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, 2020

OR

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

For the transition period from to

Commission file number: 1-33818

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

Delaware	**48-1293684**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1001 Calle Amanecer, San Clemente, California 92673
(Address of principal executive offices, including 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	OTCQB 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 11, 2020, 5,586,554 shares of the registrant's Common Stock were outstanding.

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PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,526	$ 2,935
Restricted cash	50	50
Accounts and other receivables (net of allowance for doubtful accounts of $894 and $709 respectively)	2,883	4,096
Inventory (Note 3)	2,080	1,317
Prepaid expenses and other current assets (Note 3)	2,006	1,711
Total current assets	8,545	10,109
Property and equipment, net	99	16
Operating lease right-of-use assets (Note 6)	613	758
Other intangible assets, net	27,841	28,674
Other assets	46	99
Total assets	$ 37,144	$ 39,656
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,123	$ 4,263
Accrued and other liabilities (Note 3)	3,009	3,821
Warranty liability, current	315	105
Debt, current portion, net of deferred financing costs	4,597	1,909
Operating lease liabilities, current (Note 6)	303	291
Total current liabilities	12,347	10,389
Debt, noncurrent portion	3,434	2,728
Operating lease liabilities, noncurrent (Note 6)	323	477
Warranty liability, noncurrent	1,185	1,253
Deferred income taxes	702	702
Total liabilities	17,991	15,549
Commitments, contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized:		
Series B convertible preferred stock, $0.001 par value; 3 issued and outstanding at June 30, 2020 and December 31, 2019, respectively	—	—
Series C convertible preferred stock, $0.001 par value; 95,388 shares issued and outstanding at June 30, 2020 and December 31, 2019	1	1
Common stock, $0.001 par value; 275,000,000 shares authorized at June 30, 2020 and December 31, 2019; 5,586,554 and 391,739 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	5	—
Additional paid-in capital	520,288	517,311
Accumulated deficit	(501,112)	(493,197)
Accumulated other comprehensive loss	(29)	(8)
Total stockholders' equity	19,153	24,107
Total liabilities and stockholders' equity	$ 37,144	$ 39,656

See accompanying notes to Condensed Consolidated Financial Statements.

RESHAPE LIFESCIENCES INC.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue	$ 1,702	$ 4,450	$ 4,491	$ 7,524
Cost of revenue	865	1,593	2,150	2,436
Gross profit	837	2,857	2,341	5,088
Operating expenses:				
Sales and marketing	831	1,271	2,285	2,388
General and administrative	2,539	5,521	5,375	9,825
Research and development	465	960	1,761	2,016
Impairment of intangible assets	—	6,588	—	6,588
Total operating expenses	3,835	14,340	9,421	20,817
Operating loss	(2,998)	(11,483)	(7,080)	(15,729)
Other expense (income), net:				
Interest expense, net	789	213	893	316
Loss on extinguishment of debt	—	71	—	71
Warrant expense	—	4,127	—	4,257
(Gain) loss on foreign currency exchange	(133)	—	10	—
Other, net	—	612	—	609
Loss before income tax provision	(3,654)	(16,506)	(7,983)	(20,982)
Income tax benefit	50	586	68	586
Net loss attributable to common shareholders	$ (3,604)	$ (15,920)	$ (7,915)	$ (20,396)
Net loss per share - basic and diluted:				
Net loss per share - basic and diluted	$ (0.52)	$ (150.24)	$ (1.15)	$ (233.29)
Shares used to compute basic and diluted net loss per share	6,911,497	105,962	6,885,368	87,428

See accompanying notes to Condensed Consolidated Financial Statements.

RESHAPE LIFESCIENCES INC.

Condensed Consolidated Statements of Comprehensive Loss
(dollars in thousands; unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net loss	$ (3,604)	$ (15,920)	$ (7,915)	$ (20,396)
Foreign currency translation adjustments	27	—	(21)	—
Other comprehensive loss, net of tax	27	—	(21)	—
Comprehensive loss	$ (3,577)	$ (15,920)	$ (7,936)	$ (20,396)

See accompanying notes to Condensed Consolidated Financial Statements.

RESHAPE LIFESCIENCES INC.

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

	Three Months Ended June 30, 2020									
	Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance March 31, 2020	3	$ —	95,388	$ 1	391,739	$ —	$ 519,131	$ (497,508)	$ (56)	$ 21,568
Net loss	—	—	—	—	—	—	—	(3,604)	—	(3,604)
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	—	27	27
Stock-based compensation expense	—	—	—	—	—	—	347	—	—	347
Institutional exercise of warrants	—	—	—	—	5,085,834	5	605	—	—	610
Cashless exercise of warrants	—	—	—	—	58,981	—	—	—	—	—
Common stock issued for professional services	—	—	—	—	50,000	—	205	—	—	205
Balance June 30, 2020	3	$ —	95,388	$ 1	5,586,554	$ 5	$ 520,288	$ (501,112)	$ (29)	$ 19,153

	Six Months Ended June 30, 2020									
	Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance December 31, 2019	3	$ —	95,388	$ 1	391,739	$ —	$ 517,311	$ (493,197)	$ (8)	$ 24,107
Net loss	—	—	—	—	—	—	—	(7,915)	—	(7,915)
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	—	—	(21)	(21)
Stock-based compensation expense	—	—	—	—	—	—	774	—	—	774
Issuance of warrants	—	—	—	—	—	—	1,393	—	—	1,393
Institutional exercise of warrants	—	—	—	—	5,085,834	5	605	—	—	610
Cashless exercise of warrants	—	—	—	—	58,981	—	—	—	—	—
Common stock issued for professional services	—	—	—	—	50,000	—	205	—	—	205
Balance June 30, 2020	3	$ —	95,388	$ 1	5,586,554	$ 5	$ 520,288	$ (501,112)	$ (29)	$ 19,153

See accompanying notes to Condensed Consolidated Financial Statements.

RESHAPE LIFESCIENCES INC.

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

	Three Months Ended June 30, 2019										
	Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Series E Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders’ Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance March 31, 2019	3	$ —	95,388	$ 1	1,192,000	$ 12	64,199	$ —	$ 452,026	$ (423,466)	$ 28,573
Net loss	—	—	—	—	—	—	—	—	—	(15,920)	(15,920)
Stock-based compensation expense	—	—	—	—	—	—	—	—	728	—	728
Institutional sales of common stock and warrants, net of issuance costs	—	—	—	—	—	—	130,000	—	283	—	283
Warrant adjustment	—	—	—	—	—	—	—	—	(312)	—	(312)
Conversion of convertible preferred stock into common stock	—	—	—	—	(1,192,000)	(12)	9,933	—	12	—	—
Issuance of common stock upon exercise of warrants	—	—	—	—	—	—	33,417	—	40	—	40
Balance June 30, 2019	3	$ —	95,388	$ 1	—	$ —	237,549	$ —	$ 452,777	$ (439,386)	$ 13,392

