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

Form 10-Q

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

For the quarterly period ended June 30, 2024

OR

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

For the transition period from to

Commission file number: 1-37897

RESHAPE LIFESCIENCES INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

26-1828101
(IRS Employer
Identification No.)

18 Technology Dr, Suite 110, Irvine, California 92618

(Address of principal executive offices) (zip code)

(949) 429-6680

(Registrant's telephone number, including area code)

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

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

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

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

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

Large Accelerated Filer	☐	Accelerated Filer	☐
Non-accelerated Filer	☒	Smaller Reporting Company	☒
		Emerging Growth Company	☐

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

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

As of August 12, 2024, 29,387,152 shares of the registrant's Common Stock were outstanding.

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PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

RESHAPE LIFESCIENCES INC. **Condensed Consolidated Balance Sheets** **(unaudited)** **(dollars in thousands, except per share amounts)**

	June 30, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,053	\$ 4,459
Restricted cash	100	100
Accounts and other receivables (net of allowance for doubtful accounts of \$636 and \$804, respectively)	1,382	1,659
Inventory	3,246	3,741
Prepaid expenses and other current assets	306	337
Total current assets	6,087	10,296
Property and equipment, net	48	60
Operating lease right-of-use assets	202	250
Deferred tax asset, net	27	28
Other assets	29	29
Total assets	<u>\$ 6,393</u>	<u>\$ 10,663</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,030	\$ 1,689
Accrued and other liabilities	1,895	1,814
Warranty liability, current	163	163
Operating lease liabilities, current	113	111
Total current liabilities	3,201	3,777
Operating lease liabilities, noncurrent	103	151
Common stock warrant liability	54	72
Total liabilities	<u>3,358</u>	<u>4,000</u>
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, 10,000,000 shares authorized:		
Series C convertible preferred stock, \$0.001 par value; 95,388 shares issued and outstanding at June 30, 2024 and December 31, 2023	—	—
Common stock, \$0.001 par value; 300,000,000 shares authorized at June 30, 2024 and December 31, 2023; 29,387,120 and 23,457,047 shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively	29	23
Additional paid-in capital	642,457	642,302
Accumulated deficit	(639,362)	(635,574)
Accumulated other comprehensive loss	(89)	(88)
Total stockholders' equity	3,035	6,663
Total liabilities and stockholders' equity	<u>\$ 6,393</u>	<u>\$ 10,663</u>

See accompanying notes to Condensed Consolidated Financial Statements.

RESHAPE LIFESCIENCES INC.

Condensed Consolidated Statements of Operations
(unaudited)
(dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue	\$ 1,965	\$ 2,254	\$ 3,909	\$ 4,541
Cost of revenue	831	1,060	1,610	2,123
Gross profit	1,134	1,194	2,299	2,418
Operating expenses:				
Sales and marketing	670	2,177	1,689	4,359
General and administrative	2,119	2,445	3,991	6,667
Research and development	399	581	883	1,033
Gain on disposal of assets, net	—	(33)	—	(33)
Total operating expenses	3,188	5,170	6,563	12,026
Operating loss	(2,054)	(3,976)	(4,264)	(9,608)
Other expense (income), net:				
Interest income, net	(4)	(9)	(13)	(4)
Loss (gain) on changes in fair value of liability warrants	2	(472)	(18)	(3,438)
Gain on extinguishment of debt	(429)	—	(429)	—
Loss (gain) on foreign currency exchange, net	16	—	40	(21)
Other	(59)	(6)	(84)	(8)
Loss before income tax provision	(1,580)	(3,489)	(3,760)	(6,137)
Income tax expense	15	4	28	18
Net loss	\$ (1,595)	\$ (3,493)	\$ (3,788)	\$ (6,155)
Net loss per share - basic and diluted:				
Net loss per share - basic and diluted	\$ (0.06)	\$ (1.08)	\$ (0.16)	\$ (2.48)
Shares used to compute basic and diluted net loss per share	25,222,443	3,249,259	24,339,785	2,482,957

See accompanying notes to Condensed Consolidated Financial Statements.

RESHAPE LIFESCIENCES INC.**Condensed Consolidated Statements of Comprehensive Loss**
(unaudited)
(dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net loss	\$ (1,595)	\$ (3,493)	\$ (3,788)	\$ (6,155)
Foreign currency translation adjustments	7	(2)	(1)	(7)
Other comprehensive income (loss), net of tax	7	(2)	(1)	(7)
Comprehensive loss	<u>\$ (1,588)</u>	<u>\$ (3,495)</u>	<u>\$ (3,789)</u>	<u>\$ (6,162)</u>

See accompanying notes to Condensed Consolidated Financial Statements.

RESHAPE LIFESCIENCES INC.

Condensed Consolidated Statements of Stockholders' Equity (unaudited) (dollars in thousands)

	Three Months Ended June 30, 2024							
	Series C Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance March 31, 2024	95,388	\$ —	23,457,090	\$ 23	\$ 642,374	\$ (637,767)	\$ (96)	\$ 4,534
Net loss	—	—	—	—	—	(1,595)	—	(1,595)
Other comprehensive income, net of tax	—	—	—	—	—	—	7	7
Stock compensation	—	—	—	—	65	—	—	65
Issuance of stock from RSUs	—	—	72	—	—	—	—	—
Exercise of warrants	—	—	5,929,958	6	18	—	—	24
Balance June 30, 2024	<u>95,388</u>	<u>\$ —</u>	<u>29,387,120</u>	<u>\$ 29</u>	<u>\$ 642,457</u>	<u>\$ (639,362)</u>	<u>\$ (89)</u>	<u>\$ 3,035</u>

	Six Months Ended June 30, 2024							
	Series C Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance December 31, 2023	95,388	\$ —	23,457,047	\$ 23	\$ 642,302	\$ (635,574)	\$ (88)	\$ 6,663
Net loss	—	—	—	—	—	(3,788)	—	(3,788)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(1)	(1)
Stock compensation	—	—	—	—	137	—	—	137
Issuance of stock from RSUs	—	—	115	—	—	—	—	—
Exercise of warrants	—	—	5,929,958	6	18	—	—	24
Balance June 30, 2024	<u>95,388</u>	<u>\$ —</u>	<u>29,387,120</u>	<u>\$ 29</u>	<u>\$ 642,457</u>	<u>\$ (639,362)</u>	<u>\$ (89)</u>	<u>\$ 3,035</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

RESHAPE LIFESCIENCES INC.

Condensed Consolidated Statements of Stockholders' Equity (Continued)
(unaudited)
(dollars in thousands)

	Three Months Ended June 30, 2023							
	Series C Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance March 31, 2023	95,388	\$ —	2,648,765	\$ 3	\$ 634,697	\$ (626,849)	\$ (93)	\$ 7,758
Net loss	—	—	—	—	—	(3,493)	—	(3,493)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(2)	(2)
Stock compensation	—	—	—	—	217	—	—	217
Common stock purchased	—	—	291,395	—	894	—	—	894
Equity issuance costs	—	—	—	—	(207)	—	—	(207)
Issuance of stock from RSUs	—	—	834	—	—	—	—	—
Exercise of warrants	—	—	511,175	—	1,571	—	—	1,571
Balance June 30, 2023	<u>95,388</u>	<u>\$ —</u>	<u>3,452,169</u>	<u>\$ 3</u>	<u>\$ 637,172</u>	<u>\$ (630,342)</u>	<u>\$ (95)</u>	<u>\$ 6,738</u>

