

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2023

OR

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

Commission File Number 001-37906

ORGANOGENESIS HOLDINGS INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

98-1329150

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

85 Dan Road

Canton, MA

(Address of principal executive offices)

02021

(Zip Code)

(781) 575-0775

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.0001 par value	ORGO	Nasdaq Capital Market

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

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

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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

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

The number of shares of the registrant's Class A common stock outstanding as of November 1, 2023 was 132,041,164.

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Organogenesis Holdings Inc.
Quarterly Report on Form 10-Q
For the Quarterly Period Ended September 30, 2023

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Form 10-Q”) contains forward-looking statements. These statements may relate to, but are not limited to, expectations of our future results of operations, business strategies and operations, financing plans, potential growth opportunities, potential market opportunities and the effects of competition, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. These risks and other factors include, but are not limited to, those listed under “Risk Factors.” In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “intend,” “potential,” “might,” “would,” “continue” or the negative of these terms or other comparable terminology. These forward-looking statements are based on our management’s current expectations, estimates, forecasts and projections about our business and the industry in which we operate and our management’s beliefs and assumptions. These forward-looking statements are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. As a result, any or all of our forward-looking statements in this Form 10-Q may turn out to be inaccurate. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under “Risk Factors” and discussed elsewhere in this Form 10-Q and in “Part I, Item 1A—Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022. These forward-looking statements speak only as of the date of this Form 10-Q. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future. You should, however, review the factors and risks we describe in the reports we will file from time to time with the U.S. Securities and Exchange Commission (the “SEC”) after the date of this Form 10-Q.

As used herein, except as otherwise indicated by context, references to “we,” “us,” “our,” “the Company,” “Organogenesis” and “ORGO” will refer to Organogenesis Holdings Inc. and its subsidiaries.

PART I—FINANCIAL INFORMATION
Item 1. Unaudited Condensed Consolidated Financial Statements.

ORGANOGENESIS HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(amounts in thousands, except share and per share data)

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 98,226	\$ 102,478
Restricted cash	599	812
Accounts receivable, net	89,276	89,450
Inventory, net	27,905	24,783
Prepaid expenses and other current assets	9,567	5,086
Total current assets	225,573	222,609
Property and equipment, net	117,503	102,463
Intangible assets, net	17,101	20,789
Goodwill	28,772	28,772
Operating lease right-of-use assets, net	42,363	43,192
Deferred tax asset, net	30,014	30,014
Other assets	1,321	1,520
Total assets	\$ 462,647	\$ 449,359
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of term loan, net of debt issuance costs	\$ 5,483	\$ 4,538
Current portion of finance lease obligations	1,174	-
Current portion of operating lease obligations	13,048	11,708
Accounts payable	26,784	32,330
Accrued expenses and other current liabilities	34,993	26,447
Total current liabilities	81,482	75,023
Term loan, net of current portion and debt issuance costs	62,117	66,231
Finance lease obligations, net of current portion	2,166	-
Operating lease obligations, net of current portion	38,826	41,314
Other liabilities	1,191	1,122
Total liabilities	185,782	183,690
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 1,000,000 shares authorized; none issued	-	-
Common stock, \$0.0001 par value; 400,000,000 shares authorized; 132,041,164 and 131,647,677 shares issued; 131,312,616 and 130,919,129 shares outstanding at September 30, 2023 and December 31, 2022, respectively.	13	13
Additional paid-in capital	317,254	310,957
Accumulated deficit	(40,402)	(45,301)
Total stockholders' equity	276,865	265,669
Total liabilities and stockholders' equity	\$ 462,647	\$ 449,359

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

ORGANOGENESIS HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(amounts in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net revenue	\$ 108,531	\$ 116,859	\$ 333,489	\$ 335,377
Cost of goods sold	25,789	26,177	78,712	77,909
Gross profit	82,742	90,682	254,777	257,468
Operating expenses:				
Selling, general and administrative	64,222	79,328	208,373	215,515
Research and development	10,470	9,575	32,610	28,367
Total operating expenses	74,692	88,903	240,983	243,882
Income from operations	8,050	1,779	13,794	13,586
Other expense, net:				
Interest expense, net	(444)	(572)	(1,688)	(2,039)
Other income (expense), net	31	5	82	(19)
Total other expense, net	(413)	(567)	(1,606)	(2,058)
Net income before income taxes	7,637	1,212	12,188	11,528
Income tax expense	(4,470)	(997)	(6,675)	(3,482)
Net income	\$ 3,167	\$ 215	\$ 5,513	\$ 8,046
Net income, per share:				
Basic	\$ 0.02	\$ 0.00	\$ 0.04	\$ 0.06
Diluted	\$ 0.02	\$ 0.00	\$ 0.04	\$ 0.06
Weighted-average common shares outstanding				
Basic	131,312,483	130,903,160	131,230,882	129,784,890
Diluted	133,417,721	132,232,954	132,790,296	132,555,265

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

ORGANOGENESIS HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited)
(amounts in thousands, except share data)

	Three and Nine Months Ended September 30, 2023				
	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity
Balance as of June 30, 2023	131,311,852	\$ 13	\$ 314,838	\$ (43,569)	\$ 271,282
Vesting of RSUs, net of shares surrendered to pay taxes	764	-	(1)	-	(1)
Stock-based compensation expense	-	-	2,417	-	2,417
Net income	-	-	-	3,167	3,167
Balance as of September 30, 2023	<u>131,312,616</u>	<u>\$ 13</u>	<u>\$ 317,254</u>	<u>\$ (40,402)</u>	<u>\$ 276,865</u>
Balance as of December 31, 2022	130,919,129	\$ 13	\$ 310,957	\$ (45,301)	\$ 265,669
Cumulative effect of adopting new accounting principle ASU 2016-13	-	-	-	(615)	(615)
Vesting of RSUs, net of shares surrendered to pay taxes	393,487	-	(333)	-	(333)
Stock-based compensation expense	-	-	6,630	-	6,630
Net income	-	-	-	5,513	5,513
Balance as of September 30, 2023	<u>131,312,616</u>	<u>\$ 13</u>	<u>\$ 317,254</u>	<u>\$ (40,402)</u>	<u>\$ 276,865</u>
	-	-	-	-	-
	-	-	-	-	-
	Three and Nine Months Ended September 30, 2022				
	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity
Balance as of June 30, 2022	130,885,369	\$ 13	\$ 307,374	\$ (53,002)	\$ 254,385
Exercise of stock options	19,064	-	28	-	28
Vesting of RSUs, net of shares surrendered to pay taxes	10,666	-	(2)	-	(2)
Issuance of common stock associated with business acquisition	-	-	-	-	-
Stock-based compensation expense	-	-	1,702	-	1,702
Net loss	-	-	-	215	215
Balance as of September 30, 2022	<u>130,915,099</u>	<u>\$ 13</u>	<u>\$ 309,102</u>	<u>\$ (52,787)</u>	<u>\$ 256,328</u>
Balance as of December 31, 2021	128,680,192	\$ 13	\$ 302,155	\$ (60,833)	\$ 241,335
Exercise of stock options	1,864,961	-	2,070	-	2,070
Vesting of RSUs, net of shares surrendered to pay taxes	166,461	-	(648)	-	(648)
Issuance of common stock associated with business acquisition	203,485	-	828	-	828
Stock-based compensation expense	-	-	4,697	-	4,697
Net income	-	-	-	8,046	8,046
Balance as of September 30, 2022	<u>130,915,099</u>	<u>\$ 13</u>	<u>\$ 309,102</u>	<u>\$ (52,787)</u>	<u>\$ 256,328</u>

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

ORGANOGENESIS HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(amounts in thousands)

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net Income	\$ 5,513	\$ 8,046
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,466	4,331
Amortization of intangible assets	3,689	3,662
Reduction in the carrying value of right-of-use assets	5,964	5,483
Non-cash interest expense	321	326
Deferred interest expense	367	428
Provision recorded for credit losses	1,320	855
Loss on disposal of property and equipment	104	4,412
Adjustment for excess and obsolete inventories	4,351	7,621
Stock-based compensation	6,630	4,697
Changes in operating assets and liabilities:		
Accounts receivable	(1,761)	(11,510)
Inventory	(7,473)	(7,282)
Prepaid expenses and other current assets	(4,491)	1
Operating leases	(6,282)	(5,250)
Accounts payable	(3,661)	5,261
Accrued expenses and other current liabilities	8,179	(4,061)
Other liabilities	68	39
Net cash provided by operating activities	20,304	17,059
Cash flows from investing activities:		
Purchases of property and equipment	(21,040)	(23,242)
Net cash used in investing activities	(21,040)	(23,242)
Cash flows from financing activities:		
Payments of term loan under the 2021 Credit Agreement	(3,281)	(938)
Payments of withholding taxes in connection with RSUs vesting	(333)	(648)
Proceeds from the exercise of stock options	-	2,070
Principal repayments of finance lease obligations	(114)	(200)
Payment of deferred acquisition consideration	-	(608)
Net cash used in financing activities	(3,728)	(324)
Change in cash, cash equivalents and restricted cash	(4,465)	(6,507)
Cash, cash equivalents, and restricted cash, beginning of period	103,290	114,528
Cash, cash equivalents, and restricted cash, end of period	\$ 98,825	\$ 108,021
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 3,896	\$ 1,787
Cash paid for income taxes	\$ 3,021	\$ 974
Supplemental disclosure of non-cash investing and financing activities:		
Purchases of property and equipment included in accounts payable and accrued expenses	\$ 4,146	\$ 5,547
Right-of-use assets obtained through lease obligations	\$ 5,138	\$ 1,708
Shares issued for deferred acquisition consideration	\$ -	\$ 828

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

ORGANOGENESIS HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share and per share data)

1. Nature of Business and Basis of Presentation

Organogenesis Holdings Inc. (“ORGO” or the “Company”) is a leading regenerative medicine company focused on the development, manufacture, and commercialization of solutions for the Advanced Wound Care and Surgical & Sports Medicine markets. Several of the existing and pipeline products in the Company’s portfolio have Premarket Application (“PMA”) approval, or Premarket Notification 510(k) clearance from the United States Food and Drug Administration (“FDA”). The Company’s customers include hospitals, wound care centers, government facilities, ambulatory service centers (“ASCs”) and physician offices. The Company has one operating and reportable segment.

Liquidity and Capital Resources

Since its inception, the Company funded its operations and capital expenditures through cash flows from product sales, loans from affiliates and entities controlled by certain of its affiliates, third-party debt and proceeds from the sale of its capital stock. As of September 30, 2023, the Company had an accumulated deficit of \$40,402 and working capital of \$144,091 which included \$98,226 in cash and cash equivalents. It also has \$125.0 million available for future revolving borrowings under its Revolving Facility (see Note “13. Long-Term Debt Obligations”). For the nine months ended September 30, 2023, it reported net revenue of \$333,489, a net income of \$5,513 and \$20,304 of cash inflows from operating activities. The Company expects that its cash on hand and other components of working capital as of September 30, 2023, availability under the 2021 Credit Agreement, plus net cash flows from product sales, will be sufficient to fund its operating expenses, capital expenditure requirements, and debt service payments for at least 12 months beyond the filing date of this quarterly report.

