, all but the notes subject to the put/call option from such Bridge Financing notes were converted into shares of common stock of Vyome.

In July 2024, Vyome commenced a debt and equity offering ("Concurrent Financing") of up to $10 million to be issued by Vyome. It's subsidiary in India and the combined company immediately after completion of Merger. The investors in the Concurrent Financing were able to invest in a one-year 8% compulsory convertible note issued by either Vyome or the Vyome subsidiary in India or shares of either the combined company or Vyome's subsidiary entity in India. Certain investors also received a warrant to purchase shares of the combined company's common stock at $0.001 per share. The Company has received commitments of approximately $6.5 million of the combined company common stock and has received commitments of approximately $1.0 million of common stock of the Vyome subsidiary in India and are also subject to a "put/call option" — see discussion below — under such Concurrent Financing.

E: Vyome's outstanding principal amount of their Convertible Notes including any unpaid accrued interest shall automatically convert in whole into Vyome's common shares immediately prior to the Merger date at a conversion price equal to the assumed pre-Merger valuation per share multiplied by 0.75 and then multiplied by 70%. Since this conversion is deemed to have happened at the beginning of each period presented, the recorded interest expense and changes in the fair value of the convertible notes is eliminated from the presentation of the pro forma results of operations.

F: Each share of Vyome's preferred stock is mandatorily convertible into shares of Vyome common stock at the conversion price as defined in the shareholders' agreement immediately prior to the Merger date. However, certain India-based shareholders will not convert their preferred shares into common shares due to regulatory restrictions. Instead, they will receive shares subject to the put/call option — see below.

The shares issued by Vyome subsidiary in India and certain shares owned by Indian resident shareholders are subject to put and call option agreements whereby the Combined Company can call the shares at the quoted market value on such date called by the combined company, or the shareholders can put their shares to the combined company either for exchange, subject to certain conditions, of the equivalent number of combined company shares or for a specified amount of cash subject to explicit approval of the board of directors of the combined company.

G: Vyome's estimated transaction costs for the Merger related expenses is $1.7 million.

6. Notes to Unaudited Pro Forma Condensed Combined Statement of Operations — Pro Forma Adjustments

E: — Refer to Note E above for adjustments related to Vyome's convertible debt.

7. Pro Forma Weighted Average Shares (Basic and Diluted)

Basic net loss per share of common stock is computed by dividing net loss by the weighted average number of vested shares of common stock outstanding during the period. Diluted net income per share of common stock is computed by dividing net income by the weighted average number of common and dilutive common-equivalent shares outstanding during each period. The exchanged Vyome stock options were excluded from the calculation of weighted average dilutive shares of common stock because their inclusion would have been anti-dilutive.

The below table reflects the Pro Forma earnings per share computation for the three months ended March 31, 2025.

	Pro Forma For the Three Months Ended 31-Mar-25 (in thousands)
Numerator for basic earnings per share calculation:	
Pro Forma loss (for basic and diluted EPS)	$ (291)
Denominator for basic and diluted earnings per share calculation:	
Weighted-average ReShape's outstanding shares	741,554
Entitlement Shares in Combined Company to honor put/call option agreement and issuance of common stock to Vyome as part of merger	7,442,398
Pro Forma weighted average shares (basic and diluted)	8,183,952
Pro Forma earnings per share (basic and diluted)	$ (0.04)

The below table reflects the Pro Forma earnings per share computation for the year ended December 31, 2024.

	Pro Forma For the Year Ended December 31, 2024 (in thousands)
Numerator for basic earnings per share calculation:	
Pro Forma loss (for basic and diluted EPS)	$ (1,124)
Denominator for basic and diluted earnings per share calculation:	
Weighted-average ReShape's outstanding shares	741,554
Entitlement Shares in Combined Company to honor put/call option agreement and issuance of common stock to Vyome as part of merger and Concurrent Financing	7,442,398
Pro Forma weighted average shares (basic and diluted)	8,183,952
Pro Forma earnings per share (basic and diluted)	$ (0.14)