	Six Months Ended June 30, 2023							
	Series C Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance December 31, 2022	95,388	\$ —	519,219	\$ 1	\$ 627,935	\$ (624,187)	\$ (88)	\$ 3,661
Net loss	—	—	—	—	—	(6,155)	—	(6,155)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(7)	(7)
Issuance of common stock pursuant to reverse stock split	—	—	18,399	—	—	—	—	—
Stock compensation	—	—	—	—	440	—	—	440
Common stock purchased	—	—	1,476,395	1	894	—	—	895
Equity issuance costs	—	—	—	—	91	—	—	91
Issuance of stock from RSUs	—	—	1,668	—	—	—	—	—
Exercise of warrants	—	—	1,436,488	1	7,812	—	—	7,813
Balance June 30, 2023	<u>95,388</u>	<u>\$ —</u>	<u>3,452,169</u>	<u>\$ 3</u>	<u>\$ 637,172</u>	<u>\$ (630,342)</u>	<u>\$ (95)</u>	<u>\$ 6,738</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

RESHAPE LIFESCIENCES INC.
Condensed Consolidated Statements of Cash Flows
(unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2024	2023
Cash flows from operating activities:		
Net loss	\$ (3,788)	\$ (6,155)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	12	75
Amortization of intangible assets	—	22
Gain on extinguishment of debt	(429)	—
Gain on disposal of assets, net	—	(33)
Stock-based compensation	137	440
Bad debt (recovery) expense	(169)	145
Provision for inventory excess and obsolescence	111	67
Deferred income tax	1	(1)
Gain on changes in fair value of liability warrants	(18)	(3,438)
Offering cost	—	298
Other noncash items	2	12
Change in operating assets and liabilities:		
Accounts and other receivables	447	60
Inventory	384	276
Prepaid expenses and other current assets	31	(470)
Accounts payable and accrued liabilities	(150)	(2,833)
Warranty liability	—	(177)
Other	—	(11)
Net cash used in operating activities	(3,429)	(11,723)
Cash flows from investing activities:		
Capital expenditures	—	(43)
Proceeds from sale of capital assets	—	33
Cash used in investing activities:	—	(10)
Cash flows from financing activities:		
Exercise of warrants	24	12,451
Net cash provided by financing activities	24	12,451
Effect of currency exchange rate changes on cash and cash equivalents	(1)	(6)
Net change in cash, cash equivalents and restricted cash	(3,406)	712
Cash, cash equivalents and restricted cash at beginning of period	4,559	3,955
Cash, cash equivalents and restricted cash at end of period	\$ 1,153	\$ 4,667
Supplemental disclosure:		
Cash paid for income taxes	\$ 12	\$ —

See accompanying notes to Condensed Consolidated Financial Statements.

ReShape Lifesciences Inc.

Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except per share amounts; unaudited)

(1) Basis of Presentation

The accompanying interim condensed consolidated financial statements and related disclosures of Reshape Lifesciences Inc. (the "Company" or "ReShape") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, filed on April 1, 2024. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted.

In the opinion of management, the interim consolidated condensed financial statements reflect all adjustments considered necessary for a fair statement of the interim periods. All such adjustments are of a normal, recurring nature. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

Summary of Significant Accounting Policies

The Company's significant accounting policies are described in Note 2 to its audited consolidated financial statements for the year ended December 31, 2023, which are included in the Company's 2023 Annual Report on Form 10-K which was filed with the SEC on April 1, 2024.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may materially differ from these estimates. The Company reviews its estimates on an ongoing basis or as new information becomes available to ensure that these estimates appropriately reflect changes in its business.

Long-Lived Assets

We assess the potential impairment of long-lived assets, principally property and equipment, whenever events or changes in circumstances indicate that the carrying value of the asset group may not be fully recoverable. If an indicator of impairment exists for any of its asset groups, an estimate of undiscounted future cash flows, over the life of the primary asset for each asset group is compared to that long-lived asset group's carrying value. If the carrying value of the asset group is greater than the estimated future undiscounted cash flow, the Company then determines the fair value of the assets, and if an asset is determined to be impaired, the impairment loss is measured by the excess of the carrying amount of the asset over its fair value.

Fair Value of Financial Instruments

The carrying amounts of cash equivalents, accounts receivable, accounts payable and certain accrued and other liabilities approximate fair value due to their short-term maturities. Refer to Note 6 regarding fair value measurements and inputs of warrants.

Net Loss Per Share

The following table sets forth the potential shares of common stock that are not included in the calculation of diluted net loss per share because to do so would be anti-dilutive as of the end of each period presented:

	June 30,	
	2024	2023
Stock options	8,143	17,634
Unvested restricted stock units	604	2,598
Convertible preferred stock	10	10
Warrants	4,726,424	1,632,514

Recent Accounting Pronouncements

New accounting standards not yet adopted are discussed below.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which requires entities to provide additional information in the rate reconciliation and additional disaggregated disclosures about income taxes paid. This guidance requires public entities to disclose in their rate reconciliation table additional categories of information about federal, state, and foreign income taxes and to provide more details about the reconciling items in some categories if the items meet a quantitative threshold. The guidance is effective for annual periods beginning after December 15, 2024. The Company does not expect the adoption of this guidance to impact its consolidated financial statements, but the guidance will impact its income tax disclosures.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. The amendments require disclosure of significant segment expenses and other segment items and requires entities to provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. The amendment also requires disclosure of the title and position of the chief operating decision maker ("CODM") and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources. This guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Retrospective application is required, and early adoption is permitted. The Company is currently evaluating the impact the guidance will have on its consolidated financial statements.

(2) Liquidity and Management's Plans

The Company currently does not generate revenue sufficient to offset operating costs and anticipates such shortfalls to continue as the Company has modified its strategy to a metrics-driven approach through a sustainable and scalable business model, via a digital lead generation and re-engagement strategy. As of June 30, 2024, the Company had net working capital of approximately \$2.9 million, primarily due to cash and cash equivalents and restricted cash of \$1.2 million, and \$1.4 million of net accounts receivable. The Company has raised gross proceeds of \$13.7 million between the public offerings that occurred on February 8, 2023, April 24, 2023 and October 3, 2023. Based on its available cash resources, the Company will not have sufficient cash on hand to fund its current operations for more than twelve months from the date of filing this Quarterly Report on Form 10-Q. This condition raises substantial doubt about the Company's ability to continue as a going concern.

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, for further details see Note 11, (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) introduce to 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. If management's plans do not develop, and the Company does not raise additional cash, at the current burn rate, management expects to run out of cash during the third quarter of 2024.

There can be no assurance as to whether the Company will close the planned transactions or whether additional financing will be available on terms acceptable to the Company, if at all. If sufficient funds on acceptable terms are not available when needed, it would have a negative impact on the Company's financial condition and could force the Company to delay, limit, reduce, or terminate product development or future commercialization efforts or grant rights to develop and market product candidates or testing products that the Company would otherwise plan to develop.

Therefore, the plans cannot be deemed probable of being implemented. As a result, the Company's plans do not alleviate substantial doubt about our ability to continue as a going concern.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the ordinary course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of the uncertainties described above.

(3) Supplemental Balance Sheet Information

Components of selected captions in the condensed consolidated balance sheets consisted of the following:

Inventory:

	June 30, 2024	December 31, 2023
Raw materials	\$ 872	\$ 1,020
Sub-assemblies	1,219	1,379
Finished goods	1,155	1,342
Total inventory	<u>\$ 3,246</u>	<u>\$ 3,741</u>

Prepaid expenses and other current assets:

	June 30, 2024	December 31, 2023
Prepaid insurance	\$ 149	\$ 110
Professional services	45	—
Patents	7	13
Prepaid advertising and marketing	35	41
Taxes	15	47
Other current assets	55	126
Total prepaid expenses and other current assets	<u>\$ 306</u>	<u>\$ 337</u>

Accrued and other liabilities:

	June 30, 2024	December 31, 2023
Payroll and benefits	\$ 636	\$ 701
Accrued legal settlements	—	200
Customer deposits	723	639
Taxes	58	61
Accrued professional	431	155
Other liabilities	47	58
Total accrued and other liabilities	<u>\$ 1,895</u>	<u>\$ 1,814</u>

Accounts payable:

During the second quarter of 2024, management requested our outside legal counsel to provide guidance with respect to vendor collectability of various accounts payables carried on the books from 2020 and prior. Based on the review of the statute of limitations for the various states, these vendors were located, and legal counsel provided a conclusion if the laws per the respective states if the statute of limitations has expired. The statute of limitations is an affirmative defense in which the defendant introduces evidence, which, if found to be credible, will negate criminal or civil liability, even if it is proven the defendant committed the alleged acts. The party raising the affirmative defense has the burden of proof on establishing that it applies. In a civil action in which a creditor demands payment on a written instrument evidencing a debt, the successful assertion of the statute of limitations defense will bar collection of the debt. In order to assert the statute of limitations as a defense, a defendant must specifically assert the defense is the answer. If a defendant fails to specifically plead the defense, it will be deemed to be waived. Since no action to enforce such liabilities was brought before June 30, 2024, it is our opinion that the liability is time-barred from collection under the respective state laws and should be removed from the Company's balance sheet.