The Company continues to closely monitor ongoing developments in connection with the COVID-19 pandemic that could negatively affect its commercial prospects, cash position, and access to capital in fiscal 2023 or beyond. The Company will continue to assess its cash and other sources of liquidity and, if circumstances warrant, make appropriate adjustments to its operating plan.

2. Summary of Significant Accounting Policies

The Company’s significant accounting policies are described in Note “2. Significant Accounting Policies” to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (the “Annual Report”). There have been no material changes to the significant accounting policies previously disclosed in the Annual Report.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in the United States (“GAAP”), and the rules and regulations of the SEC regarding interim financial reporting. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. While we believe that the disclosures presented are adequate in order to make the information not misleading, these unaudited quarterly financial statements should be read in conjunction with the financial statements and notes thereto included in the Annual Report.

The unaudited condensed consolidated financial statements include the accounts and results of operations of Organogenesis Holdings Inc. and its wholly-owned subsidiaries, Organogenesis Inc., Organogenesis GmbH (a Switzerland corporation) and Prime Merger Sub, LLC. All intercompany balances and transactions have been eliminated in consolidation. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature necessary for a fair presentation of the Company’s financial position, results of operations and cash flows at the dates and for the periods indicated. The results for the nine months ended September 30, 2023 are not necessarily indicative of the results to be expected for the year ending December 31, 2023, any other interim periods, or any future years or periods.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported results of operations during

the reporting periods. In preparing the condensed consolidated financial statements, the estimates and assumptions that management consider to be significant and that present the greatest amount of uncertainty include: revenue recognition; sales returns and credit losses; inventory reserve; recognition and measurement of current and deferred income tax assets and liabilities; the assessment of recoverability of long-lived and indefinite lived assets (including intangible assets); assessing impairment of goodwill; and the valuation and recognition of stock-based compensation. Actual results and outcomes may differ significantly from those estimates and assumptions.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents. The Company invests its cash equivalents in highly rated money market funds. Deposits may exceed federally insured limits, and the Company is exposed to credit risk on deposits in the event of default by the financial institutions to the extent account balances exceed the amount insured by the Federal Deposit Insurance Corporation (“FDIC”). However, the Company sweeps cash daily overnight and diversifies among financial institutions to reduce such exposure.

Recently Issued Accounting Pronouncements Adopted

Credit Loss

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The FASB subsequently issued a few amendments to ASU 2016-13. ASU 2016-13 and all the related updates replace the incurred loss impairment methodology previously required under generally accepted accounting principles, with an expected loss methodology that requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.

The Company adopted the standard as of January 1, 2023 using the modified retrospective method. Under this method, the Company applied the new credit loss measurement guidance to trade accounts receivable, the only financial asset of the Company that is impacted by the ASU and the related updates. The Company recorded a net reduction of \$615 to the opening balance of retained earnings as the cumulative effect of initially applying the standard. Results for reporting periods beginning after January 1, 2023 are presented in accordance with *Topic 326*. Prior period amounts have not been restated and are reported in accordance with legacy GAAP requirements.

3. Acquisition

On September 17, 2020 (the “Acquisition Date”), the Company acquired certain assets and assumed certain liabilities of CPN Biosciences, LLC (“CPN”) pursuant to an asset purchase agreement dated July 24, 2020. CPN offered a physician office management solution and advanced wound care products.

The aggregate consideration amounted to \$19,024 as of the Acquisition Date, consisting of \$6,427 in cash, 2,151,438 shares of the Company’s Class A common stock with a fair value of \$8,815, and contingent consideration (the “Earnout”) with a fair value of \$3,782. On the Acquisition Date, the Company paid \$5,820 in cash and issued 1,947,953 shares of the Company’s Class A common stock. The remaining consideration of \$1,436 was held back and was released in April 2022 by the Company paying \$608 in cash and issuing 203,485 shares of the Company’s Class A common stock to the former equity holders of CPN.

The Company was obligated to pay the Earnout to CPN’s former equity holders if CPN’s legacy product revenue in the Earnout Period (July 1, 2021 to June 30, 2022), exceeded CPN’s 2019 revenue. The amount of the Earnout, if any, would be equal to 70% of the excess and would be payable 60 days after the expiration of the Earnout Period. As of the conclusion of the Earnout Period on June 30, 2022, the Company calculated the Earnout liability to be \$0. During the Earnout Period, the Company assessed the fair value of the Earnout liability at each reporting period. Subsequent changes in the estimated fair value of the liability were reflected in earnings until the liability was settled. See Note “5. Fair Value Measurement of Financial Assets and Liabilities.”

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4. Revenue

The Company generates revenue through the sale of Advanced Wound Care and Surgical & Sports Medicine products. There is a single performance obligation in all of the Company's contracts, which is the Company's promise to transfer the Company's products to customers based on specific payment and shipping terms in the arrangement. Product revenue is recognized when a customer obtains control of the Company's products which occurs at a point in time and may be upon shipment, procedure date, or delivery, based on the terms of the contract. Revenue is recorded net of a reserve for returns, discounts and Group Purchasing Organization ("GPO") rebates, which represent a direct reduction to the revenue recognized. These reductions are accrued at the time revenue is recognized, based upon historical experience and specific circumstances. For the three months ended September 30, 2023 and 2022, the Company recorded GPO fees of \$1,393 and \$1,183, respectively, as a direct reduction of revenue. For the nine months ended September 30, 2023 and 2022, the Company recorded GPO fees of \$4,282 and \$5,136, respectively, as a direct reduction of revenue.

The following tables set forth revenue by product category:

	Three Months Ended September 30,	
	2023	2022
Advanced Wound Care	\$ 101,357	\$ 109,514
Surgical & Sports Medicine	7,174	7,345
Total net revenue	<u>\$ 108,531</u>	<u>\$ 116,859</u>

	Nine Months Ended September 30,	
	2023	2022
Advanced Wound Care	\$ 312,349	\$ 313,395
Surgical & Sports Medicine	21,140	21,982
Total net revenue	<u>\$ 333,489</u>	<u>\$ 335,377</u>

For all periods presented, net revenue generated outside the United States represented less than 1% of total net revenue.

5. Fair Value Measurement of Financial Assets and Liabilities

Earnout Liability

In connection with accounting for the CPN acquisition on September 17, 2020, the Company recorded an Earnout liability of \$3,782 on the Acquisition Date, representing the fair value of contingent consideration payable upon the achievement of a certain revenue target. The Earnout liability was classified as a Level 3 measurement within the fair value hierarchy for which fair value was derived from inputs that were unobservable and significant to the overall fair value measurement. The fair value of such Earnout liability was estimated using a Monte Carlo simulation model that utilized key assumptions including forecasted revenues and volatilities of the underlying financial metrics during the Earnout Period that ended on June 30, 2022. Before its settlement, the Company assessed the fair value of the Earnout liability at each reporting period. Any subsequent changes in the estimated fair value of the liability were reflected in selling, general and administrative expenses until the liability was settled. Since September 30, 2021, the Earnout liability remained at \$0 through its settlement. For more information about the Earnout liability, refer to Note "3. Acquisition."

The Company did not have any financial assets and liabilities measured at fair value on a non-recurring basis as of September 30, 2023 and December 31, 2022.

6. Accounts Receivable, Net

Accounts receivable consisted of the following:

	September 30, 2023	December 31, 2022
Accounts receivable	\$ 96,829	\$ 95,812
Less — allowance for credit losses	<u>(7,553)</u>	<u>(6,362)</u>

	<u>\$ 89,276</u>	<u>\$ 89,450</u>
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The Company's allowance for credit losses was comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Balance at beginning of period	\$ 6,651	\$ 5,022	\$ 6,362	\$ 5,153
Cumulative effect of adopting ASU 2016-13	-	-	615	-
Additions (adjustments)	1,130	733	1,320	855
Write-offs	(228)	(177)	(744)	(430)
Balance at end of period	<u>\$ 7,553</u>	<u>\$ 5,578</u>	<u>\$ 7,553</u>	<u>\$ 5,578</u>

7. Inventories

Inventories, net of related reserves for excess and obsolescence, consisted of the following:

	September 30, 2023	December 31, 2022
Raw materials	\$ 13,908	\$ 12,282
Work in process	1,341	1,022
Finished goods	12,656	11,479
	<u>\$ 27,905</u>	<u>\$ 24,783</u>

Raw materials include various components used in the Company's manufacturing process. The Company's excess and obsolete inventory review process includes analysis of sales forecasts and historical sales as compared to inventory level, and working with operations to maximize recovery of excess inventory. During the three months ended September 30, 2023 and 2022, the Company charged \$887 and \$2,393, respectively, for inventory excess and obsolescence to cost of goods sold within the condensed consolidated statements of operations. During the nine months ended September 30, 2023 and 2022, the Company charged \$4,351 and \$7,621, respectively, for inventory excess and obsolescence to cost of goods sold within the condensed consolidated statements of operations.

8. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	September 30, 2023	December 31, 2022
Subscriptions	\$ 6,778	\$ 4,211
Conferences and marketing expenses	764	106
Deposits	934	635
Insurance	1,054	54
Other	37	80
	<u>\$ 9,567</u>	<u>\$ 5,086</u>

Deposits are funds held by vendors which are expected to be released within twelve months and therefore they are recorded as current assets.

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9. Property and Equipment, Net

Property and equipment consisted of the following:

	September 30, 2023	December 31, 2022
Leasehold improvements	\$ 59,053	\$ 37,607
Buildings	4,943	4,943
Furniture, computers and equipment	64,333	57,147
	128,329	99,697
Accumulated depreciation	(70,243)	(62,798)
Construction in progress	59,417	65,564
	<u>\$ 117,503</u>	<u>\$ 102,463</u>

Depreciation expense was \$2,544 and \$1,456 for the three months ended September 30, 2023 and 2022, respectively. Depreciation expense was \$7,466 and \$4,331 for the nine months ended September 30, 2023 and 2022, respectively. Construction in progress primarily represents the ongoing ERP system implementation and the unfinished construction work on a purchased building located on the Company's Canton, Massachusetts campus and improvements at the Company's leased facilities in Canton and Norwood, Massachusetts.

During the three and nine months ended September 30, 2022, the Company recorded a charge of \$4,200 for the sale and donation of some equipment related to the construction in progress in one of its Canton, Massachusetts facilities. The disposal was the result of a change in the design of the construction plan for the manufacturing facility and the determination that this equipment was no longer compatible with the ongoing design. In the same quarter, the Company decided to pause the construction of this manufacturing facility due to the inflation and market conditions that adversely impacted construction projects across the biotechnology and life sciences industries. In connection with this decision, the Company recorded a charge of \$632 as cancellation fees to various vendors. These charges were included in selling, general and administrative expenses on the consolidated statements of operations for the three and nine months ended September 30, 2022.