	Six Months Ended June 30, 2019										
	Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Series E Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders’ Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance December 31, 2018	159	$ —	95,388	$ 1	—	$ —	73,092	$ —	$ 450,652	$ (418,990)	$ 31,663
Net loss	—	—	—	—			—	—	—	(20,396)	(20,396)
Stock-based compensation expense	—	—	—	—	—	—	—	—	1,984	—	1,984
Warrant expense	—	—	—	—	—	—	—	—	130	—	130
Institutional sales of common stock and warrants, net of issuance costs	—	—	—	—	—	—	130,000	—	283	—	283
Warrant adjustment	—	—	—	—	—	—	—	—	(312)	—	(312)
Conversion of common stock into convertible preferred stock	—	—	—	—	1,192,000	12	(9,933)	—	(12)	—	—
Conversions of convertible preferred stock into common stock	(156)	—	—	—	(1,192,000)	(12)	10,973	—	12	—	—
Issuance of common stock upon exercise of warrants, net of issuance costs	—	—	—	—	—	—	33,417	—	40	—	40
Balance June 30, 2019	3	$ —	95,388	$ 1	—	$ —	237,549	$ —	$ 452,777	$ (439,386)	$ 13,392

See accompanying Notes to Condensed Consolidated Financial Statements.

RESHAPE LIFESCIENCES INC.

Condensed Consolidated Statements of Cash Flows
(dollars in thousands; unaudited)

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Cash flows from operating activities:		
Net loss	$ (7,915)	$ (20,396)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	5	30
Amortization of intangible assets	833	833
Impairment of intangible assets	—	6,588
Noncash interest expense	117	797
Fair value adjustment to embedded derivative	—	(481)
Loss on extinguishment of debt	—	71
Stock-based compensation	774	1,983
Bad debt expense	185	151
Provision for inventory excess and obsolescence	188	—
Warrant expense	—	4,257
Amortization of deferred debt issuance costs	756	—
Deferred income tax benefit	—	(586)
Other noncash items	20	14
Change in operating assets and liabilities:		
Accounts and other receivables	1,028	(3,860)
Inventory	(950)	(363)
Prepaid expenses and other current assets	(90)	(1,034)
Accounts payable and accrued liabilities	(958)	3,397
Warranty liability	142	—
Other	53	—
Net cash used in operating activities	(5,812)	(8,599)
Cash flows from investing activities:		
Capital expenditures	(82)	—
Cash used in investing activities:	(82)	—
Cash flows from financing activities:		
Proceeds from issuance of subordinated convertible debentures	—	2,000
Payments of financing costs	(59)	(21)
Repayment of subordinated convertible debentures	—	(2,200)
Proceeds from institutional exercise of warrants	610	40
Proceeds from credit agreement	3,000	7,616
Proceeds from PPP loan	955	(29)
Net cash provided by financing activities	4,506	7,406
Effect of currency exchange rate changes on cash and cash equivalents	(21)	—
Net decrease in cash, cash equivalents and restricted cash	(1,409)	(1,193)
Cash, cash equivalents and restricted cash at beginning of period	2,985	5,548
Cash, cash equivalents and restricted cash at end of period	$ 1,576	$ 4,355
Noncash investing and financing activities:		
Relative fair value of warrants classified as debt issuance costs	$ 1,393	$ —
Capital expenditures accruals	6	—
Conversion of common stock to convertible preferred stock	—	(1)

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") 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, 2019, filed on April 30, 2020. 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.

Reverse Stock Splits

During the year ended December 31, 2019, the Company's board of directors and stockholders approved the following reverse stock split:

- 1-for-120 reverse split of the Company's outstanding common stock that became effective after the close of market on November 11, 2019. In addition, the Company's certificate of incorporation was amended to change the common stock and preferred stock par value from $0.01 per share to $0.001 per share. The reverse stock split in 2019 did not change the number of common or preferred shares authorized by the Company's certificate of incorporation. All par value, share and per-share amounts have been retroactively adjusted to reflect the reverse stock split for all periods presented.

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 5 regarding the fair value of debt instruments and Note 8 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,	
	2020	2019
Stock options	46	190
Convertible preferred stock	1,288	1,288
Warrants	8,283,447	2,022,576

Recent Accounting Pronouncements

New accounting standards adopted by the Company in 2020 are discussed below or in the related notes, where appropriate.

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-13, *Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure*

Requirements for Fair Value Measurement, which modifies the disclosure requirements on fair value measurements and is intended to improve the effectiveness of disclosures, including the consideration of costs and benefits. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The adoption of this guidance did not have a material impact on the Company's financial statements.

New accounting standards not yet adopted are discussed below.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*: Measurement of Credit Losses on Financial Instruments, which is intended to provide financial statement users with more useful information about expected credit losses on financial assets held by a reporting entity at each reporting date. In May 2019, the FASB issued ASU No. 2019-05, which amended the new standard by providing targeted transition relief. The new guidance replaces the existing incurred loss impairment methodology with a methodology that requires consideration of a broader range of reasonable and supportable forward-looking information to estimate all expected credit losses. In November 2019, the FASB issued ASU No. 2019-11, which amended the new standard by providing additional clarification. This guidance is effective for the fiscal years and interim periods within those years beginning after December 15, 2022. The Company is currently evaluating the impact the guidance will have on its consolidated financial statements.

(2) Liquidity and Management's Plans

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 in the short-term to the next eighteen months. The Company's history of operating losses and limited cash resources and lack of certainty regarding obtaining significant third-party reimbursement of its products, raise substantial doubt about its ability to continue as a going concern.

As of June 30, 2020 the Company had net negative working capital of approximately $3.8 million. The Company's principal source of liquidity as of June 30, 2020 consisted of approximately $1.6 million of cash and cash equivalents and restricted cash, and $2.9 million of accounts receivable.

The Company's anticipated operations include plans to (i) continue to integrate the sales and operations of the Company with the LAP-BAND product line, (ii) continue development of the ReShape Vest, (iii) seek opportunities to leverage the Company's intellectual property portfolio and custom development services to provide third-party sales and licensing opportunities, and (iv) 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, clinical and product development activities. However, the Company will ultimately need to achieve sufficient revenues from product sales and obtain additional equity or debt financing to support its operations.

Management is currently pursuing various funding options, including seeking additional equity or debt financing as well as a strategic merger or other transaction to obtain additional funding to support the expansion of LAP-BAND product sales and to continue the development of, and to successfully commercialize, the ReShape Vest. While the acquisition of the LAP-BAND product line does provide incremental revenues and cash flows to the Company, total expenses, including the cost to support the clinical trials of the ReShape Vest, are expected to exceed internally generated cash flows for the foreseeable future. While there can be no assurance that the Company will be successful in its efforts, the Company has a long history of raising equity financing to fund its development activities. Should the Company be unable to obtain adequate financing in the near term, the Company's business, result of operations, liquidity and financial condition would be materially and negatively affected, and the Company would be unable to continue as a going concern. Additionally, there can be no assurance that, assuming the Company is able to strengthen its cash position, it will achieve sufficient revenue or profitable operations to continue as a going concern.