Therefore, the Company made the decision to write-off the payables totaling \$429 thousand. As of June 30, 2024, the write-off of the \$429 thousand resulted in a gain on extinguishment of debt which was reported on the Statement of Operations for the three and six months ended June 30, 2024.

(4) Leases

The Company had a noncancelable operating lease for office and warehouse space in San Clemente, which expired June 30, 2023. On March 13, 2023, the Company entered into a lease for approximately 5,038 square feet of office and warehouse space at 18 Technology Drive, Suite 110, Irvine, California 92618 and relocated its principal executive offices from our former San Clemente, California location to the Irvine, California location. The Irvine lease has a term of 36 months, commencing on May 1, 2023.

The Company does not have any short-term leases or financing lease arrangements. Lease and non-lease components are accounted for separately.

Operating lease costs were \$0.1 million for both the three months ended June 30, 2024 and 2023, and \$0.1 million and \$0.2 million for the six months ended June 30, 2024 and 2023, respectively. Variable lease costs were not material.

Supplemental information related to operating leases is as follows:

	June 30, 2024	December 31, 2023
Balance Sheet information		
Operating lease ROU assets	\$ 202	\$ 250
Operating lease liabilities, current portion	\$ 113	\$ 111
Operating lease liabilities, long-term portion	103	151
Total operating lease liabilities	\$ 216	\$ 262
Cash flow information for the six months ended June 30,	2024	2023
Cash paid for amounts included in the measurement of operating leases liabilities	\$ 54	\$ 228

Maturities of operating lease liabilities were as follows as of June 30, 2024:

2024 (balance of year)	\$	57
2025		115
2026		59
Total lease payments		231
Less: imputed interest		15
Total lease liabilities	\$	216
Weighted-average remaining lease term at end of period (in years)		1.9
Weighted-average discount rate at end of period		6.9 %

(5) Equity

Common Stock Issued Related to Restricted Stock Units

During the three months ended June 30, 2024 and 2023, the Company issued 72 shares of common stock and 834 shares of common stock, respectively, subject to vesting of the restricted stock units. During the six months ended June 30, 2024 and 2023, the Company issued 115 shares of common stock and 1,668 shares of common stock, respectively, subject to vesting of restricted stock units. For further details see Note 9.

May 2024 Exercise of Warrants for Common Stock

On May 30, 2024, an accredited investor exercised outstanding warrants, of which 105,000 shares of common stock were issued in accordance with the terms of the warrant agreement. The Company received approximately \$24 thousand of cash.

June 2024 Exercise of Warrants for Common Stock

On June 4, 2024, the Company issued 5,824,958 shares of common stock in exchange for 10,765,000 common stock purchase warrants. These warrants were exercised using the cashless mechanism within the warrant agreement.

February 2023 Public Offering of Common Stock and Warrants

On February 8, 2023, the Company closed a public offering of 1,275,000 units, with each consisting of one share of its common stock, or one pre-funded warrant to purchase one share of its common stock, and one warrant to purchase one and one-half shares of its common stock. Each unit was sold at the public offering price of \$8.00. The warrants in the units are immediately exercisable at a price of \$8.00 per share and expire five years from the date of issuance. Alternatively, each warrant can be exercised pursuant to the “alternative cashless exercise” provision, to which the holders would receive an aggregate number of shares of common stock equal the product of (x) the aggregate number of shares of common stock that would be issuable upon a cash exercise and (y) 0.50. For purposes of clarity, one common warrant to purchase one and one-half shares would be exercisable for 0.75 shares under this alternative cashless exercise provision. The shares of common stock (or pre-funded warrants in lieu thereof) and accompanying warrants were only purchasable together in this offering but were issued separately and immediately separable upon issuance. As of June 30, 2024 warrants to purchase 1,674,376 shares of common stock have been exercised under the alternative cashless exercise for a total of 835,313 shares of common stock.

Net proceeds, after deducting underwriting discounts and commissions and estimated offering expenses, were approximately \$10.2 million. The Company has been using the net proceeds of this offering to continue implementation of its growth strategies, for working capital and general corporate purposes.

The Company also granted the underwriters an option to purchase an additional 191,250 shares of common stock and/or additional warrants to purchase up to 286,875 shares of common stock, to cover over-allotments, of which Maxim Group LLC exercised its option to purchase additional warrants to purchase 286,875 shares of common stock.

(6) Warrants

The Company's grants of warrants to purchase common stock are primarily in connection with equity financing. See Note 5 for additional information about equity financings and the related issuance of warrants. Warrant activity for the six months ended June 30, 2024 is as follows:

	Shares
Balance December 31, 2023	15,598,392
Issued	—
Exercised	(10,870,000)
Cancelled	(1,968)
Balance June 30, 2024	4,726,424

On February 8, 2023, the Company completed a public offering in which three classes of warrants were issued. There were 2,199,375 common stock purchase warrants issued with an alternative cashless exercise provision. The alternative cashless exercise allows the holder to exercise one warrant share for 0.5 shares of common stock or exercise via the cash exercise price of \$8.00 per share of common stock per warrant. The Company classifies these warrants as a liability, and the Company utilized a bifurcated Black-Scholes option pricing model to consider the cash exercise option and cashless exercise option. The bifurcated Black-Scholes option pricing model used an exercise price where the two exercise methods would be indifferent with market inputs of the stock price on the issuance, risk free interest rate, expected share price volatility and dividend yield. The Company calculates the fair value of the warrants at each reporting period and when a warrant is exercised, with the changes in fair value recognized in the statement of operations.

Below is a summary of the initial inputs used in the bifurcated Black-Scholes option pricing model.

	Cash Exercise	Cashless Exercise
Stock Price	\$ 5.905	\$ 5.905
Exercise Price	\$ 16.00	\$ 0.00
Term (years)	5.00	5.00
Volatility	96.50%	96.50%
Risk Free Rate	3.784%	3.784%
Dividend Yield	0%	0%

The following table presents the changes in the fair value of warrant liabilities:

	Common Stock Purchase Warrants
Fair value as of December 31, 2023	\$ 72
Gain on changes in fair value of liability warrants	(18)
Fair value as of June 30, 2024	\$ 54

In addition, one of the investors purchased 90,000 pre-funded warrants at a price of \$7.999 per warrant. These warrants have an exercise price of \$0.0001 per share and do not expire. The pre-funded warrants were valued at \$0.5 million using the fair value approach at the time of issuance. The fair value of the pre-funded warrants was determined using a Black Scholes option pricing model using a risk-free rate of 3.784%, an expected term of 5.0 years, expected dividends of zero and expected volatility of 96.5%.

As part of the terms of the offering, the Company issued 73,313 representative's warrants with an exercise price of \$8.80 per share and expiration date on February 3, 2028. The representative's warrants were valued at \$0.3 million using the fair value approach at the time of issuance. The fair value of the representative's warrants was determined using a Black Scholes option pricing model using a risk-free rate of 3.786%, an expected term of 4.99 years, expected dividends of zero and expected volatility of 96.5%.