10. Goodwill and Intangible Assets

Goodwill was \$28,772 as of September 30, 2023 and December 31, 2022.

Intangible assets consisted of the following as of September 30, 2023:

	Original Cost	Accumulated Amortization	Net Book Value
Developed technology	\$ 32,620	\$ (23,790)	\$ 8,830
Trade names and trademarks	2,080	(1,541)	539
Customer relationships	10,690	(3,252)	7,438
Independent sales agency network	4,500	(4,500)	-
Patent	7,623	(7,623)	-
Non-compete agreements	1,010	(716)	294
Total	<u>\$ 58,523</u>	<u>\$ (41,422)</u>	<u>\$ 17,101</u>

Intangible assets consisted of the following as of December 31, 2022:

	Original Cost	Accumulated Amortization	Net Book Value
Developed technology	\$ 32,620	\$ (21,164)	\$ 11,456
Trade names and trademarks	2,080	(1,393)	687
Customer relationship	10,690	(2,450)	8,240
Independent sales agency network	4,500	(4,500)	-

Patent	7,623	(7,623)	-
Non-compete agreements	1,010	(604)	406
Total	<u>\$ 58,523</u>	<u>\$ (37,734)</u>	<u>\$ 20,789</u>

Amortization of intangible assets, calculated on a straight-line basis or using an accelerated method, was \$1,230 and \$1,220 for the three months ended September 30, 2023 and 2022, respectively, and \$3,689 and \$3,662 for the nine months ended September 30,

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2023 and 2022, respectively. The weighted average remaining useful lives for developed technology, trade names and trademarks, customer relationship, and non-compete agreements are 4.5 years, 4.6 years, 7.0 years, and 2.0 years, respectively, as of September 30, 2023.

11. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	September 30, 2023	December 31, 2022
Personnel costs	\$ 22,433	\$ 17,113
Royalties	2,862	3,320
Accrued but unpaid lease obligations and interest	2,204	2,463
Accrued taxes	6,185	2,625
Accrued litigation	564	150
Other	745	776
	<u>\$ 34,993</u>	<u>\$ 26,447</u>

The accrued but unpaid lease obligations and the interest accrual on these obligations are related to the buildings in Canton, Massachusetts. See Note “17. Leases.”

12. Restructuring

In order to reduce the Company’s cost structure and improve operating efficiency, the Company consolidated its manufacturing operations in various locations into Massachusetts facilities.

On October 21, 2020, the Company committed to a plan to restructure its workforce and operations in its La Jolla, California facilities. The restructuring involved 65 employees and was substantially completed as of December 31, 2021, with certain facility and storage activities continuing through 2024. On March 9, 2022, the Company committed to a plan to restructure its workforce and operations in its Birmingham, Alabama facilities. The restructuring involved 24 employees and was substantially completed as of December 31, 2022, with minimal expenses incurred in the first quarter of 2023.

On February 3, 2023, the Company committed to a plan to restructure its workforce to increase productivity and enhance profitability. The reduction in force reduced the Company’s headcount by 71 employees, or approximately 7% of all employees. The Company incurred a total charge of \$1,609 in the nine months ended on September 30, 2023 in connection with the restructuring, primarily consisting of severance payments. It was substantially completed as of March 31, 2023.

As a result of the restructuring activities, the Company recorded a pre-tax adjustment of \$95 and a pre-tax charge of \$611 during the three months ended September 30, 2023 and 2022, respectively, and \$1,878 and \$1,518 during the nine months ended September 30, 2023 and 2022, respectively. These charges were included in selling, general and administrative expenses in the condensed consolidated statements of operations. The liability related to the restructuring activities was \$14 and \$1,110 as of September 30, 2023 and December 31, 2022, respectively, and was included in accrued expenses and other current liabilities in the condensed consolidated balance sheets. The following table provides a roll-forward of the restructuring liabilities.

	Employee	Other	Total
Liability balance as of December 31, 2022	\$ 1,010	\$ 182	\$ 1,192
Expenses	1,609	269	1,878
Payments	(2,605)	(451)	(3,056)
Liability balance as of September 30, 2023	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 14</u>

	Employee	Other	Total
Liability balance as of December 31, 2021	\$ 2,517	\$ 651	\$ 3,168

Expenses	1,124	394	1,518
Payments	(2,535)	(1,041)	(3,576)
Liability balance as of September 30, 2022	<u>\$ 1,106</u>	<u>\$ 4</u>	<u>\$ 1,110</u>

13. Debt Obligations

Debt obligations consisted of the following:

	September 30, 2023	December 31, 2022
Line of credit	\$ -	\$ -
Term loan	67,969	71,250
Less debt discount and debt issuance cost	(369)	(481)
Term loan, net of debt discount and debt issuance cost	<u>\$ 67,600</u>	<u>\$ 70,769</u>

2021 Credit Agreement

In August 2021, the Company, as borrower, its subsidiaries, as guarantors, and Silicon Valley Bank (“SVB”), and the several other lenders thereto (collectively, the “Lenders”) entered into a credit agreement, as amended (the “2021 Credit Agreement”), providing for a term loan facility not to exceed \$75,000 (the “Term Loan Facility”) and a revolving credit facility not to exceed \$125,000 (the “Revolving Facility”). The Company’s obligations to the Lenders are secured by substantially all of the Company’s assets, including intellectual property. Capitalized terms used herein and not otherwise defined are defined as set forth in the 2021 Credit Agreement.

Advances made under the 2021 Credit Agreement may be either SOFR Loans or ABR Loans, at the Company’s option. For SOFR Loans, the interest rate is a per annum interest rate equal to the Adjusted Term SOFR plus an Applicable Margin between 2.00% to 3.25% based on the Total Net Leverage Ratio. For ABR Loans, the interest rate is equal to (1) the highest of (a) the Wall Street Journal Prime Rate, (b) the Federal Funds Rate plus 0.50% and (c) the Adjusted Term SOFR rate plus 1.0%, *plus* (2) an Applicable Margin between 1.00% to 2.25% based on the Total Net Leverage Ratio. On September 30, 2023, the applicable interest rate for outstanding borrowings is 7.43%.

The 2021 Credit Agreement requires the Company to make consecutive quarterly installment payments equal to the following: (a) from September 30, 2021 through and including June 30, 2022, \$469; (b) from September 30, 2022 through and including June 30, 2023, \$938; (c) from September 30, 2023 through and including June 30, 2025, \$1,406 and (d) from September 30, 2025 and the last day of each quarter thereafter until August 6, 2026 (the “Term Loan Maturity Date”), \$1,875. The remaining principal balance of \$50,625 is also due on the Term Loan Maturity Date. The Company may prepay the Term Loan Facility. Once repaid, amounts borrowed under the Term Loan Facility may not be re-borrowed.

The Company must pay in arrears, on the first day of each quarter prior to August 6, 2026 (the “Revolving Termination Date”) and on the Revolving Termination Date, a fee for the Company’s non-use of available funds (the “Commitment Fee”). The Commitment Fee rate is between 0.25% to 0.45% based on the Total Net Leverage Ratio. The Company may elect to reduce or terminate the Revolving Facility in its entirety at any time by repaying all outstanding principal and unpaid accrued interest.

Under the 2021 Credit Agreement, the Company is required to comply with certain financial covenants including the Consolidated Fixed Charge Coverage Ratio and Consolidated Total Net Leverage Ratio, tested quarterly. In addition, the Company is also required to make representations and warranties and comply with certain non-financial covenants that are customary in loan agreements of this type, including restrictions on the payment of dividends, repurchase of stock, incurrence of indebtedness, dispositions and acquisitions.

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The Company recorded debt issuance costs and related fees of \$604 in connection with entering into the Term Loan Facility, as a reduction of the carrying value of the term loan on the Company's condensed consolidated balance sheets. In connection with entering into the Revolving Facility, the Company recorded debt issuance costs and related fees of \$1,223 as other assets. Both of these costs are being amortized to interest expense through the maturity date of the facilities.

As of September 30, 2023 and December 31, 2022, the Company had outstanding borrowings of \$67,969 and \$71,250 under the Term Loan Facility, respectively, and \$0 under the Revolving Facility with \$125,000 available for future revolving borrowings.

Future payments of the 2021 Credit Agreement, as of September 30, 2023, are as follows for the calendar years ending December 31:

2023	1,406
2024	5,625
2025	6,563
2026	54,375
Total	<u>\$ 67,969</u>

14. Stockholders' Equity

Common Stock

As of September 30, 2023, the issued shares of Class A common stock include 728,548 treasury shares that were reacquired in connection with the redemption of redeemable shares in March 2019.

As of September 30, 2023 and December 31, 2022, the Company reserved the following shares of Class A common stock for future issuance:

	September 30, 2023	December 31, 2022
Shares reserved for issuance for outstanding options	9,370,314	5,931,742
Shares reserved for issuance for outstanding restricted stock units	3,969,953	1,381,500
Shares reserved for issuance for future grants	4,924,835	11,394,962
Total shares of authorized common stock reserved for future issuance	<u>18,265,102</u>	<u>18,708,204</u>

15. Stock-Based Compensation

Stock Incentive Plans-the 2018 Plan

On November 28, 2018, the Board of Directors of the Company adopted, and on December 10, 2018 the Company's stockholders approved, the Organogenesis 2018 Equity and Incentive Plan (the "2018 Plan"). The purposes of the 2018 Plan are to provide long-term incentives and rewards to the Company's employees, officers, directors and other key persons (including consultants), to attract and retain persons with the requisite experience and ability, and to more closely align the interests of such employees, officers, directors and other key persons with the interests of the Company's stockholders.

The 2018 Plan authorizes the Company's Board of Directors or a committee of not less than two independent directors (in either case, the "Administrator") to grant the following types of awards: non-statutory stock options; incentive stock options; restricted stock awards; restricted stock units; stock appreciation rights; unrestricted stock awards; performance share awards; and dividend equivalent rights. The 2018 Plan is administered by the Company's Board of Directors.

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At the adoption of the 2018 Plan, a total of 9,198,996 shares of Class A common stock was authorized to be issued (subject to adjustment in the case of any stock dividend, stock split, reverse stock split, or similar change in capitalization of the Company). In June 2022, the 2018 Plan was amended to increase the number of shares of Class A common stock reserved for issuance by 7,826,970 shares.

Stock Incentive Plans-the 2003 Plan

The Organogenesis 2003 Stock Incentive Plan (the “2003 Plan”), provides for the Company to issue restricted stock awards, or to grant incentive stock options or non-statutory stock options. Incentive stock options may be granted only to the Company’s employees. Restricted stock awards and non-statutory stock options may be granted to employees, members of the Board of Directors, outside advisors and consultants of the Company.

Effective December 10, 2018, no additional awards may be made under the 2003 Plan and as a result (i) any shares in respect of stock options that are expired or terminated under the 2003 Plan without having been fully exercised will not be available for future awards; (ii) any shares in respect of restricted stock that are forfeited to, or otherwise repurchased by the Company, will not be available for future awards; and (iii) any shares of Class A common stock that are tendered to the Company by a participant to exercise an award will not be available for future awards.