COVID-19 Risk and Uncertainties and CARES Act

Additionally, on January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally and on March 13, 2020, the United States declared a national emergency with respect to the coronavirus outbreak. This outbreak has severely impacted global economic activity, and many countries and many states in the United States have reacted to the outbreak by instituting quarantines, mandating business and school closures and restricting travel. These mandated business closures have at times included the cessation of non-elective surgeries in Australia, Europe and the United States for all but emergency procedures. As a result of these mandates, on April 16, 2020, the Company implemented various short-term cost reductions and cash flow improvement actions, such as reducing the compensation for executives, management and key employees and decreasing operating expenses where possible. In addition, the Company also identified temporary headcount reductions and made the decision to furlough a portion of its workforce. During the second quarter of 2020, the mandated closures began to ease in many areas throughout the world and within the United States. As a result of this, elective surgeries started back up again through various parts of the world, which led to improved sales progressing through the second quarter. Even after the COVID-19 outbreak has subsided, the Company may continue to experience materially adverse impact on its financial condition and results of operation. Additionally, on June 15, 2020, the Company ended the temporary pay reductions and the furloughed employees returned to work. The full impact of the COVID-19 outbreak continues to evolve and it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on the Company's financial condition, liquidity, operations, suppliers, industry, and workforce and has taken actions to mitigate the impact including among other things, temporary reductions in pay, and furloughs of certain positions along with deferrals in payment for cash preservation. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. Provided under the CARES Act is the Paycheck Protection Program ("PPP"), which the Company received a PPP loan, for further details see Note 5 below. We continue to examine the impact that the CARES Act may have on our business and the PPP loan.

(3) Supplemental Balance Sheet Information

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

Inventory:

	June 30, 2020	December 31, 2019
Sub-assemblies	$ 579	$ —
Finished goods	1,501	1,317
Total inventory	$ 2,080	$ 1,317

Prepaid expenses and other current assets:

	June 30, 2020	December 31, 2019
Prepaid contract research organization expenses	$ 830	$ 1,356
Prepaid insurance	702	190
Other	474	165
Total prepaid expenses and other current assets	$ 2,006	$ 1,711

Accrued and other liabilities:

	June 30, 2020	December 31, 2019
Accrued professional services	$ 501	$ 1,432
Payroll and benefits	1,285	1,021
Taxes	310	373
Equity transaction related liability	—	211
Customer deposits	358	202
Accrued insurance premium	51	87
Other	504	495
Total accrued and other liabilities	$ 3,009	$ 3,821

(4) Intangible Assets

Indefinite-lived intangible assets consist of in-process research and development ("IPR&D") for the ReShape Vest recorded in connection with the Company's acquisition of BarioSurg, Inc. The Company's finite-lived intangible assets consists of developed technology, trademarks and tradenames, and covenant not compete. The estimated useful lives of these finite-lived intangible assets ranges from 3 to 10 years. The amortization expenses for both the three months ended June 30, 2020 and 2019 was $0.4 million, and for both the six months ended June 30, 2020 and 2019 was $0.8 million.

During the second quarter of 2020, the Company performed a qualitative impairment analysis of the IPR&D and finite-lived intangible assets and did not identify any impairment as a result of this analysis.

Impairment of Intangible Assets – Second Quarter 2019

The Company has completed the feasibility study for the ReShape Vest and began clinical trials in Europe in 2018. During the second quarter of 2019, the Company performed a qualitative impairment analysis of the IPR&D. Due to delays in the clinical trials experienced during the first six months of 2019, the Company revised its expectations of when revenues would commence for the ReShape Vest, thus reducing the projected near-term future net cash flows related to the ReShape Vest. As a result, the Company performed a quantitative impairment analysis of the IPR&D and recorded a one-time nonrecurring impairment charge of $6.6 million, for the excess of the carrying value over the estimated fair value. The fair value of the IPR&D was estimated using an income approach using Level 3 assumptions which included discounting the revised projected future net cash flows to their present value, with a discount rate of 22.4%. The Company also assessed the recoverability of finite-lived intangible assets and did not identify any impairment as a result the performance of this analysis.

(5) Debt

	June 30, 2020	December 31, 2019
Asset purchase consideration	$ 4,754	$ 4,637
Credit agreement	3,000	—
PPP Loan	955	—
Total debt	8,709	4,637
Less: debt issuance costs	678	—
Less: current portion of debt	4,597	1,909
Debt, noncurrent portion	$ 3,434	$ 2,728

CARES Act

On April 24, 2020, the Company entered into a PPP Loan agreement with Silicon Valley Bank ("SVB") under the PPP, which is part of the CARES Act administered by the United States Small Business Administration ("SBA"). As part of the application for these funds, the Company in good faith, has certified that the current economic uncertainty made the loan request necessary to support the ongoing operations of the Company. This certification further requires the Company to take into account our current business activity and our ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. Under this program, the Company received proceeds of $1.0 million from the PPP Loan. In accordance with the requirements of the PPP, the Company intends to use proceeds from the PPP Loan primarily for payroll costs, rent and utilities. The PPP Loan has a 1.00% interest rate per annum, matures on April 24, 2022 and is subject to the terms and conditions applicable to loans administered by the SBA under the PPP. Under the terms of PPP, all or certain amounts of the PPP Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act, which the Company continues to evaluate. Further, if despite the good-faith belief that given the Company's circumstances all eligibility requirements for the PPP Loan were satisfied, if it is later determined the Company had violated any applicable laws or regulations or it is otherwise determined the Company was ineligible to receive the PPP Loan, it may be required to repay the PPP Loan in its entirety and/or be subject to additional penalties.

The Company continues to examine the impact that the CARES Act may have on its business. Currently the Company is unable to determine the impact that the CARES Act will have on its financial condition, results of operation or liquidity.

Credit Agreement

On March 25, 2020, the Company executed a credit agreement up to $3.5 million, with an institutional investor (the "Lender"), who holds warrants in connection with the June 2019 and September 2019 transactions. On the day of closing, the Company received $2.5 million and the additional $1.0 million may be drawn from time to time 30 days after the closing date but prior to five months after the closing date, in $500 thousand increments per draw. On June 23, 2020, the Company made the first additional draw of $500 thousand. As a result of this drawdown, the Company has an outstanding principal balance of $3.0 million under the credit facility and has the option to borrow up to an additional $500 thousand pursuant to one additional delayed draw term loan.

The credit facility matures six months after the closing date and bears interest at LIBOR plus 2.5%. As required by the terms of this credit agreement, the lender exercised its warrants to purchase an aggregate of 5,085,834 shares of common stock with a current exercise price of $0.12 per warrant on April 15, 2020, in which the Company received net proceeds of $0.6 million. In addition, the Company issued to the lender 1,200,000 Series G warrants to purchase an aggregate of 1,200,000 shares of common stock. The Series G warrants were valued using the relative fair value basis and the amount was recorded as part of the debt issuance costs, see Note 8 for additional details.