(7) Revenue Disaggregation and Operating Segments

The Company conducts operations worldwide and has sales in the following regions: United States, Australia, Europe and Rest of World. For the three and six months ended June 30, 2024 and 2023, the Company primarily sold the Lap-Band system and accessories. The following table presents the Company's revenue disaggregated by geography:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
United States	\$ 1,663	\$ 1,929	\$ 3,281	\$ 3,742
Australia	103	123	205	280
Europe	198	193	396	497
Rest of World	1	9	27	22
Total revenue	<u>\$ 1,965</u>	<u>\$ 2,254</u>	<u>\$ 3,909</u>	<u>\$ 4,541</u>

Operating Segments

The Company conducts operations worldwide and is managed in the following geographical regions: United States, Australia, Europe and the Rest of World (primarily in the Middle East). All regions sell the Lap-Band system, which consisted of nearly all our revenue and gross profit for the three and six months ended June 30, 2024 and 2023. There was no revenue or gross profit recorded for the DBSN device for the three and six months ended June 30, 2024 and 2023, as this product is still in the development stage. Additionally, there was no revenue recorded for the Obalon Balloon system during the three months and six months ended June 30, 2024 and 2023.

(8) Income Taxes

During the three months ended June 30, 2024 and 2023, the Company recorded income tax expense of \$15 thousand and \$4 thousand, respectively. During the six months ended June 30, 2024 and 2023, the Company recorded income tax expense of \$28 thousand and \$18 thousand, respectively. The income tax expense is related to minimum state taxes and projected Australian and Netherlands income, respectively. The income tax provisions for the three and six months ended June 30, 2024 were calculated using the discrete year-to-date method. The effective tax rate differs from the statutory tax rate of 21% primarily due to the existence of valuation allowances against net deferred tax assets and current liabilities resulting from the estimated state income tax liabilities and foreign tax liabilities.

In assessing the realization of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Based on the level of historical losses, projections of losses in future periods and potential limitations pursuant to changes in ownership under Internal Revenue Code Section 382, the Company provided a full valuation allowance at both June 30, 2024 and December 31, 2023.

(9) Stock-based Compensation

Stock-based compensation expense related to stock options and RSUs issued under the ReShape Lifesciences Inc. 2022 Stock Incentive Plan (the “Plan”) for the three months and six months ended June 30, 2024 and 2023 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Sales and marketing	\$ 4	\$ 30	\$ 15	\$ 60
General and administrative	26	128	51	256
Research and development	35	59	71	124
Total stock-based compensation expense	<u>\$ 65</u>	<u>\$ 217</u>	<u>\$ 137</u>	<u>\$ 440</u>

Stock Options

A summary of the status of the Company’s stock options as of June 30, 2024, and changes during the six months ended June 30, 2024, are as follows:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2023	15,218	\$ 377.75		\$ —
Options granted	—	—		
Options exercised	—	—		
Options cancelled	(6,069)	131.55		
Outstanding at June 30, 2024	<u>9,149</u>	<u>\$ 541.06</u>	6.9	\$ —
Exercisable at June 30, 2024	8,143	\$ 600.62	6.7	\$ —
Vested and expected to vest at June 30, 2024	9,149	\$ 541.06	6.9	\$ —

There was no intrinsic value to outstanding stock options at June 30, 2024. The unrecognized share-based expense at June 30, 2024 was \$42 thousand and will be recognized over a weighted average period of 1.3 years.

Stock option awards outstanding under the Company’s incentive plans have been granted at exercise prices that are equal to the market value of its common stock on the date of grant. Such options generally vest over a period of four years and expire at ten years after the grant date. The Company recognized compensation expense ratably over the vesting period. The Company uses a Black-Scholes option-pricing model to estimate the fair value of stock options granted, which requires the input of both subjective and objective assumptions as follows:

Expected Term – The estimate of expected term is based on the historical exercise behavior of grantees, as well as the contractual life of the options granted.

Expected Volatility – The expected volatility factor is based on the volatility of the Company’s common stock for a period equal to the term of the stock options.

Risk-free Interest Rate – The risk-free interest rate is determined using the implied yield for a traded zero-coupon U.S. Treasury bond with a term equal to the expected term of the stock options.

Expected Dividend Yield – The expected dividend yield is based on the Company’s historical practice of paying dividends on its common stock.

Restricted Stock Units

A summary of the Company's unvested RSUs award activity for the three months ended June 30, 2024, is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested RSUs at December 31, 2023	1,417	\$ 129.38
Granted	—	—
Vested ⁽¹⁾	(813)	\$ 165.12
Cancelled/Forfeited	—	—
Non-vested RSUs at June 30, 2024	<u>604</u>	<u>\$ 83.98</u>

⁽¹⁾ At June 30, 2024, there were 115 shares of common stock related to RSU awards that had vested and the shares were not distributed to the participants.

The fair value of each RSU is the closing stock price on the Nasdaq of the Company's common stock on the date of grant. Upon vesting, a portion of the RSU award may be withheld to satisfy the statutory income tax withholding obligation. The remaining RSUs will be settled in shares of the Company's common stock after the vesting period. The unrecognized compensation cost related to the RSUs at June 30, 2024 was \$48 thousand and expected to be recognized over a period of 1.0 years.

(10) Commitment and Contingencies

Litigation

On August 6, 2021, Cowen and Company, LLC filed a complaint against ReShape, as successor in interest to Obalon Therapeutics, in the Supreme Court of the State of New York based on an alleged breach of contract arising out of Cowen's prior engagement as Obalon's financial advisor. The complaint alleges that Cowen is entitled to be paid a \$1.35 million fee in connection with ReShape's merger with Obalon under the terms of Cowen's engagement agreement with Obalon. The complaint also sought reimbursement of Cowen's attorneys' fees and interest in connection with its claim. On May 11, 2023, the Supreme Court of the State of New York issued the final judgement in favor of Cowen & Company in the amount of \$1.35 million, plus interest at the statutory rate of 9% per annum from June 16, 2021 until judgement is paid in full, and reimbursement of \$675,000 of Cowen's attorneys' fees, with \$275,000 to be paid upfront, \$200,000 paid after six months and \$200,000 paid after 12 months. As of June 30, 2024, the Company has paid the judgement, interest and legal fees in full.

The Company is not aware of any pending or threatened litigation against it that could have a material adverse effect on the Company's business, operating results or financial condition, other than what was disclosed above. The medical device industry in which the Company operates is characterized by frequent claims and litigation, including claims regarding patent and other intellectual property rights as well as improper hiring practices. As a result, the Company may be involved in various legal proceedings from time to time.

Product Liability Claims

The Company is exposed to product liability claims that are inherent in the testing, production, marketing, and sale of medical devices. Management believes any losses that may occur from these matters are adequately covered by insurance, and the ultimate outcome of these matters will not have a material effect on the Company's financial position or results of operations. The Company is not currently a party to any product liability litigation and is not aware of any pending or threatened product liability litigation that is reasonably possible to have a material adverse effect on the Company's business, operating results or financial condition.

(11) Subsequent Events

On July 8, 2024, ReShape, Vyome Therapeutics, Inc., a Delaware corporation (“Vyome”), and Raider Lifesciences Inc., a Delaware corporation, and a direct, wholly owned subsidiary of ReShape (“Merger Sub”), entered into an Agreement and Plan of Merger (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 (the “Merger”).

Simultaneously with the execution of the Merger Agreement, ReShape 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”), an affiliate of Biorad. 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 Ninjour (or an affiliate thereof), and Ninjour will assume substantially all of ReShape’s 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.

In connection with the transactions contemplated by the Merger Agreement and Asset Purchase Agreement, ReShape entered into an agreement with a majority of the holders of its outstanding series C convertible preferred stock (the “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, except for the right to receive the reduced liquidation preference.

Simultaneously with the execution of the Merger Agreement, ReShape, Vyome, 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 up to \$7.3 million in securities of the Company, Vyome and Vyome India (the “Concurrent Financing”). As part of the Concurrent Financing, certain accredited investors have agreed to purchase up to \$5.8 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 agreed upon valuation of the combined company at 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% 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.