Stock-Based Compensation Expense

Stock options awarded under the stock incentive plans expire 10 years after the grant date and typically vest over four or five years. Restricted stock units awarded typically vest over four years.

Stock-based compensation expense was \$2,417 and \$1,702 for the three months ended September 30, 2023 and 2022, respectively, and was \$6,630 and \$4,697 for the nine months ended September 30, 2023 and 2022, respectively. The total amount of stock-based compensation expense was included within selling, general and administrative expenses on the condensed consolidated statements of operations.

Restricted Stock Units (RSUs)

The Company granted 3,192,372 and 979,257 time-based restricted stock units to its employees, executives and the Board of Directors in the nine months ended September 30, 2023 and 2022, respectively. Each restricted stock unit represents the contingent right to receive one share of the Company’s Class A common stock. A majority of the restricted stock units will vest in four equal annual installments. The fair value of the restricted stock units was based on the fair market value of the Company’s stock on the date of grant.

The activity of restricted stock units is set forth below:

	Number of RSUs	Weighted Average Grant Date Fair Value
Unvested at December 31, 2022	1,381,500	\$ 7.62
Granted	3,192,372	2.47
Vested	(518,871)	7.26
Canceled/Forfeited	(85,048)	5.95
Unvested at September 30, 2023	3,969,953	\$ 3.56

As of September 30, 2023, the total unrecognized compensation cost related to unvested restricted stock units expected to vest was \$8,521 and the weighted average remaining recognition period for unvested awards was 2.66 years.

Stock Options

The stock options granted during the nine months ended September 30, 2023 and 2022 were 3,554,528 and 1,418,224, respectively. The assumptions that the Company used to determine the grant-date fair value of stock options granted during these

periods were as follows, presented on a weighted-average basis:

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	September 30, 2023	September 30, 2022
Risk-free interest rate	3.99 %	1.92 %
Expected term (in years)	6.24	6.25
Expected volatility	51.00 %	50.66 %
Expected dividend yield	0.0 %	0.0 %
Exercise price	\$ 2.51	\$ 8.03
Underlying stock price	\$ 2.47	\$ 7.87

These assumptions resulted in an estimated weighted-average grant-date fair value per share of stock options granted during the nine months ended September 30, 2023 and 2022 of \$1.32 and \$3.94, respectively.

The following table summarizes the Company's stock option activity since December 31, 2022:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2022	5,931,042	\$ 5.91	6.14	\$ 2,245
Granted	3,554,528	2.51	-	-
Exercised	-	-	-	-
Canceled / forfeited	(82,981)	8.25	-	10
Expired	(32,275)	4.49	-	-
Outstanding as of September 30, 2023	9,370,314	4.61	6.92	5,308
Options exercisable as of September 30, 2023	4,005,419	4.58	4.34	2,936
Options vested or expected to vest as of September 30, 2023	8,362,789	\$ 4.67	6.66	\$ 4,801

The aggregate intrinsic value of stock options is calculated as the difference between the exercise price of the stock options and the fair value of the Company's Class A common stock for those stock options that have exercise prices lower than the fair value of the Company's Class A common stock.

The total fair value of options vested during the nine months ended September 30, 2023 and 2022 was \$3,117 and \$2,082, respectively.

As of September 30, 2023, the total unrecognized stock compensation expense related to unvested stock options expected to vest was \$7,120 and was expected to be recognized over a weighted-average period of 2.54 years.

16. Earnings per Share (EPS)

Basic EPS is calculated by dividing net income (loss) by the weighted-average number of shares outstanding during the period. Diluted EPS is calculated by dividing net income (loss) by the weighted-average number of shares outstanding plus the dilutive effect, if any, of outstanding equity awards using the treasury stock method which includes consideration of unrecognized compensation expenses as additional proceeds.

A reconciliation of the numerator and denominator used in the calculation of the basic and diluted net income attributable to the Class A common stockholders is as follows.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Numerator:				
Net Income	\$ 3,167	\$ 215	\$ 5,513	\$ 8,046
Denominator:				
Weighted average common shares outstanding—basic	131,312,483	130,903,160	131,230,882	129,784,890
Dilutive effect of restricted stock units	1,179,376	113,163	700,693	174,946
Dilutive effect of options	925,862	1,216,631	858,721	2,595,429
Weighted-average common shares outstanding—diluted	133,417,721	132,232,954	132,790,296	132,555,265
Earnings per share—basic	\$ 0.02	\$ 0.00	\$ 0.04	\$ 0.06
Earnings per share—diluted	\$ 0.02	\$ 0.00	\$ 0.04	\$ 0.06

The Company's potentially dilutive securities include restricted stock units and stock options to purchase shares of Class A common stock. For the three and nine months ended September 30, 2023, outstanding stock-based awards of 8,615,405 and 8,615,405, respectively, were excluded from the diluted EPS calculation as they were anti-dilutive. For the three and nine months ended September 30, 2022, outstanding stock-based awards of 4,382,912 and 3,482,463, respectively, were excluded from the diluted EPS calculation as they were anti-dilutive.

17. Leases

The Company's leases consist primarily of real estate, equipment and vehicle leases.

The Company leases real estate for office, lab, warehouse and production space under noncancelable leases that expire at various dates through 2035, subject to the Company's options to terminate or renew certain leases for an additional five to ten years. The Company leases vehicles under operating leases for certain employees and has fleet services agreements for service on these vehicles. The minimum lease term for each newly leased vehicle is 367 days with renewal options. The Company may terminate the vehicle lease after the minimum lease term upon thirty days' prior notice. The Company also leases other equipment under noncancelable leases that expire at various dates through 2026.

On January 1, 2013, the Company entered into finance lease arrangements with 65 Dan Road SPE, LLC, 85 Dan Road Associates, LLC, Dan Road Equity I, LLC and 275 Dan Road SPE, LLC for office and laboratory space in Canton, Massachusetts. 65 Dan Road SPE, LLC, 85 Dan Road Associates, LLC, Dan Road Equity I, LLC and 275 Dan Road SPE, LLC are related parties as the owners of these entities are also directors, former directors and / or stockholders of the Company. In August 2021, the Company purchased the building under the lease with 275 Dan Road SPE, LLC (the "275 Dan Road Building") for \$6,013 and the lease was terminated. Other than the lease with 275 Dan Road SPE, LLC which was terminated in August 2021, the remaining three leases were set to terminate on December 31, 2022, and each contained a renewal option for a five-year period with a rental rate at the greater of (i) rent for the last year of the prior term, or (ii) the then fair market value. The Company exercised the option to extend the leases for an additional five years in November 2021. It remeasured the lease assets and liabilities based on its best estimate of the market rental rate in the renewal period and reassessed the classification for these leases according to ASC 842-10-25-1 *Lease Classification*. As a result, these leases were reclassified from finance leases to operating leases. The related finance lease assets and liabilities were reclassified to operating lease right-of-use assets and operating lease obligations on the condensed consolidated balance sheet as of December 31, 2021. In December 2022, the Company and the landlord finalized the market rental rate in the renewal period for these properties, resulting in an additional \$8,060 to be recorded as variable lease expenses over the renewal period.

The Company owes some accrued but unpaid lease obligations under the aforementioned leases. Effective April 1, 2019, the Company accrued interest on the accrued but unpaid lease obligations at an interest rate of 9.25%. In connection with the purchase of the 275 Dan Road Building in August 2021, the Company paid 50% of the accrued but unpaid lease obligations associated with this building and the accrued interest thereof. The remaining balance for this building was paid off in five quarterly installments ending on January 3, 2023.

The accrued but unpaid lease obligations as well as the related interest accruals are shown below.

	September 30, 2023	December 31, 2022
Principal portion of rent in arrears	5,273	5,779
Total accrued but unpaid lease obligations	5,273	5,779
Accrued interest on accrued but unpaid lease obligations	2,204	1,956

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Before being paid off in January 2023, the principal portion of rent in arrears related to the 275 Dan Road Building as well as the interest accrual were included in accrued expenses and other current liabilities on the condensed consolidated balance sheet as of December 31, 2022. For the other three buildings, the principal portion of rent in arrears was included in the short-term portion of operating lease obligations on the condensed consolidated balance sheets as of September 30, 2023 and December 31, 2022. The accrued interest on the accrued but unpaid lease obligations was included in accrued expenses and other current liabilities on the condensed consolidated balance sheets as of September 30, 2023 and December 31, 2022.

The components of lease cost were as follows:

		Nine Months Ended September 30,	
		2023	2022
Finance lease			
Amortization of right-of-use assets	COGS and SG&A	\$ 192	\$ 213
Interest on lease liabilities	Interest Expense	41	7
Total Finance lease cost		233	220
Operating lease cost	COGS, R&D, SG&A	7,387	7,197
Short-term lease cost	COGS, R&D, SG&A	2,307	2,180
Variable lease cost	COGS, R&D, SG&A	4,867	3,564
Total lease cost		<u>\$ 14,794</u>	<u>\$ 13,161</u>

Supplemental balance sheet information related to finance leases was as follows:

	September 30, 2023	December 31, 2022
Property and equipment, gross	\$ 4,625	\$ 1,174
Accumulated depreciation	(1,366)	(1,174)
Property and equipment, net	<u>\$ 3,259</u>	<u>\$ -</u>
Finance lease obligations	<u>\$ (3,340)</u>	<u>\$ -</u>

Supplemental cash flow information related to leases was as follows:

		Nine Months Ended September 30,	
		2023	2022
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows for operating leases		7,718	6,964
Operating cash flows for finance leases		41	7
Financing cash flows for finance leases		114	200
Right-of-use assets obtained in exchange for lease obligations			
Operating leases		5,138	1,708
Finance leases		3,451	-

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	September 30, 2023	December 31, 2022
Weighted-average remaining lease term		
Finance leases	2.84	-
Operating leases	6.68	7.54
	September 30, 2023	December 31, 2022
Weighted-average discount rate		
Finance leases	7.95 %	-
Operating leases	4.73 %	4.61 %

As of September 30, 2023, maturities of lease liabilities were as follows:

	Operating leases	Finance leases
2023 (remaining 3 months)	\$ 7,864	\$ 434
2024	9,357	1,278
2025	8,938	1,278
2026	7,542	737
2027	8,002	-
Thereafter	18,678	-
Total lease payments	60,381	3,727
Less: interest	(8,507)	(387)
Total lease liabilities	<u>\$ 51,874</u>	<u>\$ 3,340</u>

18. Commitments and Contingencies

Royalties

The Company entered into a license agreement with a university for certain patent rights related to the development, use, and production of one of its advanced wound care products. Under this agreement, the Company incurred a royalty based on a percentage of net product sales, for the use of these patents until the patents expired, which was in November 2006. Accrued royalties totaled \$1,187 as of September 30, 2023 and December 31, 2022, respectively, and were classified as part of accrued expenses and other current liabilities on the Company's condensed consolidated balance sheets. There was no royalty expense incurred during the nine months ended September 30, 2023 or 2022 related to this agreement.