Asset Purchase Consideration Payable

The asset purchase consideration payable related to the Company's December 2018 acquisition of the LAP-BAND product line from Apollo Endosurgery, Inc. ("Apollo"), was initially recorded at net present value using a discount rate of 5.1%. The asset purchase consideration payable was originally secured by a first security interest in substantially all of the Company's assets, but that security interest terminated in accordance with its terms in October 2019. At June 30, 2020, the aggregate carrying value of the current and noncurrent asset purchase consideration payable of approximately $4.8 million, as adjusted for accretion of interest of approximately $0.4 million.

Convertible Subordinated Debentures

On March 29, 2019, the Company completed a private placement with certain healthcare focused institutional investors for the sale of secured subordinated original issue discount convertible debentures ("debentures") for a purchase price of $2.0 million. The debentures had a maturity of June 28, 2019 and a face amount of $2.2 million, reflecting a 10% original issue discount. The Company recorded an additional debt discount and a derivative liability for the fair value of the bifurcated embedded conversion features discussed below. The initial carrying amount of the debentures, net of discounts and deferred financing costs, was approximately $1.5 million. The Company repaid the debentures on June 20, 2019 at their face amount of $2.2 million.

The Company analyzed the conversion features embedded in the debentures and determined that bifurcation and liability classification was required under ASC 815 due to the variable number of shares issuable upon conversion. The fair value of the bifurcated embedded conversion features was determined to be $0.5 million as of the issuance date using a Monte Carlo model and primarily Level 3 inputs using a risk-free rate of 2.19%; probability of conversion of 98.0%; probability of repayment at each conversion of 2.0%; volatility of 161.74%; option-adjusted spread of 50.0%; and a discount for lack or marketability of 20.0%. Upon the closing of the Company's equity financing and the Company's planned use of a portion of the proceeds to repay the debentures, the fair value of the embedded derivative liability was reduced to zero as the conversion feature was no longer available. As the Company did not elect the fair value option for the debentures, the initial carrying amount of the debentures, net of discounts and deferred financing costs of $1.5 million, which was accreted to the face amount over the term to maturity.

In connection with the financing, the Company amended the exercise price of warrants to purchase up to 8,000,000 shares of common stock held by the investors that were issued on November 28, 2018 from $1.50 per share to $0.01 per share. The value attributable to the exercise price reduction of $0.1 million was recorded in Warrant Expense and was estimated using the Black Scholes option pricing model using a risk-free rate of 2.2%, an expected term of 4.7 years, expected dividends of zero and expected volatility of 204.4%.

(6) Leases

The Company has a noncancelable operating lease for office and warehouse space in San Clemente, California and noncancelable operating leases for certain office equipment that expire at various dates through 2022. The Company does not have any short-term leases or financing lease arrangements and the effects of any lease modifications have not been material. Certain of the Company's equipment leases include variable lease payments that are adjusted periodically based on actual usage. Lease and non-lease components are accounted for separately.

Operating lease costs was $0.1 million for both the three months ended June 30, 2020 and 2019, and $0.2 million for both the six months ended June 30, 2020 and 2019. Variable lease costs were not material.

Supplemental information related to operating leases is as follows:

Balance Sheet Information at June 30, 2020		
Operating lease ROU assets	$	613
Operating lease liabilities, current portion	$	303
Operating lease liabilities, long-term portion		323
Total operating lease liabilities	$	626
Cash Flow Information for the Six Months Ended June 30, 2020		
Cash paid for amounts included in the measurement of operating leases liabilities	$	161

Maturities of operating lease liabilities were as follows:

Twelve months ending June 30,		
2021	$	328
2022		332
2023		—
Total lease payments		660
Less: imputed interest		34
Total lease liabilities	$	626
Weighted-average remaining lease term at end of period (in years)		1.9
Weighted-average discount rate at end of period		5.1 %

(7) Equity

June 2020 Cashless Exercise of Warrants for Common Stock

On June 23, 2020, the Company issued 58,981 shares of common stock as a cashless exercise of warrants issued to the placement agents in connection with the June 2019 private placement with healthcare focused institutional investors.

May 2020 Common Stock Issued for Professional Services

On May 28, 2020, the Company issued 50,000 shares of common stock, having an aggregate fair value of $0.2 million for ongoing professional services. The $0.2 million was recorded as a prepaid asset and will be amortized over the minimum life of the agreement.

April 2020 Exercise of Warrants for Common Stock

As discussed in Note 5 above, in an agreement to the credit agreement, the lender exercised its Series C and Series F warrants to purchase an aggregate of 5,085,834 shares of common stock with a current exercise price of $0.12 per warrant on April 15, 2020, in which the Company received net proceeds of $0.6 million.

June 2019 Issuance of Common Stock and Warrants

On June 18, 2019, the Company completed a private placement with certain healthcare focused institutional investors for the sale of 130,000 shares of common stock at a purchase price of $2.40 per share and Series C pre-funded warrants to purchase 3,203,334 shares of common stock at a purchase price of $2.28 per share. The exercise price of each pre-funded warrant is $0.12 per share. The Company also issued Series A warrants to purchase 3,333,334 shares of common stock at an exercise price of $2.64 per share and Series B warrants to purchase 3,333,334 shares of common stock at an exercise price of $2.40 per share. Net proceeds from the private placement were $6.9 million after deducting placement agent fees and other transaction costs. In connection with the registered direct offering, the placement agent received warrants to purchase 233,334 shares of common stock at an exercise price of $3.00 per share.

February 2019 Conversion of Common Stock into New Series of Convertible Preferred Stock

On February 1, 2019, pursuant to an exchange agreement with Sabby Volatility Warrant Master Fund, Ltd. (“Sabby”) 9,993 shares of the Company’s common stock were exchanged for an aggregate of 1,192,000 shares of Series E Convertible Preferred Stock (“Series E Preferred Stock”), were issued in a noncash transaction. Each share of Series E Preferred Stock was convertible into one share of common stock at Sabby’s election pre-effect of the reverse stock split that occurred during November 2019. In April 2019, all shares of Series E Preferred Stock were converted into an equal number of shares of common stock. The November 2019 reverse stock split had no effect on this transaction.

Conversion of Series B Convertible Preferred Stock into Common Stock

During the six months ended June 30, 2019, 156 shares of Series B Convertible Preferred Stock ("Series B Preferred Stock") were converted into 1,040 shares of common stock. At June 30, 2020, the remaining 3 shares of Series B Preferred stock are convertible into 1,250 shares of common stock.

(8) Warrants

On March 25, 2020, the Company issued 1,200,000 Series G Warrants to an institutional investor in connection with the credit agreement, see Note 5 above for details. The Series G Warrants were valued at $1.4 million using the relative fair value approach at the time of issuance and was recorded as deferred debt issuance cost. The relative fair value of the Series G Warrants was determined using a Black Scholes option pricing model using a risk-free interest rate of 0.56%; an expected term of five years; expected dividends of zero and expected volatility of 97.00%.

(9) 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, 2020 and 2019, the Company only sold the LAP-BAND products. The following table presents the Company's revenue disaggregated by geography:

	Three Months Ended		Six Months Ended	
	2020	2019	2020	2019
United States	$ 1,458	$ 4,010	$ 3,412	$ 7,076
Australia	120	440	418	448
Europe	124	—	636	—
Rest of world	—	—	25	—
Total net revenue	$ 1,702	$ 4,450	$ 4,491	$ 7,524

*The next largest individual country outside the United States was Australia for both the three and six months ended June 30, 2020 which was 7.0% and 9.3%, respectively, of total revenues. Australia was the next largest individual country outside the United States for both the three and six months ended June 30, 2019 and was 9.5% and 5.6%, respectively, of total revenues.