The board of directors of ReShape has unanimously approved the Merger Agreement, the Asset Purchase Agreement, the Series C Amendment, the Concurrent Financing and the transactions contemplated thereby.

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

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q.

Except for the historical information contained herein, the matters discussed in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," are forward-looking statements that involve risks and uncertainties. In some cases, these statements may be identified by terminology such as "may," "will," "should," "expects," "could," "intends," "might," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue," or the negative of such terms and other comparable terminology. These statements involve known and unknown risks and uncertainties that may cause our results, level of activity, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to such differences include, among others, those discussed in the "Risk Factors" section included in Item 1A of our most recent Annual Report on Form 10-K.

Except as may be required by law, we undertake no obligation to update any forward-looking statement to reflect events after the date of this report.

Overview

We are the premier global 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, and there has been no revenue recorded for the Diabetes Bloc-Stim Neuromodulation as this product is still in the development stage.

On July 8, 2024, ReShape, Vyome Therapeutics, Inc., a Delaware corporation ("Vyome"), and Raider Lifesciences Inc., a Delaware corporation, and a direct, wholly owned subsidiary of ReShape ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement"). Simultaneously with the execution of the Merger Agreement, ReShape 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"), an affiliate of Biorad.

Results of Operations

The following table sets forth certain data from our unaudited consolidated statements of operations expressed as percentages of revenue (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2024		2023		2024		2023	
Revenue	\$ 1,965	100.0 %	\$ 2,254	100.0 %	\$ 3,909	100.0 %	\$ 4,541	100.0 %
Cost of revenue	831	42.3 %	1,060	47.0 %	1,610	41.2 %	2,123	46.8 %
Gross profit	1,134	57.7 %	1,194	53.0 %	2,299	58.8 %	2,418	53.2 %
Operating expenses:								
Sales and marketing	670	34.1 %	2,177	96.6 %	1,689	43.2 %	4,359	96.0 %
General and administrative	2,119	107.8 %	2,445	108.5 %	3,991	102.1 %	6,667	146.8 %
Research and development	399	20.3 %	581	25.8 %	883	22.6 %	1,033	22.7 %
Gain on disposal of assets, net	—	— %	(33)	(1.5)%	—	— %	(33)	(0.7)%
Total operating expenses	3,188	162.2 %	5,170	229.4 %	6,563	167.9 %	12,026	264.8 %
Operating loss	(2,054)	(104.5)%	(3,976)	(176.4)%	(4,264)	(109.1)%	(9,608)	(211.6)%
Other expense (income), net:								
Interest income, net	(4)	(0.2)%	(9)	(0.4)%	(13)	(0.3)%	(4)	(0.1)%
Loss (gain) on changes in fair value of liability warrants	2	0.1 %	(472)	(20.9)%	(18)	(0.5)%	(3,438)	(75.7)%
Gain on extinguishment of debt	(429)	(21.8)%	—	— %	(429)	(11.0)%	—	— %
Loss (gain) on foreign currency exchange, net	16	0.8 %	—	— %	40	1.0 %	(21)	(0.5)%
Other	(59)	(3.0)%	(6)	(0.3)%	(84)	(2.1)%	(8)	(0.2)%
Loss before income tax provision	(1,580)	(80.4)%	(3,489)	(154.8)%	(3,760)	(96.2)%	(6,137)	(135.1)%
Income tax expense	15	0.8 %	4	0.2 %	28	0.7 %	18	0.4 %
Net loss	\$ (1,595)	(81.2)%	\$ (3,493)	(155.0)%	\$ (3,788)	(96.9)%	\$ (6,155)	(135.5)%

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.

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, 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 in Form 10-Q 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 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, changes in fair value of liability warrants, and other one-time costs.

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The following table contains a reconciliation of GAAP net loss to Adjusted EBITDA attributable to common stockholders for the three and six months ended June 30, 2024 and 2023 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
GAAP net loss	\$ (1,595)	\$ (3,493)	\$ (3,788)	\$ (6,155)
Adjustments:				
Interest (income) expense, net	(4)	(9)	(13)	(4)
Income tax expense (benefit)	15	4	28	18
Depreciation and amortization	6	49	12	97
Stock-based compensation expense	65	217	137	440
Gain on disposal of assets, net	—	(33)	—	(33)
Loss (Gain) on changes in fair value of liability warrants	2	(472)	(18)	(3,438)
Gain on extinguishment of debt	(429)	—	(429)	—
Adjusted EBITDA	<u>\$ (1,940)</u>	<u>\$ (3,737)</u>	<u>\$ (4,071)</u>	<u>\$ (9,075)</u>

Comparison of Results of Operations

Three months ended June 30, 2024 and June 30, 2023

Revenue. The following table summarizes our unaudited revenue by geographic location based on the location of customers for the three months ended June 30, 2024 and 2023, as well as the percentage of each location to total revenue and the amount of change and percentage of change (dollars in thousands):

	Three Months Ended June 30,				Amount	Percentage
	2024		2023		Change	Change
United States	\$ 1,663	84.7 %	\$ 1,929	85.6 %	\$ (266)	(13.8)%
Australia	103	5.2 %	123	5.5 %	(20)	(16.3)%
Europe	198	10.1 %	193	8.6 %	5	2.6 %
Rest of World	1	0.1 %	9	0.3 %	(8)	(88.9)%
Total revenue	\$ 1,965	100.1 %	\$ 2,254	100.0 %	\$ (289)	(12.8)%

Revenue totaled \$2.0 million for the three months ended June 30, 2024, which represents a contraction of 12.8%, or \$0.3 million compared to the same period in 2023. This primarily resulted from a decrease in sales volume primarily due to GLP-1 pharmaceutical weight-loss alternatives.

Cost of Goods Sold and Gross Profit. The following table summarizes our unaudited cost of revenue and gross profit for the three months ended June 30, 2024 and 2023, as well as the percentage compared to total revenue and amount of change and percentage of change (dollars in thousands):

	Three Months Ended June 30,				Amount	Percentage
	2024		2023		Change	Change
Revenue	\$ 1,965	100.0 %	\$ 2,254	100.0 %	\$ (289)	(12.8)%
Cost of revenue	831	42.3 %	1,060	47.0 %	(229)	(21.6)%
Gross profit	\$ 1,134	57.7 %	\$ 1,194	53.0 %	\$ (60)	(5.0)%

Gross Profit. Gross profit for the three months ended June 30, 2024, was \$1.1 million, which was slightly below \$1.2 million for the same period in 2023. Gross profit as a percentage of total revenue for the three months ended June 30, 2024, was 57.7% compared to 53.0% for the same period in 2023. The increase in gross profit percentage is due to the reduction in overhead related costs, primarily payroll, as we had a reduction of employees late in 2023.

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Operating Expense. The following table summarizes our unaudited operating expenses for the three months ended June 30, 2024 and 2023, as well as the percentage of total revenue and the amount of change and percentage of change (dollars in thousands):

	Three Months Ended June 30,				Amount	Percentage
	2024		2023		Change	Change
Sales and marketing	\$ 670	34.1 %	\$ 2,177	96.6 %	\$ (1,507)	(69.2)%
General and administrative	2,119	107.8 %	2,445	108.5 %	(326)	(13.3)%
Research and development	399	20.3 %	581	25.8 %	(182)	(31.3)%
Gain on disposal of assets, net	—	— %	(33)	(1.5)%	33	(100.0)%
Total operating expenses	\$ 3,188	162.2 %	\$ 5,170	229.4 %	\$ (1,982)	(38.3)%

Sales and Marketing Expense. Sales and marketing expenses for the three months ended June 30, 2024, decreased by \$1.5 million, or 69.2%, to \$0.7 million, compared to \$2.2 million for the same period in 2023. The decrease is primarily due to a decrease of \$0.8 million in advertising and marketing expenses, including consulting and professional marketing services, as the Company has reevaluated its marketing approach and has moved to a targeted digital marketing campaign, resulting in a reduction of costs. Additionally, there was a decrease of \$0.7 million in payroll-related expenditures, including commissions, stock compensation expense and travel, due to changes in sales personnel and a reduction in sales.