In October 2017, the Company entered into a license agreement with a third party. Under the license agreement, the Company is required to pay royalties based on a percentage of net sales of the licensed product that occur, after December 31, 2017, through the expiration of the underlying patent in October 2026, subject to minimum royalty payment provisions. The Company recorded royalty expense under this license agreement of \$1,262 and \$1,875 during the three months ended September 30, 2023 and 2022, respectively, and \$4,294 and \$5,580 during the nine months ended September 30, 2023 and 2022, respectively, within selling, general and administrative expenses on the condensed consolidated statements of operations.

Legal Matters

In conducting its activities, the Company, from time to time, is subject to various claims and also has claims against others. In management's opinion, the ultimate resolution of such claims would not have a material effect on the financial position, operating results or cash flows of the Company. The Company accrues for these claims when amounts due are probable and estimable. The Company accrued \$564 and \$150 as of September 30, 2023 and December 31, 2022, respectively, for certain pending or settled lawsuits.

19. Related Party Transactions

Lease obligations to affiliates, including accrued but unpaid lease obligations, purchase of an asset under a finance lease with an affiliate, and renewal of leases with affiliates are further described in Note “17. Leases.”

20. Taxes

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The Company is principally subject to taxation in the United States. The Company has a history of net operating losses both federally and in various states and began utilizing those losses to offset current taxable income in 2020. As net operating loss carryovers become limited or are fully utilized, the Company will accrue current federal and state income tax expense. The Company's wholly owned Swiss subsidiary, Organogenesis GmbH, is subject to taxation in Switzerland and has a transfer pricing arrangement in place with Organogenesis Inc., its U.S. parent.

The income tax rate for the nine months ended September 30, 2023 varied from the U.S. statutory rate of 21% primarily due to the tax adjustments related to executive compensation, other permanent tax adjustments, and discrete items. The income tax expense for the nine months ended September 30, 2023 was \$6,675, which included a discrete tax expense of \$68 related primarily to the interest on certain uncertain tax positions. Income tax expense for the nine months ended September 30, 2022 was \$3,482, which included a discrete tax expense of \$39 related to the interest on certain uncertain tax positions.

The Company examines all positive and negative evidence to estimate whether sufficient future taxable income in the U.S. will be generated to permit the use of existing deferred tax assets. In the fourth quarter of 2021, the Company released the valuation allowance recorded against its U.S. deferred tax assets. Upon reviewing the positive evidence of net operating loss utilization, cumulative profits, and forecasted taxable income, the Company believed that it was more likely than not that these U.S. deferred tax assets would be utilized. There are no material deferred tax assets in the other jurisdictions. On a quarterly basis, the Company reassesses the need for a valuation allowance on deferred income tax assets, weighing positive and negative evidence to assess the recoverability of the deferred tax assets. After assessing both the positive and negative evidence, including net operating loss utilization, cumulative profits, and forecasted taxable income, the Company determined that it is more likely than not the U.S. deferred assets will be realized in full. As such, the Company did not record a valuation allowance against its U.S. deferred tax assets as of September 30, 2023 and December 31, 2022.

21. Subsequent Events

The Company has performed an evaluation of subsequent events through the time of filing this Quarterly Report on Form 10-Q with the SEC.

On October 27, 2023, the Company committed to a plan to restructure its workforce to increase productivity and enhance profitability. The reduction in force reduced the Company's headcount by 49 employees, or approximately 5% of all employees. The Company expects to incur a total charge of approximately \$1.7 million in the fourth quarter of 2023, primarily consisting of severance payments.

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

The following discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in this Form 10-Q and the financial statements and accompanying notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC, on March 1, 2023. Please refer to our cautionary note regarding forward-looking statements on page 3 of this Form 10-Q, which is incorporated herein by this reference.

Overview

Organogenesis is a leading regenerative medicine company focused on the development, manufacture, and commercialization of solutions for the Advanced Wound Care and Surgical & Sports Medicine markets. Our products have been shown through clinical and scientific studies to support and in some cases accelerate tissue healing and improve patient outcomes. We are advancing the standard of care in each phase of the healing process through multiple breakthroughs in tissue engineering and cell therapy. Our solutions address large and growing markets driven by aging demographics and increases in comorbidities such as diabetes, obesity, cardiovascular and peripheral vascular disease and smoking. We offer our differentiated products and in-house customer support to a wide range of health care customers including hospitals, wound care centers, government facilities, ambulatory service centers ("ASCs") and physician offices. Our mission is to provide integrated healing solutions that substantially improve medical outcomes and the lives of patients while lowering the overall cost of care.

We offer a comprehensive portfolio of products in the markets we serve that address patient needs across the continuum of care. We have and intend to continue to generate data from clinical trials, real-world outcomes and health economics research that validate the clinical efficacy and value proposition offered by our products. Several of our existing and pipeline products in our portfolio have PMA approval, or 510(k) clearance from the FDA. Given the extensive time and cost required to conduct clinical trials and receive FDA approvals, we believe that our data and regulatory approvals provide us with a strong competitive advantage. Our product development expertise and multiple technology platforms provide a robust product pipeline, which we believe will drive future growth.

In the Advanced Wound Care market, we focus on the development and commercialization of advanced wound care products for the treatment of chronic and acute wounds in various treatment settings. We have a comprehensive portfolio of regenerative medicine products, capable of supporting patients from early in the wound healing process through wound closure regardless of wound type. Our Advanced Wound Care products include Apligraf for the treatment of venous leg ulcers and diabetic foot ulcers ("DFUs"); Dermagraft for the treatment of DFUs (manufacturing currently suspended pending transition to a new manufacturing facility or engagement of a third-party manufacturer); PuraPly AM as an antimicrobial barrier for a broad variety of wound types; and the Affinity, Novachor and NuShield wound coverings to address a variety of wound sizes and types. We have a highly trained and specialized direct wound care sales force paired with comprehensive customer support services.

In the Surgical & Sports Medicine market, we are leveraging our broad regenerative medicine capabilities to address chronic and acute surgical wounds and tendon and ligament injuries. Our Sports Medicine products include NuShield for surgical applications in targeted soft tissue repairs; and Affinity, Novachor, PuraPly MZ and PuraPly AM for management of open wounds in the surgical setting. We currently sell these products through independent agencies and our direct sales force.

For the nine months ended September 30, 2023, we generated net revenue of \$333.5 million and net income of \$5.5 million compared to net revenue of \$335.4 million and net income of \$8.0 million for the nine months ended September 30, 2022. We have incurred significant losses since inception and, while we reported net income for the most recent three years, we may incur operating losses in the future as we expend resources as part of our efforts to grow our organization to support the planned expansion of our business. As of September 30, 2023, we had an accumulated deficit of \$40.4 million. Our primary sources of capital to date have been from sales of our products, borrowings from related parties and institutional lenders and proceeds from the sale of our Class A common stock. We operate as one segment of regenerative medicine.

Dermagraft

As previously disclosed, manufacturing of Dermagraft was suspended in the fourth quarter of 2021 and sales of Dermagraft were suspended in the second quarter of 2022. We currently plan to transition our Dermagraft manufacturing to a new manufacturing facility or engage a third-party manufacturer, which we expect will result in substantial long-term cost savings. In the period when Dermagraft is not available, we expect that customers will be willing to substitute Apligraf for Dermagraft and that the suspension of Dermagraft sales will not have a material impact on our net revenue. However, if we do not realize the expected substantial long-term cost savings or if customers are unwilling to substitute Apligraf for Dermagraft during the period in which Dermagraft is unavailable, it could have an adverse effect on our net revenue and results of operations.

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Local Coverage Determinations

In August 2023, three Medicare Administrative Contractors (MACs) issued local coverage determinations (LCDs) eliminating coverage for diabetic foot ulcers (DFU) and venous leg ulcers (VLU) for over 130 products, including five of our commercially marketed products. The LCDs were scheduled to take effect on September 17, 2023, and subsequently delayed to October 1, 2023. Given the potential adverse impact these LCDs could have on patients and on our business, we worked with our advisors to convince the MACs to withdraw the LCDs and incurred legal expenses and compensation expenses related to retention for impacted sales employees of \$1.2 million and \$0.4 million, respectively, in the three months ended September 30, 2023. On September 28, 2023, the three MACs withdrew the LCDs.

Components of Our Condensed Consolidated Results of Operations

In assessing the performance of our business, we consider a variety of performance and financial measures. We believe the items discussed below provide insight into the factors that affect these key measures.

Revenue

We derive our net revenue from our portfolio of Advanced Wound Care and Surgical & Sports Medicine products. We primarily sell our Advanced Wound Care products through direct sales representatives who manage and maintain the sales relationships with hospitals, wound care centers, government facilities, ASCs and physician offices. We primarily sell our Surgical & Sports Medicine products through third party agencies. As of September 30, 2023, we had approximately 305 direct sales representatives and approximately 160 independent agencies.

We recognize revenue from sales of our Advanced Wound Care and Surgical & Sports Medicine products when the customer obtains control of our product, which occurs at a point in time and may be upon procedure date, shipment, or delivery, based on the contractual terms of a contract. We record revenue net of a reserve for returns, discounts and GPO rebates, which represent a direct reduction to the revenue we recognize.

Several factors affect our reported revenue in any period, including product, payer and geographic sales mix, operational effectiveness, pricing realization, marketing and promotional efforts, the timing of orders and shipments, regulatory actions including healthcare reimbursement scenarios, competition and business acquisitions.

Cost of goods sold and gross profit

Cost of goods sold includes personnel costs, product testing costs, quality assurance costs, raw materials and product costs, manufacturing costs, and the costs associated with our manufacturing and warehouse facilities. The changes in our cost of goods sold correspond with the changes in sales units and are also affected by product mix.

Gross profit is calculated as net revenue less cost of goods sold and generally increases as revenue increases. Our gross profit is affected by product and geographic sales mix, realized pricing of our products, the efficiency of our manufacturing operations, and the costs of materials used and fees charged by third-party manufacturers to produce our products. Regulatory actions, including healthcare reimbursement scenarios, which may require costly expenditures or result in pricing pressures, may decrease our gross profit.

Selling, general and administrative expenses

Selling, general and administrative expenses generally include personnel costs for sales, marketing, sales support, customer support, and general and administrative personnel, sales commissions, incentive compensation, insurance, professional fees, depreciation, amortization, bad debt expense, royalties, information systems costs, gain or loss on disposal of long-lived assets, and costs associated with our administrative facilities. We generally expect our selling, general and administrative expenses to continue to increase due to increased investments in market development and the geographic expansion of our sales forces as we drive for continued revenue growth.

Research and development expenses

Research and development expenses include expenses for clinical trials, personnel costs for our research and development personnel, expenses related to improvements in our manufacturing processes, enhancements to our currently available products, and

additional investments in our product and platform development pipeline. We expense research and development costs as incurred. We generally expect that research and development expenses will increase as we continue to conduct clinical trials on new and

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existing products, move products through the regulatory pathway (e.g., seek biologics license application approval), add personnel to support product enhancements as well as to bring new products to market, and enhance our manufacturing process and procedures.