Operating Segments

The Company's operating segments currently consist of the LAP-BAND segment and the ReShape Vest segment. These two operating segments are reported based on the financial information provided to the Chief Operating Decision Maker (the Chief Executive Officer, or "CODM"). The Company's CODM evaluates segment performance based on gross profit, which currently only consists of LAP-BAND. The Company's CODM does not use operating segment assets information to allocate resources or to assess performance of the operating segments and thus total segment assets have not been disclosed.

(10) Income Taxes

The Company's tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items arising in that quarter. In each quarter the Company updates its estimate of the annual effective tax rate. The Company's quarter tax provision, and quarterly estimate of annual effective tax rate, are subject to significant volatility due to several factors, including the Company's ability to accurately predict pre-tax income and loss. During the three and six months ended June 30, 2020 a $50 thousand and $68 thousand, respectively, a tax benefit was recorded, primarily related to projected losses in Australia. The Company recorded an income tax benefit of $586 thousand for both the three and six months ended June 30, 2019, in connection with the impairment of IPR&D, which resulted in a reduction in the deferred tax liability associated with the indefinite-lived intangible asset.

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 ("IRC") Section 382, the Company provided a valuation allowance at both June 30, 2020 and December 31, 2019.

(11) Stock-based Compensation

Stock-based compensation expense related to stock options issued under the ReShape Lifesciences Inc. Second Amended and Restated 2003 Stock Incentive Plan (the "Plan") and as inducement grants for the three and six months ended June 30, 2020 and 2019 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Sales and marketing	$ —	$ 71	$ —	$ 148
General and administrative	347	625	774	1,771
Research and development	—	31	—	64
Total stock-based compensation expense	$ 347	$ 727	$ 774	$ 1,983

As of June 30, 2020 there was approximately $0.7 million of total unrecognized compensation costs related to unvested stock option awards, which are to be recognized over a weighted-average period of 1.7 years. There were no stock options granted during both the three and six months ended June 30, 2020 and 2019.

(12) Commitments and Contingencies

Litigation

The Company is not currently a party to any material litigation and 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. The medical device industry in which the Company operates is characterized by frequent claims and litigations, 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.

(13) Subsequent Events

As part of the credit agreement discussed in Note 5 above, the Company is permitted to make two additional delayed drawdowns. On July 29, 2020 the Company received the second and final draw of $500 thousand dollars.

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 Annual Report on Form 10-K filed on April 30, 2020.

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 a developer of minimally invasive medical devices that advance bariatric surgery to treat obesity and metabolic diseases. Our current portfolio includes the LAP-BAND® Adjustable Gastric Banding System and the ReShape Vest™, an investigational device, to help treat more patients with obesity. There has been no revenue recorded for the ReShape Vest as the product is still in the development stage.

Recent Developments

On January 30, 2020, WHO announced a global health emergency because of a new strain of coronavirus and the risks to the international community as the virus spreads globally beyond its points of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally and on March 13, 2020, the United States declared a national emergency with respect to the coronavirus outbreak. In response to the COVID-19 pandemic, on March 27, 2020, President Trump signed into law the CARES Act, which provides for the PPP. The Company received a PPP Loan of $1.0 million dollars. See Note 2 and Note 5 to the condensed consolidated financial statements.

On March 25, 2020, the Company executed a credit agreement with an institutional investor to borrow up to $3.5 million, of which $2.5 million was received up front and on June 23, 2020, the Company received the first draw down of $500 thousand. See Note 5 to the condensed consolidated financial statements.

On April 16, 2020, the Company implemented various short-term cost reductions and cash flow improvement actions, such as reducing the compensation for executives, management and key employees and decreasing operating expenses where possible. In addition, the Company also identified temporary headcount reductions and made the decision to furlough a portion of its workforce. During the second quarter of 2020, certain government-mandated closures began to ease and many areas throughout the world and within the United States began to allow elective surgeries. As a result of the easing, the Company did see sales volumes improve as we progressed through the second quarter. Even after the COVID-19 outbreak has subsided, we may continue to experience materially adverse impact on our financial condition and results of operations. Additionally, on June 15, 2020, the Company ended the temporary pay reductions and the furloughed employees returned to work.

Results of Operations

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2020		2019		2020		2019	
Revenue	$ 1,702	100.0 %	$ 4,450	100.0 %	$ 4,491	100.0 %	$ 7,524	100.0 %
Cost of goods sold	865	50.8 %	1,593	35.8 %	2,150	47.9 %	2,436	32.4 %
Gross profit	837	49.2 %	2,857	64.2 %	2,341	52.1 %	5,088	67.6 %
Operating expenses:								
Sales and marketing	831	48.8 %	1,271	28.6 %	2,285	50.9 %	2,388	31.7 %
General and administrative	2,539	149.2 %	5,521	124.1 %	5,375	119.7 %	9,825	130.6 %
Research and development	465	27.3 %	960	21.6 %	1,761	39.2 %	2,016	26.8 %
Impairment of intangible assets	—	— %	6,588	148.0 %	—	— %	6,588	87.6 %
Total operating expenses	3,835	225.3 %	14,340	322.2 %	9,421	209.8 %	20,817	276.7 %
Operating loss	(2,998)	(176.1)%	(11,483)	(258.0)%	(7,080)	(157.6)%	(15,729)	(209.1)%
Other expense (income), net:								
Interest expense, net	789	46.4 %	213	4.8 %	893	19.9 %	316	4.2 %
Loss on extinguishment of debt	—	— %	71	1.6 %	—	— %	71	0.9 %
Warrant expense	—	— %	4,127	92.7 %	—	— %	4,257	56.6 %
(Gain) loss on foreign currency	(133)	(7.8)%	—	— %	10	0.2 %	—	— %
Other, net	—	— %	612	13.8 %	—	— %	609	8.1 %
Loss from continuing operations before income taxes	(3,654)	(214.7)%	(16,506)	(370.9)%	(7,983)	(177.8)%	(20,982)	(278.9)%
Income tax benefit	50	2.9 %	586	13.2 %	68	1.5 %	586	7.8 %
Net loss	$ (3,604)	(211.8)%	$ (15,920)	(357.8)%	$ (7,915)	(176.2)%	$ (20,396)	(271.1)%

Non-GAAP Disclosures

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

Management believes that the presentation of this non-GAAP financial information provides investors with greater transparency and facilitates comparison of operating results across a broad spectrum of companies with varying capital structures, compensation strategies, derivative instruments, and amortization methods, which provides a more complete understanding of our financial performance, competitive position, and prospects for the future. However, the non-GAAP financial measures presented in the 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, and other one-time costs.