General and Administrative Expense. General and administrative expenses for the three months ended June 30, 2024, decreased by \$0.3 million, or 13.3%, to approximately \$2.1 million, compared to \$2.4 million for the same period in 2023. The decrease is primarily due a \$0.3 million decrease in payroll-related expenditures, due to decline in staffing levels and a reduction in rent expense of \$0.1 million, as we moved our headquarters at the end of the second quarter of 2023 to a smaller facility to reduce costs. This was offset by an increase of \$0.1 million in legal costs due to the merger and asset purchase transaction that was entered into during July 2024.

Research and Development Expense. Research and development expenses for the three months ended June 30, 2024, decreased by \$0.2 million, or 31.0% of \$0.4 million, compared to \$0.6 million for the same period in the prior year. The primary reason for the decrease is due to a reduction in consulting and clinical trials, as the Company has paused all clinical work to preserve cash.

Gain on Extinguishment of Debt. During the three months ended June 30, 2024, the Company recognized a \$0.4 million gain on extinguishment of debt related to the write-off of payable aged beyond the statute of limitations. For further details see Note 3 above.

Six months ended June 30, 2024 and June 30, 2023

Revenue. The following table summarizes our unaudited revenue by geographic location based on the location of customers for the six months ended June 30, 2024 and 2023, as well as the percentage of each location to total revenue and the amount of change and percentage of change (dollars in thousands):

	Six Months Ended June 30,				Amount	Percentage
	2024		2023		Change	Change
United States	\$ 3,281	83.9 %	\$ 3,742	82.5 %	\$ (461)	(12.3)%
Australia	205	5.2 %	280	6.2 %	(75)	(26.8)%
Europe	396	10.1 %	497	10.9 %	(101)	(20.3)%
Rest of world	27	0.7 %	22	0.5 %	5	22.7 %
Total revenue	\$ 3,909	99.9 %	\$ 4,541	100.1 %	\$ (632)	(13.9)%

Revenue totaled \$3.9 million for the six months ended June 30, 2024, which represents a contraction of 13.9%, or \$0.6 million compared to the same period in 2023. This primarily resulted from a decrease in sales volume primarily due to GLP-1 pharmaceutical weight-loss alternatives.

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Cost of Goods Sold and Gross Profit. The following table summarizes our unaudited cost of revenue and gross profit for the six months ended June 30, 2024 and 2023, as well as the percentage compared to total revenue and amount of change and percentage of change (dollars in thousands):

	Six Months Ended June 30,				Amount Change	Percentage Change
	2024		2023			
Revenue	\$ 3,909	100.0 %	\$ 4,541	100.0 %	\$ (632)	(13.9)%
Cost of revenue	1,610	41.2 %	2,123	46.8 %	(513)	(24.2)%
Gross profit	\$ 2,299	58.8 %	\$ 2,418	53.2 %	\$ (119)	(4.9)%

Gross Profit. Gross profit for the six months ended June 30, 2024 and 2023, was \$2.3 million and \$2.4 million, respectively. Gross profit as a percentage of total revenue for the six months ended June 30, 2024, was 58.8% compared to 53.2% for the same period in 2023. The increase in gross profit percentage is due to the reduction in overhead related costs, primarily payroll, as we had a reduction of employees late in 2023.

Operating Expense. The following table summarizes our unaudited operating expenses for the six months ended June 30, 2024 and 2023, as well as the percentage of total revenue and the amount of change and percentage of change (dollars in thousands):

	Six Months Ended June 30,				Amount	Percentage
	2024		2023		Change	Change
Sales and marketing	\$ 1,689	43.2 %	\$ 4,359	96.0 %	\$ (2,670)	(61.3)%
General and administrative	3,991	102.1 %	6,667	146.8 %	(2,676)	(40.1)%
Research and development	883	22.6 %	1,033	22.7 %	(150)	(14.5)%
Gain on disposal of assets, net	—	— %	(33)	(0.7)%	33	(100.0)%
Total operating expenses	\$ 6,563	167.9 %	\$ 12,026	264.8 %	\$ (5,463)	(45.4)%

Sales and Marketing Expense. Sales and marketing expenses for the six months ended June 30, 2024, decreased by \$2.7 million, or 61.3%, to \$1.7 million, compared to \$4.4 million for the same period in 2023. The decrease is primarily due to a decrease of approximately \$1.5 million in advertising and marketing expenses, including consulting and professional marketing services, as the Company has reevaluated its marketing approach and has moved to a targeted digital marketing campaign, resulting in a reduction of costs. Additionally, there was a decrease of \$1.1 million in payroll-related expenditures, including commissions, stock compensation expense and travel, due to changes in sales personnel and a reduction in sales.

General and Administrative Expense. General and administrative expenses for the six months ended June 30, 2024, decreased by \$2.7 million, or 40.1%, to \$4.0 million, compared to \$6.7 million for the same period in 2023. The decrease is primarily due a reduction in professional services, such as audit and legal fees of \$1.5 million primarily due to the Company incurring one-time adjustments for professional services related to the February 2023 public offering, and a reduction in payroll-related expenditures, including stock-based compensation expense, of \$0.7 million due to decline in staffing levels, and a reduction in rent expense of \$0.1 million, as we moved our headquarters at the end of the second quarter of 2023 to a small facility to reduce costs. Additionally, there was a reduction in bad debt expense of \$0.3 million, and a reduction in other miscellaneous expenses of \$0.1 million.

Research and Development Expense. Research and development expenses for the six months ended June 30, 2024, decreased by \$0.2 million, or 14.5% of \$0.9 million, compared to approximately \$1.0 million for the same period in the prior year. The primary reason for the decrease is due to a reduction in consulting and clinical trials, as the Company has paused all clinical work to preserve cash.

Gain on Extinguishment of Debt. During the six months ended June 30, 2024, the Company recognized a \$0.4 million gain on extinguishment of debt related to the write-off of payable aged beyond the statute of limitations. For further details see Note 3 above.

Liquidity and Capital Resources

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company currently does not generate revenue sufficient to offset operating costs and anticipates such shortfalls to continue as the Company has modified its strategy to a metrics-driven approach through a sustainable and scalable business model, via a digital lead generation and re-engagement strategy. As of June 30, 2024, the Company had net working capital of approximately \$2.9 million, primarily due to cash and cash equivalents and restricted cash of \$1.2 million. The Company's principal source of liquidity as of June 30, 2024, consisted of approximately \$1.2 million of cash and cash equivalents and restricted cash, and \$1.4 million of accounts receivable. Based on its available cash resources, the Company will not have sufficient cash on hand to fund its current operations for more than twelve months from the date of filing this Quarterly Report on Form 10-Q. This condition raises substantial doubt about the Company's ability to continue as a going concern. The Company believes in the viability of its business strategy and in its ability to raise additional funds, however, there can be no assurance to that effect. Management's plans are assuming the merger with Vyome and the asset purchase with Biorad, announced in July of 2024 occur.

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

	Six Months Ended June 30,	
	2024	2023
Net cash used in operating activities	\$ (3,429)	\$ (11,723)
Net cash used in investing activities	—	(10)
Net cash provided by financing activities	24	12,451
Effect of exchange rate changes	(1)	(6)
Net change in cash and cash equivalents and restricted cash	<u>\$ (3,406)</u>	<u>\$ 712</u>

Net Cash Used in Operating Activities

Net cash used in operating activities from operations was \$3.4 million and \$11.7 million for the six months ended June 30, 2024 and 2023, respectively. For the six months ended June 30, 2024, net cash used in operating activities was primarily the result of our net loss of \$3.9 million, partially offset by non-cash adjustments for stock-based compensation expense of \$0.1 million and inventory reserve of \$0.1 million, offset by a negative cash impact related to a reduction in bad debt of approximately \$0.2 million, as we received a large return of products where the receivable was fully reserved and \$0.4 million related to old accounts payable that have passed their statute of limitations. We show a positive cash impact on accounts receivable of \$0.4 million, and inventory of approximately \$0.4 million, and a negative impact to cash for accounts payable and accrued liabilities of \$0.1 million.