Other expense, net

Interest expense—Interest expense consists of interest on our outstanding indebtedness, including amortization of debt discount and debt issuance costs, net of interest income recognized.

Income taxes

We account for income taxes using an asset and liability approach. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are provided when necessary to reduce net deferred tax assets to an amount that is more likely than not to be realized.

In determining whether a valuation allowance for deferred tax assets is necessary, we analyze both positive and negative evidence related to the realization of deferred tax assets including projected future taxable income, recent financial results and estimates of future reversals of deferred tax assets and liabilities. In addition, we consider whether it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. In consideration of the factors discussed above, in the fourth quarter of 2021, we determined it was more likely than not that our deferred tax assets would be realized in the future and released the valuation allowance on our net U.S. deferred tax assets as of December 31, 2021, resulting in a benefit of \$48.3 million in income taxes. We maintained the same position that our net U.S. deferred tax assets did not require a valuation allowance as of September 30, 2023 and December 31, 2022.

We account for uncertainty in income taxes recognized in the condensed consolidated financial statements by applying a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination by the taxing authorities. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the condensed consolidated financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. The provision for income taxes includes the effects of any resulting tax reserves, or unrecognized tax benefits, that are considered appropriate as well as the related net interest and penalties.

Results of Operations

The following table sets forth, for the periods indicated, our results of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Unaudited) (in thousands)			
Net revenue	\$ 108,531	\$ 116,859	\$ 333,489	\$ 335,377
Cost of goods sold	25,789	26,177	78,712	77,909
Gross profit	82,742	90,682	254,777	257,468
Operating expenses:				
Selling, general and administrative	64,222	79,328	208,373	215,515
Research and development	10,470	9,575	32,610	28,367
Total operating expenses	74,692	88,903	240,983	243,882
Income from operations	8,050	1,779	13,794	13,586
Other expense, net:				
Interest expense	(444)	(572)	(1,688)	(2,039)
Other expense, net	31	5	82	(19)
Total other expense, net	(413)	(567)	(1,606)	(2,058)

Net income before income taxes	7,637	1,212	12,188	11,528
Income tax expense	(4,470)	(997)	(6,675)	(3,482)
Net income	<u>\$ 3,167</u>	<u>\$ 215</u>	<u>\$ 5,513</u>	<u>\$ 8,046</u>

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EBITDA and Adjusted EBITDA

Our management uses financial measures that are not in accordance with generally accepted accounting principles in the United States (“non-GAAP”), in addition to financial measures in accordance with generally accepted accounting principles in the United States (“GAAP”) to evaluate our operating results. These non-GAAP financial measures should be considered supplemental to, and not a substitute for, our reported financial results prepared in accordance with GAAP. Our management uses Adjusted EBITDA to evaluate our operating performance and trends and make planning decisions. Our management believes Adjusted EBITDA helps identify underlying trends in our business that could otherwise be masked by the effect of the items that we exclude. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results, enhancing the overall understanding of our past performance and future prospects, and allowing for greater transparency with respect to key financial metrics used by our management in its financial and operational decision-making.

The following is a reconciliation of GAAP net income to non-GAAP EBITDA and non-GAAP Adjusted EBITDA for each of the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Unaudited) (in thousands)			
Net Income	\$ 3,167	\$ 215	\$ 5,513	\$ 8,046
Interest expense, net	444	572	1,688	2,039
Income tax expense	4,470	997	6,675	3,482
Depreciation	2,544	1,456	7,466	4,331
Amortization	1,229	1,220	3,689	3,662
EBITDA	11,854	4,460	25,031	21,560
Stock-based compensation expense	2,417	1,702	6,630	4,697
Restructuring charge (1)	95	611	1,878	1,518
Legal fees (2)	1,182	-	1,182	-
Sales retention (3)	422	-	422	-
Write-off of certain assets (4)	-	4,200	-	4,200
Facility construction project pause (5)	-	632	-	632
Settlement fee (6)	-	-	-	2,600
Adjusted EBITDA	\$ 15,970	\$ 11,605	\$ 35,143	\$ 35,207

- (1) Amounts reflect employee severance, retention and benefits as well as other exit costs associated with the Company’s restructuring activities. See Note “12. Restructuring” to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.
- (2) Amount represents the legal fees incurred related to the LCDs. See "Local Coverage Determinations" above.
- (3) Amount represents the compensation expenses related to retention for those sales employees impacted by the LCDs. See "Local Coverage Determinations" above.
- (4) Amount reflects the disposal of certain equipment related to the Company's Canton, Massachusetts facilities. See Note “9. Property and Equipment, Net” to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.
- (5) Amount reflects the cancellation fees incurred in connection with the Company's decision to pause one of its manufacturing facility construction projects. See Note “9. Property and Equipment, Net” to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.
- (6) Amount reflects the fee the Company agreed to pay to a GPO to settle previously disputed GPO fees. See Note “4. Product and Geographic Sales” to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Comparison of Three and Nine Months Ended September 30, 2023 and 2022

Revenue

Three Months Ended
September 30,

Change

	2023	2022	\$	%
	(in thousands, except for percentages)			
Advanced Wound Care	\$ 101,357	\$ 109,514	\$ (8,157)	(7 %)
Surgical & Sports Medicine	7,174	7,345	(171)	(2 %)
Net revenue	<u>\$ 108,531</u>	<u>\$ 116,859</u>	<u>\$ (8,328)</u>	<u>(7 %)</u>

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	Nine Months Ended September 30,		Change	
	2023	2022	\$	%
	(in thousands, except for percentages)			
Advanced Wound Care	\$ 312,349	\$ 313,395	\$ (1,046)	0%
Surgical & Sports Medicine	21,140	21,982	(842)	(4%)
Net revenue	<u>\$ 333,489</u>	<u>\$ 335,377</u>	<u>\$ (1,888)</u>	<u>(1%)</u>

Net revenue from our Advanced Wound Care products decreased by \$8.2 million, or 7%, to \$101.4 million in the three months ended September 30, 2023, from \$109.5 million in the three months ended September 30, 2022. The decrease in Advanced Wound Care net revenue was primarily attributable to a decrease in sales of certain of our products due to changes in customer buying patterns as well as the anticipated impact of the recently withdrawn LCDs on sales of certain of our products, partially offset by an increase in sales of certain of our products to our existing and new customers.

Net revenue from our Advanced Wound Care products decreased by \$1.0 million, or less than 1%, to \$312.3 million in the nine months ended September 30, 2023, from which is relatively consistent with \$313.4 million in the nine months ended September 30, 2022. The decrease in Advanced Wound Care net revenue was primarily attributable to a decrease in sales of certain of our products to our existing and new customers partially offset by an increase in sales of certain of our products due to changes in customer buying patterns.

Net revenue from our Surgical & Sports Medicine products decreased by \$0.2 million, or 2% to \$7.2 million in the three months ended September 30, 2023 from \$7.3 million in the three months ended September 30, 2022. Net revenue from our Surgical & Sports Medicine products decreased by \$0.8 million, or 4%, to \$21.1 million in the nine months ended September 30, 2023 from \$22.0 million in the nine months ended September 30, 2022. The decrease in Surgical & Sports Medicine net revenue was primarily due to a shift in distributor focus.

Cost of goods sold and gross profit

	Three Months Ended September 30,		Change	
	2023	2022	\$	%
	(in thousands, except for percentages)			
Cost of goods sold	\$ 25,789	\$ 26,177	\$ (388)	(1%)
Gross profit	<u>\$ 82,742</u>	<u>\$ 90,682</u>	<u>\$ (7,940)</u>	<u>(9%)</u>

	Nine Months Ended September 30,		Change	
	2023	2022	\$	%
	(in thousands, except for percentages)			
Cost of goods sold	\$ 78,712	\$ 77,909	\$ 803	1%
Gross profit	<u>\$ 254,777</u>	<u>\$ 257,468</u>	<u>\$ (2,691)</u>	<u>(1%)</u>

Cost of goods sold in the three months ended September 30, 2023 was \$25.8 million, which is relatively consistent with the cost of goods sold of \$26.2 million in the three months ended September 30, 2022. Cost of goods sold increased by \$0.8 million, or 1%, to \$78.7 million in the nine months ended September 30, 2023 from \$77.9 million in the nine months ended September 30, 2022. The increase in cost of goods sold in the nine month period ended September 30, 2023, was primarily due to an increase in sales volume as well as a shift in product mix.

Gross profit decreased by \$7.9 million, or 9%, to \$82.7 million in the three months ended September 30, 2023 from \$90.7 million in the three months ended September 30, 2022. The decrease in gross profit resulted primarily from a decrease in the pricing for certain of our products, as well as a shift in product mix.

Gross profit decreased by \$2.7 million, or 1%, to \$254.8 million in the nine months ended September 30, 2023 from \$257.5 million in the nine months ended September 30, 2022. The decrease in gross profit resulted primarily from a decrease in the pricing for certain of our products, as well as a shift in product mix.

Research and Development Expenses

	Three Months Ended September 30,		Change	
	2023	2022	\$	%
	(in thousands, except for percentages)			
Research and development	\$ 10,470	\$ 9,575	\$ 895	9 %

	Nine Months Ended September 30,		Change	
	2023	2022	\$	%
	(in thousands, except for percentages)			
Research and development	\$ 32,610	\$ 28,367	\$ 4,243	15 %

Research and development expenses increased by \$0.9 million, or 9%, to \$10.5 million in the three months ended September 30, 2023 from \$9.6 million in the three months ended September 30, 2022. Research and development expenses increased by \$4.2 million, or 15%, to \$32.6 million in the nine months ended September 30, 2023 from \$28.4 million in the nine months ended September 30, 2022. The increase in research and development expenses was primarily due to an increase in product costs associated with our pipeline products not yet commercialized, an increase in the clinical study and related costs necessary to seek regulatory approvals for certain of our products, and increased headcount associated with our existing Advanced Wound Care and Surgical & Sports Medicine products.

Selling, General and Administrative Expenses

	Three Months Ended September 30,		Change	
	2023	2022	\$	%
	(in thousands, except for percentages)			
Selling, general and administrative	\$ 64,222	\$ 79,328	\$ (15,106)	(19 %)

	Nine Months Ended September 30,		Change	
	2023	2022	\$	%
	(in thousands, except for percentages)			
Selling, general and administrative	\$ 208,373	\$ 215,515	\$ (7,142)	(3 %)

Selling, general and administrative expenses decreased by \$15.1 million, or 19%, to \$64.2 million in the three months ended September 30, 2023 from \$79.3 million in the three months ended September 30, 2022. The decrease in selling, general and administrative expenses was primarily due to a \$7.8 million decrease related to decreased travel, marketing programs, and sales meetings, a onetime \$4.2 million charge in 2022 related to disposal of certain equipment related to the construction in progress in one of the Company's Canton, Massachusetts facilities, a \$2.0 million decrease in consulting and other costs associated with the ongoing operations of our business and the ERP system implementation, a \$1.8 million decrease in compensation and restructuring costs, largely related to decreased commissions paid to our sales force. These decreases were partially offset by increases in legal costs and compensation costs of \$1.6 million related to the LCD.