The following table contains a reconciliation of non-GAAP net loss to GAAP net loss attributable to common stockholders for the three and six months ended June 30, 2020 and 2019 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
GAAP net loss attributable to common stockholders	$ (3,604)	$ (15,920)	$ (7,915)	$ (20,396)
Adjustments:				
Interest expense, net	789	213	893	316
Income tax benefit	(50)	(586)	(68)	(586)
Depreciation and amortization	418	430	838	863
Stock based compensation expense	347	727	774	1,983
Loss on debt extinguishment	—	71	—	71
Liability warrant expense	—	4,127	—	4,257
Impairment of intangible assets	—	6,588	—	6,588
Other, net	—	612	—	609
Non-GAAP loss	$ (2,100)	$ (3,738)	$ (5,478)	$ (6,295)

Comparison of Results of Operations

Three months ended June 30, 2020 and June 30, 2019

Net Revenue: The following table summarizes our unaudited net revenue by geographic location based on the location of customers for the three months ended June 30, 2020 and 2019, as well as the amount of change and percentage of change (dollars in thousands):

	Three Months Ended June 30,				Amount	Percentage
	2020		2019		Change	Change
United States	$ 1,458	85.7 %	$ 4,010	90.1 %	$ (2,552)	(63.6)%
Australia	120	7.0 %	440	9.9 %	(320)	(72.7)%
Europe	124	7.3 %	—	— %	124	100.0 %
Total net revenue	$ 1,702	100.0 %	$ 4,450	100.0 %	$ (2,748)	(61.8)%

Revenue totaled $1.7 million for the three months ended June 30, 2020, compared to $4.4 million for the same period in 2019. The primary reason for the decrease in revenue of $2.7 million or 62%, is due to a reduction in sales from the COVID-19 pandemic, which caused elective surgeries to be shut down throughout the world. In the second quarter of 2020, sales volumes began to improve as we progressed through the quarter.

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, 2020 and 2019, as well as the amount of change and percentage of change (dollars in thousands):

	Three Months Ended June 30,				Amount	Percentage
	2020		2019		Change	Change
Revenue	$ 1,702	100.0 %	$ 4,450	100.0 %	$ (2,748)	(61.8)%
Cost of goods sold	865	50.8 %	1,593	35.8 %	(728)	(45.7)%
Gross profit	$ 837	49.2 %	$ 2,857	64.2 %	$ (2,020)	(70.7)%

Gross Profit. Gross profit for the three months ended June 30, 2020 was $0.8 million compared to $2.8 million for the same period in 2019, a decrease of $2.0 million. Gross profit as a percentage of total revenue for the three months ended June 30, 2020 was 49.2% compared to 64.2% for the same period in 2019. The decrease in gross profit margin is primarily due to a decrease in sales as a result of the COVID-19 pandemic.

Operating Expenses: The following table summarizes our unaudited operating expenses for the three months ended June 30, 2020 and 2019, as well as the amount of change and percentage of change (dollars in thousands):

	Three Months Ended June 30, 2020		2019		Amount Change	Percentage Change
Sales and marketing	$ 831	48.8 %	$ 1,271	28.6 %	$ (440)	(34.6)%
General and administrative	2,539	149.2 %	5,521	124.1 %	(2,982)	(54.0)%
Research and development	465	27.3 %	960	21.6 %	(495)	(51.6)%
Impairment of intangible assets	—	— %	6,588	148.0 %	(6,588)	(100.0)%
Total operating expenses	$ 3,835	225.3 %	$ 14,340	322.3 %	$ (10,505)	(73.3)%

Sales and Marketing Expense. Sales and marketing expenses for the three months ended June 30, 2020 decreased by $0.4 million or 35%, to $0.8 million, compared to $1.2 million for the same period in 2019. The decrease is primarily due a reduction in payroll related expenses of $0.1 million and global sales commissions of $0.1 million due to a temporary reduction of staff and sales caused by the COVID-19 pandemic. In addition, the company had a reduction in stock based compensation expense of approximately $0.1 million, and a reduction in advertising and marketing costs of $0.1 million.

General and Administrative Expense. General and administrative expenses were $2.5 million for the three months ended June 30, 2020 as compared to $5.5 million for the same period in 2019, a decrease of $3.0 million, or 54%. The decrease is primarily due to decreases in audit, consulting and other professional service provider expense of $1.5 million, legal fees of $1.2 million and a reduction in stock based compensation expense of $0.3 million.

Research and Development Expense. Research and development expenses were $0.5 million for the three months ended June 30, 2020 as compared to $1.0 million for the same period in 2019. The $0.5 million, or 52%, decrease is due to a slowdown in the clinical trials for the ReShape Vest due to the COVID-19 pandemic.

Impairment of Intangible Assets. There were no impairment charges during the three months ended June 30, 2020. During the three months ended June 30, 2019, we recorded an impairment charge of $6.6 million on the indefinite-lived intangible asset recorded in connection with our acquisition of BarioSurg, Inc. (“BarioSurg”) in May 2017. We also assessed the recoverability of finite-lived intangible assets during the second quarter of 2019 and did not identify any impairment as a result the performance of this analysis.

Warrant Expense. There was no warrant expense for the three months ended June 30, 2020. Warrant expense for the three months ended June 30, 2019 includes noncash expense of $8.3 million for the value of variable price features included with the warrants and common stock issued in connection with our equity financing completed in June 2019 in excess of the proceeds received. This noncash expense was reduced by $4.2 million for the decrease in fair value of the warrant liability between the issuance date and June 30, 2019.

Net Interest Expense. Net interest expense for the three months ended June 30, 2020 was $0.8 million compared to $0.2 million for the same period in 2019. The primary reason for the increase is $0.6 million of amortization of deferred issuance cost recorded as interest expense, related to the credit agreement with an institutional investor.

Gain on Foreign Currency Exchange. Gain on foreign currency exchange for the three months ended June 30, 2020 was $0.1 million. There was neither a gain nor a loss for the same period in 2019.

Other, net. There were no other expenses for the three months ended June 30, 2020. Other, net expenses of $0.6 million for the three months ended June 30, 2019 primarily relates to transaction costs required to be expensed as a result of the liability treatment for the warrants issued in connection with our June equity financing.

Income Tax Benefit. An income tax benefit of $50 thousand was recorded for the three months ended June 30, 2020, primarily related to expected losses in Australia. There was an income tax benefit of $0.6 million for the same period in 2019.

Six months ended June 30, 2020 and June 30, 2019

Net revenue. The following table summarizes our unaudited net revenue by geographic location based on the location of customers for the six months ended June 30, 2020 and 2019, as well as the amount of change and percentage of change (dollars in thousands):

	Six Months Ended June 30,				Amount	Percentage
	2020		2019		Change	Change
United States	$ 3,412	76.0 %	$ 7,076	94.0 %	$ (3,664)	(51.8)%
Australia	418	9.3 %	448	6.0 %	(30)	(6.7)%
Europe	636	14.2 %	—	— %	636	100.0 %
Rest of World	25	0.6 %	—	— %	25	100.0 %
Total net revenue	$ 4,491	100.0 %	$ 7,524	100.0 %	$ (3,033)	(40.3)%

Revenue totaled $4.5 million for the six months ended June 30, 2020, compared to $7.5 million for the same period in 2019. The primary reason for the decrease in revenue of $3.0 million, or 40%, is due to a reduction in sales from the COVID-19 pandemic, which caused elective surgeries to be shut down throughout the world at the end of the first quarter of 2020. In the second quarter of 2020, sales volumes began to improve as we progressed through the quarter. International revenue increased by $0.6 million for the six months ended June 30, 2020 compared to the same period in 2019, due to increased international sales during the first quarter of 2020, as we began limited direct international distribution during the second quarter of 2019.