For the six months ended June 30, 2023, net cash used in operating activities was primarily the result of our net loss of \$6.2 million, partially offset by non-cash adjustments for stock-based compensation expense of \$0.4 million, non-cash offering cost of \$0.3 million and bad debt expense of approximately \$0.1 million, offset by a negative cash impact related to gains recognized for changes in fair value of liability warrants of \$3.4 million. We show a negative cash impact on accounts payable and accrued liabilities of \$2.8 million and prepaid expenses of \$0.5 million. This was offset by a positive cash impact on inventory of \$0.3 million.

Net Cash Used in Investing Activities

There was no cash used in investing activities for the six months ended June 30, 2024, and net cash used in investing activities for the six months ended June 30, 2023, was minimal.

Net Cash Provided by Financing Activities

Financing activities provided \$24 thousand related to exercise of warrants for the six months ended June 30, 2024. Net cash provided by financing activities was \$12.5 million for the six months ended June 30, 2023, due to the proceeds received from the public offering completed during February 2023 and April 2023, less costs to complete the transaction.

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, for further details see Note 11, (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) introduce to 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. If management's plans do not develop, and the Company does not raise additional cash, at the current burn rate, management expects to run out of cash during the third quarter of 2024.

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. 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 Diabetes Bloc-Stim Neuromodulation, and any product candidates;
- the rate of market acceptance of our Diabetes Bloc-Stim Neuromodulation, 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, ReShapeCare, ReShape Marketplace, Obalon Balloon System, Diabetes Bloc-Stim Neuromodulation or our future products; including FDA approval on Lap-Band 2.0;
- 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 Estimates

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. Information with respect to our critical accounting policies and estimates which we believe could have the most significant effect on our reported results and require subjective or complex judgments by management is contained in Item 7, “*Management's Discussion and Analysis of Financial Condition and Results of Operations*,” of our Annual Report on Form 10-K for the year ended December 31, 2023. There have been no significant changes from the information discussed therein.

During the six months ended June 30, 2024, there were no material changes to our significant accounting policies above, which are fully described in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2023.

Recent Accounting Pronouncements

See Note 1 to our condensed consolidated financial statements for a discussion of recent accounting pronouncements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide disclosure pursuant to this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), defines the term “disclosure controls and procedures” as those controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. An internal control material weakness is a significant deficiency, or aggregation of deficiencies, that does not reduce to a relatively low level the risk that material misstatements in financial statements will be prevented or detected on a timely basis by employees in the normal course of their work. An internal control significant deficiency, or aggregation of deficiencies, is one that could result in a misstatement of the financial statements that is more than inconsequential. In making its assessment of internal control over financial reporting management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013). Our management assessed the effectiveness of our internal control over financial reporting as of June 30, 2024, and determined that our internal control over financial reporting was not effective at a reasonable assurance level due to the following material weakness in our internal control over financial reporting:

Control Environment: The Company has insufficient internal resources with appropriate accounting and finance knowledge and expertise to design, implement, document and operate effective internal controls over the financial reporting process. As a result, there was a lack of management review over several areas of the consolidated financial statements, including errors which were individually assessed as significant deficiencies that, when aggregated, resulted in a material weakness related to: 1) insufficient review of obsolete and scrap inventory; 2) insufficient reviews of accounts payable; and 3) inappropriate application of accounting standards related to functional currency. In addition to these identified errors, there were other areas of the consolidated financial statements that were impacted by certain deficiencies. During the prior year, there were deficiencies identified that have not yet been remediated including misstatements of inaccurate reporting of earnings per share due to formula errors over the weighted average share

calculation spreadsheet and errors to the stock-based compensation expense. The root cause of all of the deficiencies identified above was related to insufficient internal resources with appropriate accounting and finance knowledge, which aggregated into this material weakness.

Journal Entry Access and Review: The Company did not have effective processes to ensure that all journal entries were properly approved prior to being posted to the general ledger. Furthermore, a segregation of duties conflict is present as the Sr. Accounting Manager has the ability to both prepare and post journal entries to the general ledger. As a result, it was concluded that there is material weakness in the design and operating effectiveness of internal controls over access and reviews of journal entries.

Information Technology (“IT”) Access Change and IT Security: A segregation of duties conflict is present as access, change management and other IT security risks to the Company’s information technology systems are not monitored or reviewed on a timely basis. This material weakness resulted from the aggregation of various control deficiencies.

Financial Reporting:

Inventory Capitalization – The Company’s controls were not designed effectively as the Company did not have a process in place to evaluate the amount of inventory, cost of goods sold, general and administrative expenses, and research and development expenses.

Income Taxes – The Company did not design and maintain effective management review controls at a sufficient level of precision over the accounting for income taxes. Management’s controls surrounding the evaluation of income tax provision and related disclosures were not operating effectively as the disclosure was not updated to reflect the appropriate tax amortization related to the accrued settlement account. While this did not have an impact on the financial statements due to the full valuation allowance recorded on the deferred tax assets, this did have an impact on the presentation of the prior year footnote disclosure. Additionally, there were errors identified within the tax provision during the prior year related to cost of goods sold for the Company’s foreign entities. This material weakness resulted in certain material corrections to the financial statements including the establishment of a FIN 48 liability, the tax benefit related to impairment charges recorded for the IPR&D in the prior year, the overstatement of the deferred tax asset and valuation allowance related to depreciable assets in the prior year, a return to provision adjustment in 2022 related to Obalon net operating losses generated in 2021 as a result of inaccurate stock compensation recorded within the tax provision and a difference in pretax book income that was unaccounted for in the disclosure.

Purchase Accounting – The Company did not design and maintain effective management review controls at a sufficient level of precision over the accounting for transactions related to the prepaid D&O insurance policy purchased in connection with the merger transaction in June 2021. This material weakness resulted in certain material corrections to the financial statements and in the restatement of the consolidated financial statements.

We are currently implementing our remediation plan to address the material weaknesses identified above. Such measures include:

- Designing and implementing controls to formalize roles and review responsibilities to align with our team's skills and experience and designing and implementing formalized controls.
- Designing and implementing formal processes, policies and procedures supporting our financial close process.
- Designing a formal review of a monthly journal entry report to ensure journal entries are appropriately approved within a timely manner.

Changes in Internal Control over Financial Reporting

Other than in connection with executing upon the continued implementation of the remediation measures referenced above, there have been no changes in our internal controls over financial reporting during the quarter ended June 30, 2024, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On August 6, 2021, Cowen and Company, LLC filed a complaint against ReShape, as successor in interest to Obalon Therapeutics, in the Supreme Court of the State of New York based on an alleged breach of contract arising out of Cowen's prior engagement as Obalon's financial advisor. The complaint alleges that Cowen is entitled to be paid a \$1.35 million fee in connection with ReShape's merger with Obalon under the terms of Cowen's engagement agreement with Obalon. The complaint also sought reimbursement of Cowen's attorneys' fees and interest in connection with its claim. On May 11, 2023, the Supreme Court of the State of New York issued the final judgement in favor of Cowen & Company in the amount of \$1.35 million, plus interest at the statutory rate of 9% per annum from June 16, 2021 until judgement is paid in full, and reimbursement of \$675,000 of Cowen's attorneys' fees, with \$275,000 to be paid upfront, \$200,000 paid after six months and \$200,000 paid after 12 months. As of June 30, 2024, the Company has paid the judgement, interest and legal fees in full.