Selling, general and administrative expenses decreased by \$7.1 million, or 3%, to \$208.4 million in the nine months ended September 30, 2023 from \$215.5 million in the nine months ended September 30, 2022. The decrease in selling, general and administrative expenses was primarily due to a onetime \$4.3 million charge in 2022 related to disposal of certain equipment related to the construction in progress in one of the Company's Canton, Massachusetts facilities, a \$3.2 million decrease in compensation cost, largely related to decreased commissions paid to our sales force, and \$2.0 million decrease related to decreased travel and marketing programs. The decreases were partially offset by a \$1.7 million increase in legal, consulting and other costs associated with the ongoing operations of our business and the ERP system implementation and the costs incurred related to the LCD and a \$1.1 million increase in bank fees and restructuring costs.

Other Expense, net

	Three Months Ended September 30,		Change	
	2023	2022	\$	%
	(in thousands, except for percentages)			
Interest expense, net	\$ (444)	\$ (572)	\$ 128	(22%)
Other income (expense), net	31	5	26	**
Total other expense, net	<u>\$ (413)</u>	<u>\$ (567)</u>	<u>\$ 154</u>	<u>(27%)</u>

	Nine Months Ended September 30,		Change	
	2023	2022	\$	%
	(in thousands, except for percentages)			
Interest expense, net	\$ (1,688)	\$ (2,039)	\$ 351	(17%)
Other expense, net	82	(19)	101	**
Total other expense, net	<u>\$ (1,606)</u>	<u>\$ (2,058)</u>	<u>\$ 452</u>	<u>(22%)</u>

** not meaningful

Other expense, net, decreased by \$0.2 million, or 27%, to \$0.4 million in the three months ended September 30, 2023 from \$0.6 million in the three months ended September 30, 2022. Other expense, net, decreased by \$0.5 million, or 22% to \$1.6 million in the nine months ended September 30, 2023 from \$2.1 million in the nine months ended September 30, 2022. The decrease in other expense, net was primarily due to the decrease in interest expense resulting from the lower debt balance under the 2021 Credit Agreement.

Income Tax Expense

	Three Months Ended September 30,		Change	
	2023	2022	\$	%
	(in thousands, except for percentages)			
Income tax expense	<u>\$ (4,470)</u>	<u>\$ (997)</u>	<u>\$ (3,473)</u>	<u>348%</u>

	Nine Months Ended September 30,		Change	
	2023	2022	\$	%
	(in thousands, except for percentages)			
Income tax expense	<u>\$ (6,675)</u>	<u>\$ (3,482)</u>	<u>\$ (3,193)</u>	<u>92%</u>

Income tax expense increased by \$3.5 million, or 348%, to \$4.5 million in the three months ended September 30, 2023 from \$1.0 million in the three months ended September 30, 2022. Income tax expense increased by \$3.2 million, or 92%, to \$6.7 million in the nine months ended September 30, 2023 from \$3.5 million in the nine months ended September 30, 2022. The change in the income tax expense is attributable to an increase in the forecasted rate of 54.21% for the twelve months ended December 31, 2023 as compared to the forecasted rate of 29.85% for the twelve months ended December 31, 2022. The rate increase for the twelve months ended December 31, 2023 is due to a larger forecasted tax adjustment for executive compensation pursuant to Internal Revenue Code §162(m) and the expiration of the temporary 100% deduction for meal and entertainment expenses that was applicable to expenses paid or incurred after December 31, 2020 and before January 1, 2023.

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Liquidity and Capital Resources

Since our inception, we have funded our operations and capital expenditures through cash flows from product sales, loans from affiliates and entities controlled by certain of our affiliates, third-party debt and proceeds from the sale of our capital stock. As of September 30, 2023, we had an accumulated deficit of \$40.4 million and working capital of \$144.1 million which included \$98.2 million in cash and cash equivalents. We also have \$125.0 million available for future revolving borrowings under our Revolving Facility (see Note “13. Long-Term Debt Obligations” to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q). For the nine months ended September 30, 2023, we reported net revenue of \$333.5 million, a net income of \$5.5 million and \$20.3 million of cash inflows from operating activities. We expect that our cash on hand and other components of working capital as of September 30, 2023, availability under the 2021 Credit Agreement, plus net cash flows from product sales, will be sufficient to fund our operating expenses, capital expenditure requirements and debt service payments for at least 12 months beyond the filing date of this quarterly report.

While the COVID-19 pandemic has not materially adversely affected our financial results and business operations to date, we continue to closely monitor ongoing developments in connection with the pandemic that could negatively affect our commercial prospects, cash position and access to capital in fiscal 2023 or beyond. We will continue to assess our cash and other sources of liquidity and, if circumstances warrant, we will make appropriate adjustments to our operating plan.

Our primary uses of cash are working capital requirements, capital expenditure and debt service payments. Additionally, from time to time, we may use capital for acquisitions and other investing and financing activities. Working capital is used principally for our personnel as well as manufacturing costs related to the production of our products. Our working capital requirements vary from period to period depending on manufacturing volumes, the timing of shipments and the payment cycles of our customers and payers. Our capital expenditures consist primarily of building improvements, manufacturing equipment, and computer hardware and software.

To the extent additional funds are necessary to meet our long-term liquidity needs as we continue to execute on our business strategy, we anticipate that they will be obtained through additional equity or debt financings, other strategic transactions or a combination of these potential sources of funds. There can be no assurance that we will be able to obtain additional funds on terms acceptable to us, on a timely basis or at all.

Cash Flows

The following table summarizes our cash flows for each of the periods presented:

	Nine Months Ended September 30,	
	2023	2022
	(in thousands)	
Net cash provided by operating activities	\$ 20,304	\$ 17,059
Net cash used in investing activities	(21,040)	(23,242)
Net cash used in financing activities	(3,728)	(324)
Net change in cash, cash equivalents, and restricted cash	<u>\$ (4,464)</u>	<u>\$ (6,507)</u>

Operating Activities

During the nine months ended September 30, 2023, net cash provided by operating activities was \$20.3 million, resulting from our net income of \$5.5 million and non-cash charges of \$30.2 million, partially offset by net cash used in connection with changes in our operating assets and liabilities of \$15.4 million. Net cash used in changes in our operating assets and liabilities included an increase in inventory of \$7.5 million, an increase in prepaid expenses and other current assets of \$4.5 million, an increase in accounts receivable of \$1.8 million, a decrease in operating lease liabilities of \$6.3 million, and a decrease in accounts payable of \$3.7 million, partially offset by an increase in accrued expenses and other liabilities of \$8.2 million.

During the nine months ended September 30, 2022, net cash provided by operating activities was \$17.1 million, resulting from our net income of \$8.0 million and non-cash charges of \$31.8 million, partially offset by net cash used in connection with changes in our operating assets and liabilities of \$22.8 million. Net cash used in changes in our operating assets and liabilities included an increase in accounts receivable of \$11.5 million, an increase in inventory of \$7.3 million, a decrease in operating lease liabilities of \$5.3 million, and a decrease in accrued expenses and other current liabilities of \$4.0 million, partially offset by an increase in accounts payable of \$5.3 million.

Investing Activities

During the nine months ended September 30, 2023, we used \$21.0 million of cash in investing activities consisting exclusively of capital expenditures.

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During the nine months ended September 30, 2022, we used \$23.2 million of cash in investing activities consisting exclusively of capital expenditures.

Financing Activities

During the nine months ended September 30, 2023, net cash used in financing activities was \$3.7 million. This consisted of the payment of term loan of \$3.3 million, payment of the finance lease obligations and the stock awards activities of \$0.3 million, and principal repayments of finance lease obligations of \$0.1 million.

During the nine months ended September 30, 2022, net cash used in financing activities was \$0.3 million. This consisted primarily of the payment of term loan and finance lease obligations of \$1.1 million and the payment of \$0.6 million related to the CPN deferred acquisition consideration, partially offset by the net receipts of \$1.4 million in connection with the stock awards activities.

Indebtedness

2021 Credit Agreement

In August 2021, we and our subsidiaries entered into a credit agreement with SVB and several other lenders, which we refer to as the 2021 Credit Agreement. The 2021 Credit Agreement, as amended, provides for a term loan facility not to exceed \$75.0 million (the “Term Loan Facility”) and a revolving credit facility not to exceed \$125.0 million (the “Revolving Facility”).

Advances made under the 2021 Credit Agreement may be either SOFR Loans or ABR Loans, at our option. For SOFR Loans, the interest rate is a per annum interest rate equal to the Adjusted Term SOFR plus an Applicable Margin between 2.00% to 3.25% based on the Total Net Leverage Ratio. For ABR Loans, the interest rate is equal to (1) the highest of (a) the Wall Street Journal Prime Rate, (b) the Federal Funds Rate plus 0.50% and (c) the Adjusted Term SOFR rate plus 1.0%, *plus* (2) an Applicable Margin between 1.00% to 2.25% based on the Total Net Leverage Ratio. On September 30, 2023, the applicable interest rate for outstanding borrowings is 7.43%.

The 2021 Credit Agreement requires us to make consecutive quarterly installment payments equal to the following: (a) from September 30, 2021 through and including June 30, 2022, \$0.5 million; (b) from September 30, 2022 through and including June 30, 2023, \$0.9 million; (c) from September 30, 2023 through and including June 30, 2025, \$1.4 million and (d) from September 30, 2025 and the last day of each quarter thereafter until August 6, 2026 (the “Term Loan Maturity Date”), \$1.9 million. The remaining principal balance of \$50.6 million is also due on the Term Loan Maturity Date. We may prepay the Term Loan Facility. Once repaid, amounts borrowed under the Term Loan Facility may not be re-borrowed.

We must pay in arrears, on the first day of each quarter prior to August 6, 2026 (the “Revolving Termination Date”) and on the Revolving Termination Date, a fee for our non-use of available funds (the “Commitment Fee”). The Commitment Fee rate is between 0.25% to 0.45% based on the Total Net Leverage Ratio. We may elect to reduce or terminate the Revolving Facility in its entirety at any time by repaying all outstanding principal and unpaid accrued interest.

Under the 2021 Credit Agreement, we are required to comply with certain financial covenants including the Consolidated Fixed Charge Coverage Ratio and Consolidated Total Net Leverage Ratio, tested quarterly. In addition, we are also required to make representations and warranties and comply with certain non-financial covenants that are customary in loan agreements of this type, including restrictions on the payment of dividends, repurchase of stock, incurrence of indebtedness, dispositions and acquisitions.

As of September 30, 2023, we were in compliance with the covenants under the 2021 Credit Agreement. We had outstanding borrowings of \$68.0 million under our Term Loan Facility and no borrowings outstanding under our Revolving Facility with \$125.0 million available for future revolving borrowings, respectively.