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, 2020 and 2019, as well as the amount of change and percentage of change (dollars in thousands):

	Six Months Ended June 30,				Amount	Percentage
	2020		2019		Change	Change
Revenue	$ 4,491	100.0 %	$ 7,524	100.0 %	$ (3,033)	(40.3)%
Cost of goods sold	2,150	47.9 %	2,436	32.4 %	(286)	(11.7)%
Gross profit	$ 2,341	52.1 %	$ 5,088	67.6 %	$ (2,747)	(54.0)%

Gross Profit. Gross profit for the six months ended June 30, 2020 was $2.3 million compared to $5.0 million for the same period in 2019, a decrease of $2.7 million. Gross profit as a percentage of total revenue for the six months ended June 30, 2020 was 52.1% compared to 67.6% for the same period in 2019. The decrease in gross profit margin is primarily due to reduced overall sales from the COVID-19 pandemic, coupled with an increase in international sales, which have a lower margin than domestic sales.

Operating expenses:

	Six Months Ended June 30,				Amount	Percentage
	2020		2019		Change	Change
Sales and marketing	$ 2,285	50.9 %	$ 2,388	31.7 %	$ (103)	(4.3)%
General and administrative	5,375	119.7 %	9,825	130.6 %	(4,450)	(45.3)%
Research and development	1,761	39.2 %	2,016	26.8 %	(255)	(12.6)%
Impairment of intangible assets	—	— %	6,588	87.6 %	(6,588)	(100.0)%
Total operating expenses	$ 9,421	209.8 %	$ 20,817	276.7 %	$ (11,396)	(54.7)%

Sales and Marketing Expense. Sales and marketing expenses for the six months ended June 30, 2020 decreased by $0.1 million or 4%, to $2.3 million, compared to $2.4 million for the same period in 2019. The decrease is primarily due a reduction in payroll related expenses of $0.1 million, a reduction in stock based compensation expenses of $0.2 million and a reduction in travel and entertainment expenses of $0.1 million, due to a temporary reduction of personnel caused by the COVID-19 pandemic. This was offset by an increase in consulting expenses of $0.1 million and an increase in advertising and marketing costs of $0.1 million. The increases in consulting and advertising and marketing are primarily attributable to spend during the first quarter of 2020 prior to the impact of the COVID-19 pandemic.

General and Administrative Expense. General and administrative expenses were $5.3 million for the six months ended June 30, 2020 as compared to $9.8 million for the same period in 2019, a decrease of $4.5 million, or 45%. The decrease is primarily due to decreases in audit, consulting and other professional service provider expense of $2.2 million, legal fees of $1.4 million and stock based compensation expense of $1.0 million, offset by an increase in bad debt expense of approximately $0.1 million.

Research and Development Expense. Research and development expenses were $1.8 million for the six months ended June 30, 2020 as compared to $2.0 million for the same period in 2019. The $0.2 million, or 13%, decrease is due to a slowdown of the clinical trials for the ReShape Vest due to the COVID-19 pandemic.

Impairment of Intangible Assets. There was no impairment charge recorded during the six months ended June 30, 2020. During the six months ended June 30, 2019, we recorded an impairment charge of $6.6 million on the indefinite-lived intangible asset recorded in connection with our acquisition of BarioSurg, Inc. ("BarioSurg") in May 2017. We also assessed the recoverability of finite-lived intangible assets during the second quarter of 2019 and did not identify any impairment as a result the performance of this analysis.

Warrant Expense. There was no warrant expense for the six months ended June 30, 2020. Warrant expense for the six months ended June 30, 2019 includes noncash expense of $8.3 million for the value of variable price features included with the warrants and common stock issued in connection with our equity financing completed in June 2019 in excess of the proceeds received. This noncash expense was reduced by $4.2 million for the decrease in fair value of the warrant liability between the issuance date and June 30, 2019. In addition, during the six months ended June 30, 2019, we recorded warrant expense of $0.1 million for the change in fair value of certain warrants held by certain institutional investors for which the exercise price was reduced in connection with the sale of convertible subordinated debentures to those investors.

Net Interest Expense. Net interest expense for the six months ended June 30, 2020 was $1.0 million compared to $0.3 million for the same period in 2019. The primary reason for the increase is $0.8 million of amortization of deferred issuance cost recorded as interest expense, slightly offset by the interest expense related to the subordinated debentures in 2019.

Loss on Foreign Currency Exchange. Loss on foreign currency exchange for the six months ended June 30, 2020 was $10 thousand, as the gains recognized during the second quarter of 2020 offset the losses recognized during the first quarter of 2020. There was neither a gain nor a loss for the same period in 2019.

Other, net. There were no other expenses for the six months ended June 30, 2020. Other, net expenses of $0.6 million for the six months ended June 30, 2019 primarily relates to transaction costs required to be expensed as a result of the liability treatment for the warrants issued in connection with our June 2019 equity financing.

Income Tax Benefit. An income tax benefit of $68 thousand was recorded for the three months ended June 30, 2020, primarily related to expected losses in Australia. There was an income tax benefit of $0.6 million for the same period in 2019.

Liquidity and Capital Resources

As of June 30, 2020, we had $1.5 million of cash and cash equivalents to fund operations. We have financed our operations to date principally through the sale of equity securities and debt financing. Our anticipated operations include plans to (i) continue to integrate the sales and operations of the Company with the newly acquired LAP-BAND product line in order to expand sales domestically and internationally as well as to obtain cost savings synergies, (ii) continue development of the ReShape Vest, (iii) seek opportunities to leverage our intellectual property portfolio and custom development services to provide third party sales and licensing opportunities, and (iv) 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, clinical and product development activities. However, the Company will ultimately need to achieve sufficient revenues from product sales and obtain additional debt or equity financing to support its operations.

Management is currently pursuing various funding options, including seeking additional equity or debt financing as well as a strategic merger or other transaction to obtain additional funding to support the expansion of LAP-BAND product sales and to continue the development of, and to successfully commercialize, the ReShape Vest. While the acquisition of the LAP-BAND product line does provide incremental revenues and cash flows to the Company, the cost to support the clinical trials of the ReShape Vest is expected to exceed internally generated cash flows for the foreseeable future. While there can be no assurance that the Company will be successful in its efforts, the Company has a long history of raising equity financing to fund its development activities. Should the Company be unable to obtain adequate financing in the near term, the Company's business, result of operations, liquidity and financial condition would be materially and negatively affected, and the Company would be unable to continue as a going concern. Additionally, there can be no assurance that, assuming the Company is able to strengthen its cash position, it will achieve sufficient revenue or profitable operations to continue as a going concern.