The Company is not aware of any pending or threatened litigation against it that could have a material adverse effect on the Company's business, operating results or financial condition, other than what was disclosed above. The medical device industry in which the Company operates is characterized by frequent claims and litigation, including claims regarding patent and other intellectual property rights as well as improper hiring practices. As a result, the Company may be involved in various legal proceedings from time to time.

ITEM 1A. RISK FACTORS

Except for the additional risk factors set forth below, there have been no material changes to the risk factors set forth in Item 1A. "Risk Factors" of our 2023 Annual Report on Form 10-K filed on April 1, 2024.

The Merger may not be consummated unless important conditions are satisfied or waived and there can be no assurance that the Merger will be consummated.

The Merger Agreement contains a number of conditions that must be satisfied or waived (to the extent permitted by applicable law) to consummate the Merger. Those conditions include, among others:

- approval of the proposal to issue shares of our common stock pursuant to the Merger Agreement and approval of the proposal to sell our assets pursuant to the Asset Purchase Agreement by our stockholders;
- approval of the proposal to complete the Merger by Vyome's stockholders;
- the absence of any adverse law or order promulgated, entered, enforced, enacted, or issued by any government entity that prohibits, restrains, or makes illegal the consummation of the Merger or the other transactions contemplated by the Merger Agreement;
- the effectiveness of a registration statement on Form S-4 under the Securities Act of 1933, as amended, and the absence of any stop order issued by the SEC suspending the use of such registration statement;
- the shares of our common stock to be issued in the Merger being approved for listing on The Nasdaq Capital Market and approval of the combined company's continued listing on The Nasdaq Capital Market;
- subject to certain materiality exceptions, the accuracy of certain representations and warranties of each of Vyome and ReShape contained in the Merger Agreement and the compliance by each party with the covenants contained in the Merger Agreement; and
- the absence of a material adverse effect with respect to each of Vyome and ReShape.

These conditions to the consummation of the Merger may not be satisfied or waived (to the extent permitted by applicable law) and, as a result, the Merger may not be consummated at the time expected, or at all. In addition, we or Vyome may elect to terminate the Merger Agreement in certain other circumstances.

Failure to consummate the Merger could negatively impact our future operations and financial results and our future stock price.

If the Merger is not consummated for any reason, we may be subjected to a number of material risks, including the following:

- a decline in the market price of the shares of our common stock to the extent that the current market prices reflect a market assumption that the Merger will be consummated and will be beneficial to the value of our business after the closing date of the Merger;
- having to pay certain costs related to the proposed Merger, such as legal, accounting, financial advisory, printing and mailing fees, which must be paid regardless of whether the Merger is consummated;
- addressing the consequences of operational decisions made since the signing of the Merger Agreement, including because of restrictions on our operations imposed by the terms of the Merger Agreement and decisions to delay or defer capital expenditures;
- returning the focus of management and personnel to operating ReShape on a standalone basis, without any of the benefits expected to have been provided by the consummation of the Merger; and
- negative reactions from our stockholders, suppliers, employees, and the medical community.

In addition to the above risks, we may be required, under certain circumstances, to pay Vyome a termination fee of \$1.0 million, which may materially adversely affect our financial condition. Our business may be adversely impacted by the failure to pursue other beneficial opportunities due to the focus of our management on the Merger. A failure to consummate the Merger may also result in negative publicity, reputational harm, litigation against us or our directors and officers, and a negative impression of ReShape in the financial markets.

If the Merger is not consummated, we cannot assure our stockholders that these risks will not materialize and will not materially adversely affect our business, financial results and stock price.

The Merger may disrupt attention of our management from ongoing business operations.

We have expended, and expect to continue to expend, significant management resources to consummate the Merger. The attention of our management may be diverted away from the day-to-day operations of our businesses, including implementing initiatives to improve performance, execution of existing business plans and pursuing other beneficial opportunities, in an effort to consummate the Merger. This diversion of management resources could disrupt our operations and may have an adverse effect on our business, financial conditions, results of operations and cash flows or the combined company after the closing date of the Merger.

The Asset Purchase may not be consummated unless important conditions are satisfied or waived and there can be no assurance that the Asset Sale will be consummated.

The Asset Purchase Agreement contains a number of conditions that must be satisfied or waived (to the extent permitted by applicable law) to consummate the Asset Sale. Those conditions include, among others:

- approval of the proposal to sell our assets pursuant to the Asset Purchase Agreement by our stockholders;
- satisfaction of conditions regarding the accuracy of representations and warranties and compliance with covenants in the Asset Purchase Agreement; and

- the absence of any adverse law or order promulgated, entered, enforced, enacted, or issued by any government entity that prohibits, restrains, or makes illegal the consummation of the Asset Sale or the other transactions contemplated by the Asset Purchase Agreement.

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

Unregistered Sales of Equity Securities

None.

Uses of Proceeds from Sale of Registered Securities

None.

Purchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Rule 10b5-1 Plan and Non-Rule 10b5-1 Trading Arrangement Adoptions, Terminations, and Modifications

During the three months ended June 30, 2024, none of our directors or “officers” (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) and Item 408(c) of SEC Regulation S-K, respectively.

ITEM 6. EXHIBITS

Exhibit No.	Description
2.1	<u>Agreement and Plan of Merger, dated as of July 8, 2024, by and among ReShape Lifesciences Inc., Vyome Therapeutics, Inc., and Raider Lifesciences Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 9, 2024).</u>
2.2	<u>Asset Purchase Agreement, dated as of July 8, 2024, by and between ReShape Lifesciences Inc. and Ninjour Health International Limited (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 9, 2024).</u>
10.1	<u>Agreement to Amend Series C Convertible Preferred Stock, dated as of July 8, 2024, by and among ReShape Lifesciences Inc. and holders of Series C Convertible Preferred Stock (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 9, 2024).</u>
10.2	<u>Form of Subscription Agreement by and between ReShape Lifesciences Inc. and the investors party thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 9, 2024).</u>
10.3	<u>Form of Voting and Support Agreement by and among ReShape Lifesciences Inc. and certain stockholders of Vyome Therapeutics, Inc. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 9, 2024).</u>
10.4	<u>Amendment to Employment Agreement, dated July 8, 2024, by and between ReShape Lifesciences Inc. and Paul F. Hickey (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 9, 2024).</u>
31.1**	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2**	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1**	<u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2**	<u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101**	Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2024, formatted in Inline XBRL: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Stockholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

** Filed herewith.

SIGNATURES

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

RESHAPE LIFESCIENCES INC.

By: /s/ PAUL F. HICKEY
Paul F. Hickey
President and Chief Executive Officer
(principal executive officer)

By: /s/ THOMAS STANKOVICH
Thomas Stankovich
Senior Vice President and
Chief Financial Officer
(principal financial and accounting officer)

Dated: August 14, 2024

CERTIFICATION

I, Paul F. Hickey, certify that:

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

/s/ PAUL F. HICKEY

Paul F. Hickey
President and Chief Executive Officer

Date: August 14, 2024

CERTIFICATION

I, Thomas Stankovich certify that:

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

/s/ THOMAS STANKOVICH

Thomas Stankovich
Chief Financial Officer, Senior Vice President,
Finance

Date: August 14, 2024

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Paul F. Hickey, in his capacity as Chief Executive Officer of ReShape Lifesciences Inc., hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2024 to which this Certification is attached as Exhibit 32.1 (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and the results of operations of ReShape Lifesciences Inc. as of, and for, the periods covered by the Report.

By: /s/ PAUL F. HICKEY
Paul F. Hickey
President and Chief Executive Officer

Date: August 14, 2024

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Thomas Stankovich, in his capacity as Chief Financial Officer of ReShape Lifesciences Inc., hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2024 to which this Certification is attached as Exhibit 32.2 (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and the results of operations of ReShape Lifesciences Inc. as of, and for, the periods covered by the Report.

By: /s/ THOMAS STANKOVICH
Thomas Stankovich
Chief Financial Officer, Senior Vice President,
Finance

Date: August 14, 2024