Critical Accounting Policies and Significant Judgments and Estimates

Our unaudited condensed consolidated financial statements have been prepared in accordance with GAAP. The preparation of our unaudited condensed consolidated financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, and the disclosure at the date of the unaudited condensed consolidated financial statements, as well as revenue and expenses recorded during the reporting periods. Management bases its estimates, assumptions and judgments on historical experience and on various other factors that it believes to be reasonable under the circumstances. Different assumptions and judgments would change the estimates used in the preparation of our unaudited condensed consolidated financial statements, which, in turn, could materially change our results from those reported. Management evaluates its estimates, assumptions and judgments on an ongoing basis. Historically, our critical accounting estimates have not differed materially from actual results. However, if our assumptions change, we may need to revise our estimates, or take other corrective actions, either of which may also have a material

adverse effect on our condensed consolidated statements of operations, liquidity and financial condition. See also our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, for information about these accounting policies as well as a description of our other significant accounting policies.

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Off-Balance Sheet Arrangements

We did not have, during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

Recently Issued Accounting Pronouncements

We have reviewed all recently issued standards as disclosed in Note “2. Summary of Significant Accounting Policies” to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

During the nine months ended September 30, 2023, there were no material changes to our market risk disclosures as set forth in Part II, Item 7A “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company’s management, with the participation of its principal executive officer and principal financial officer, evaluated the effectiveness of its disclosure controls and procedures as of September 30, 2023. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms promulgated by the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on their evaluation, our management, including our principal executive officer and principal financial officer, concluded that, as of September 30, 2023, our disclosure controls and procedures were ineffective because, as disclosed in the Company’s Annual Report for the fiscal year ended December 31, 2022, our management team identified the following material weakness in our internal control over financial reporting: we did not design and maintain effective controls (i) to properly identify and assess significant non-routine transactions and (ii) over information technology general controls and proper segregation of duties to support the proper initiation and recording of transactions and the resulting impact on business process controls and applications that rely on such data.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even effective internal control over financial reporting can only provide reasonable assurance of achieving their control objectives.

Management assessed the effectiveness of the Company’s internal control over financial reporting based on the criteria established in the SEC guidance on conducting such assessments as of the end of the period covered by this report. Management conducted the assessment based on certain criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. As a result of this assessment, management concluded that, as of September 30, 2023, our internal control over financial reporting was not effective based on those criteria. Although management has made progress in remediating this material weakness, management concluded that the material weakness described above continued to exist as of September 30, 2023.

Plans for Remediation of Material Weakness

Management has taken actions to remediate the deficiencies in its internal controls over financial reporting and implemented additional processes and controls designed to address the underlying causes associated with the above-mentioned material weakness. Management is committed to finalizing the remediation of the material weakness. Management’s internal control remediation efforts include the following:

- In 2022, we finalized the plan to implement a new company-wide enterprise resource planning, or ERP, system to provide additional systematic controls and segregation of duties for our accounting processes. Due, in part, to turnover in key

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positions and changes in design, our ERP system go-live date has been delayed. We anticipate the ERP system going live in 2024.

- In 2022, we determined that our forward-facing customer sales systems were not catering to our customer needs. We started to implement a new sales force software system in 2023, and anticipate going live in 2024.
- We have continued to train and cross train our employees on their internal control responsibilities and how to best support other control owners if personnel turnover issues within their departments occur. We have also supplemented our internal resources with third-party resources, where necessary.
- An outside firm will continue to assist management with performing control operating effectiveness testing throughout the year.
- We regularly reported the results of control testing to the key stakeholders across our organization, including our audit committee, on testing progress and defined corrective actions, and we monitored and reported on the results of control remediation. We have strengthened our internal policies, processes, and reviews through these actions.
- We implemented a new control to ensure that significant transactions are identified and effectively communicated so that they are properly and timely reported.
- We have continued working on documenting and remediating weaknesses and structuring the Company's processes to meet SOX 404 requirements.

As management continues to evaluate and work to improve our internal control over financial reporting, management may determine it is necessary to take additional measures to address the material weaknesses. However, we believe the above actions will be effective in remediating the material weaknesses and we will continue to devote significant time and attention to these remediation efforts. Until the controls have been operating for a sufficient period of time and management has concluded, through testing, that these controls are executed consistently and operating effectively, the material weaknesses described above will continue to exist.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting other than those described above related to remediation efforts. However, as the implementation of the new ERP system continues and our remediation efforts continue, we will change our processes and procedures, which in turn, could result in changes to our internal control over financial reporting. As such changes occur, we will evaluate quarterly whether such changes materially affect our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

On December 10, 2021, a class action complaint captioned *Somogyi v. Organogenesis Holdings Inc., et al.* was filed on behalf of a putative class of all purchasers of our securities against us and our Chief Executive Officer and Chief Financial Officer in the United States District Court for the Eastern District of New York. The court appointed Donald Martin as lead plaintiff. Mr. Martin filed an amended complaint on October 24, 2022 that brings claims on behalf of a purported class of all purchasers of our securities from August 10, 2020 through August 9, 2022 and alleges violations of federal securities law in connection with alleged false and misleading statements with respect to, among other matters, revenue, sales growth and ability to compete in connection with our Affinity and PuraPly XT products. The amended complaint alleges violations of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, and seeks unquantified damages as well as attorneys' fees, expert fees and other costs. The action is in the early stages of litigation. We believe the claims are without merit and intend to vigorously contest them. On March 13, 2023, we filed our motion to dismiss the litigation for failure to state a claim upon which relief can be granted. Briefing was completed on May 30, 2023 and the motion to dismiss is currently pending with the Court.

We are not a party to any other material legal proceedings. From time to time, we may become involved in litigation or other legal proceedings relating to claims arising from the ordinary course of business. These matters may include intellectual property, employment and other general claims. With respect to our outstanding legal matters, based on our current knowledge, we believe that the amount or range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows. However, the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties.

Item 1A. Risk Factors

Investing in our Class A common stock involves a high degree of risk. Our Annual Report on Form 10-K for the year ended December 31, 2022, includes a detailed discussion of our risk factors under the heading “Part I, Item 1A—Risk Factors.” Except as set forth below, there have been no material changes from such risk factors during the quarter ended September 30, 2023. You should consider carefully the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2022, and all other information contained in or incorporated by reference in this Quarterly Report on Form 10-Q before making an investment decision. If any of the risks discussed in the Annual Report on Form 10-K for the year ended December 31, 2022, or herein actually occur, they may materially harm our business, financial condition, operating results, cash flows or growth prospects. As a result, the market price of our Class A common stock could decline, and you could lose all or part of your investment. Additional risks and uncertainties that are not yet identified or that we think are immaterial may also materially harm our business, financial condition, operating results, cash flows or growth prospects and could result in a complete loss of your investment.

Three MACs recently withdrew LCDs for skin substitutes and/or CTPs for the treatment of DFUs and VLUs in the Medicare population that would have eliminated coverage for certain of our products as of October 1, 2023. Had these LCDs taken effect or if new LCDs are adopted in the future that eliminate or reduce coverage for our products are adopted and take effect, it could have a material adverse effect on utilization of our products, our business and our revenue.

On August 3, 2023, three MACs (Novitas, First Coast Services, and CGS) published final LCDs for skin substitutes and CTPs for the treatment of DFUs and VLUs in the Medicare population that would have eliminated coverage for our PuraPly, Novachor, TransCyte, Affinity and NuShield products as of October 1, 2023. These LCDs were withdrawn by the MACs on September 28, 2023 and our products remain covered. Had coverage for these products been eliminated, it would have presented a significant amount of uncertainty regarding (i) future revenue for the affected products in the applicable regions and (ii) the potential impact on demand for our products when used for treatment of non-DFU/VLU wounds. While in this case the LCDs were ultimately withdrawn before they took effect, there is no guarantee that the MACs will not adopt new LCDs in the future that could eliminate or reduce coverage for our products. If one or more of products loses coverage, it could materially and adversely impact utilization of our products, our business, and our revenue.

Uncertainty and adverse changes in the general economic conditions, including recent turmoil in the global banking system, may negatively affect our business, financial condition, stock price and results of operations.

Our results of operations could be adversely affected by general conditions in the global economy and in the global financial markets. For example, the global financial crisis of 2007-2008 caused extreme volatility and disruptions in the capital and credit markets. If general economic conditions in the United States decline, or if consumers fear that economic conditions will decline, sales of our products may decline. Adverse changes may occur as a result of adverse economic conditions, fluctuating oil prices, supply chain problems, inflation, political instability, declining consumer confidence, a continuation or worsening of the COVID-19 pandemic or another pandemic, unemployment, fluctuations in stock markets, contraction of credit availability, or other factors affecting economic conditions generally. These changes may negatively affect the sales of our existing or development of future products, increase the cost, and decrease the availability of financing, or increase costs associated with producing and distributing our products and potential product candidates.

Moreover, there has been recent turmoil in the global banking system. On March 10, 2023, Silicon Valley Bank (“SVB”), one of our lenders at which we maintained deposit and money market accounts, was closed, followed on March 11, 2023 and May 1, 2023, by Signature Bank and First Republic Bank, respectively, and the FDIC was appointed as receiver for those banks. There have been reports of instability at other banks across the globe including Credit Suisse, which was acquired by UBS. Despite the steps taken to date by U.S. agencies to protect depositors and our current belief that we do not have exposure to loss as a result of SVB’s receivership, the follow-on effects of the events surrounding the SVB, Signature Bank and First Republic Bank failures and pressure on other banks are unknown and could include failures of other financial institutions or significant disruptions to our operations, financial position, and reputation. A severe or prolonged economic downturn, such as the global financial crisis of 2007-2008, could result in a variety of risks to our business, including a decrease in the demand for our products and in our ability to raise additional capital when needed on acceptable terms, if at all. A weak or declining economy also could strain our suppliers, possibly resulting in supply disruption, or cause our customers to delay making payments for our products. We cannot anticipate all the ways in which the foregoing, and the current economic climate and financial market conditions generally, could adversely impact our business. Furthermore, our stock price may decline due in part to the volatility of the stock market and any general economic downturn.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

During the three months ended September 30, 2023, no director or officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-rule 10b5-1 trading arrangement,” as each term is defined in item 408(a) of Regulation S-K.

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Item 6. Exhibits

Exhibit number	Description
3.1	Certificate of Incorporation of Organogenesis Holdings Inc. (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-3/A (File No. 333-233621) filed with the SEC on September 16, 2019)
3.2	Certificate of Amendment of Certificate of Incorporation of Organogenesis Holdings Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-37906) filed with the SEC on June 27, 2022)
3.3	Bylaws of Organogenesis Holdings Inc. (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-3/A (File No. 333-233621) filed with the SEC on September 16, 2019)
31.1†	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2†	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1†	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS†	Inline XBRL Instance Document XBRL
101.SCH†	Inline XBRL Taxonomy Extension Schema Document
101.CAL†	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104†	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

† Filed herewith

SIGNATURES

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

Dated: November 9, 2023

Organogenesis Holdings Inc.

(Registrant)

/s/ David Francisco

David Francisco
Chief Financial Officer

(Principal Financial and Accounting Officer)