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

	Six Months Ended June 30,	
	2020	2019
Net cash used in operating activities	$ (5,812)	$ (8,599)
Net cash used in investing activates	(82)	—
Cash provided in financing activities	4,506	7,406
Effect of exchange rate changes	(21)	—
Net change in cash and cash equivalents	$ (1,409)	$ (1,193)

Net Cash Used in Operating Activities

Net cash used in operating activities from continuing operations was $5.8 million and $8.6 million for the six months ended June 30, 2020 and 2019, respectively. For the six months ended June 30, 2020, net cash used in operating activities was primarily the result of our net loss of $7.9 million, partially offset by non-cash adjustments for amortization of intangible assets of $0.8 million, stock based compensation expense of $0.8 million, amortization of deferred debt issuance cost of $0.8 million, bad debt expense of $0.2 million, provision for inventory excess and obsolescence of $0.2 million and noncash interest expense of $0.1 million. In addition, the Company has focused on collection of accounts receivable, which resulted in an increase to cash of $1.0 million, which was offset by an increase in inventory of $1.0 million primarily due to slower sales related to the COVID-19 pandemic, and a decrease in accounts payable and accrued liabilities of $1.0 million.

Net Cash Used in Investing Activities

Net cash used in investing activities for the six months ended June 30, 2020 was $0.1 million, comprised of capital expenditures related to the process of moving manufacturing from Costa Rica to the United States. This move is expected to be completed by the start of the first quarter 2021. Because of this, we anticipate net cash used in investing activities to be higher in 2020 compared to 2019. There was no cash used in investing activities for the six months ended June 30, 2019.

Net Cash Provided by Financing Activities

Net cash provided by financing activities of $4.5 million for the six months ended June 30, 2020, consisted of proceeds received from the credit agreement with an institutional investor of $3.0 million, $1.0 million received under the CARES Act in the form of a PPP Loan and $0.6 million in cash received from the exercise of warrants, offset by approximately $0.1 million of debt issuance costs.

Net cash provided by financing activities of $7.4 million for the six months ended June 30, 2019 was primarily related to $7.6 million of cash proceeds we received in connection with an equity financing completed in June 2019. A portion of the net proceeds from the equity financing were used to repay the $2.2 million face amount of convertible subordinated debentures that were issued at an original issue discount of 10% in March 2019.

Operating Capital and Capital Expenditure Requirements

Our anticipated operations include plans to (i) continue to integrate the sales and operations of the Company with the newly acquired LAP-BAND product line; (ii) continue development of the ReShape Vest, (iii) seek opportunities to leverage the Company's intellectual property portfolio and custom development services to provide third party sales and licensing opportunities, and (iv) 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, clinical and product development activities. However, the Company will ultimately need to achieve sufficient revenues from product sales and obtain additional equity or debt financing to support its operations.

Obtaining funds through the sale of additional equity and debt securities or the warrant holders' exercise of outstanding common stock warrants may result in dilution to our stockholders. If we raise additional funds through the issuance of debt securities, these securities could have rights senior to those of our common stock and could contain covenants that would restrict our operations. The sale of additional equity may require us to obtain approval from our stockholders to increase the number of shares of common stock we have authorized under our certificate of incorporation. We may require additional capital beyond our currently forecasted amounts. Any such required additional capital may not be available on reasonable terms, if at all. If we are unable to obtain additional financing, we may be required to reduce the scope of, delay, or eliminate some or all of our planned research, development and commercialization activities, which could materially harm our business. In addition, if we raise additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish valuable rights to products or proprietary technologies, or grant licenses on terms that are not favorable.

Our forecast of the period of time through which our financial resources will be adequate to support our operations, the costs to complete development of products and the cost to commercialize our products are forward-looking statements and involve risks and uncertainties, and actual results could vary materially and negatively as a result of a number of factors, including the factors discussed in Part I, Item 1A, "*Risk Factors*", of our Annual Report on Form 10-K. We have based these estimates on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect.

The Company's acquisition of the LAP-BAND product line provides incremental revenues and cash flows and does not require further product development. In order to continue the development of, and to successfully commercialize the ReShape Vest, the Company's management is currently pursuing various funding options, including seeking additional equity or debt financing as well as a strategic merger or other transaction to obtain additional funding. The Company has a long history of raising equity financing to fund its development activities; however, there can be no assurance that the Company will continue to be successful in its efforts. Should the Company be unable to obtain adequate financing in the near term, the Company's business, results of operations, liquidity and financial condition would be materially and negatively affected, and the Company would be unable to continue as a going concern. Additionally, there can be no assurance that, assuming the Company is able to strengthen its cash position, it will achieve sufficient revenue or profitable operations to continue as a going concern. The unaudited consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Because of the numerous risks and uncertainties associated with the development of medical devices, such as our ReShape Vest, we are unable to estimate the exact amounts of capital outlays and operating expenditures necessary to complete the development of the ReShape Vest 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 ReShape Vest and any products that we may develop;
- the rate of market acceptance of our ReShape Vest 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;
- revenue from sales of our established LAP-BAND product, any revenue generated by sales of our ReShape Vest or future products;
- the scope, rate of progress, results and cost of our clinical trials and other research and development activities;
- the cost and timing of obtaining any further required regulatory approvals; and
- the extent to which we invest in products and technologies, although we currently have no commitments or agreements relating to any of these types of transactions.

Critical Accounting Policies and 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 on pages 37-38 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, 2019. There have been no significant changes from the information discussed therein.

During the three and six months ended June 30, 2020 there were no material changes to our significant accounting policies 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, 2019.

Off-Balance Sheet Arrangements

As of June 30, 2020, we did not have any off-balance sheet arrangements.

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.

Based on their evaluation as of June 30, 2020, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed at a reasonable level and effective as of the end of the period covered in the report in providing reasonable assurance that the information we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting during the quarter ended June 30, 2020 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

The Company is not currently a party to any litigation and the Company is not aware of any pending or threatened litigation against it that reasonably likely to have a material adverse effect on the Company’s business, operating results or financial condition. 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

There have been no material changes to the risk factors set forth in Item 1A. “*Risk Factors*” of our 2019 Annual Report on Form 10-K filed on April 30, 2020.

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

Not applicable.

ITEM 6. EXHIBITS

Exhibit No.	Description
31.1**	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2020, formatted in Extensible Business Reporting Language: (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.

** 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/ BARTON P. BANDY
Barton P. Bandy
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 13, 2020

Exhibit 31.1

CERTIFICATION

I, Barton P. Bandy, 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/ BARTON P. BANDY

Barton P. Bandy
President and Chief Executive Officer

Date: August 13, 2020

Exhibit 31.2

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 13, 2020

Exhibit 32.1

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), Barton P. Bandy, 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, 2020 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/ BARTON P. BANDY
Barton P. Bandy
President and Chief Executive Officer

Date: August 13, 2020

Exhibit 32.2

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), Scott P. Youngstrom, 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, 2020 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 13, 2020