
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 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 June 30, 2021

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 02021
(Address of principal executive offices) (Zip Code)

(781) 575-0775
(Registrant's telephone number, including area code)

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

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☒

Emerging growth company ☒

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

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

As of August 1, 2021, the registrant had a total of 128,583,801 shares of its Class A common stock, \$0.0001 par value per share, outstanding.

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Organogenesis Holdings Inc.
Quarterly Report on Form 10-Q
For the Quarterly Period Ended June 30, 2021

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on 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, 2020. 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 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.

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

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

	<u>June 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Assets		
Current assets:		
Cash	\$ 89,790	\$ 84,394
Restricted cash	517	412
Accounts receivable, net	76,767	56,804
Inventory	28,106	27,799
Prepaid expenses and other current assets	6,583	4,935
Total current assets	201,763	174,344
Property and equipment, net	69,739	60,068
Intangible assets, net	28,136	30,622
Goodwill	28,772	28,772
Operating lease right-of-use assets, net	26,531	—
Deferred tax asset, net	18	18
Other assets	605	670
Total assets	<u>\$ 355,564</u>	<u>\$ 294,494</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Deferred acquisition consideration	\$ —	\$ 483
Current portion of term loan	22,500	16,666
Current portion of finance lease obligations	4,134	3,619
Current portion of operating lease obligations	4,504	—
Current portion of deferred rent and lease incentive obligation	—	95
Accounts payable	26,789	23,381
Accrued expenses and other current liabilities	26,618	23,973
Total current liabilities	84,545	68,217
Line of credit	10,000	10,000
Term loan, net of current portion	37,290	43,044
Deferred acquisition consideration, net of current portion	1,436	1,436
Earnout liability	927	3,985
Deferred rent and lease incentive obligation, net of current portion	—	2,315
Finance lease obligations, net of current portion	9,553	11,442
Operating lease obligations, net of current portion	24,224	—
Other liabilities	8,667	7,971
Total liabilities	176,642	148,410
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; 129,011,789 and 128,460,381 shares issued; 128,283,241 and 127,731,833 shares outstanding at June 30, 2021 and December 31, 2020, respectively.	13	13
Additional paid-in capital	299,038	296,830
Accumulated deficit	(120,129)	(150,759)
Total stockholders' equity	178,922	146,084
Total liabilities and stockholders' equity	<u>\$ 355,564</u>	<u>\$ 294,494</u>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net revenue	\$ 123,196	\$ 68,960	\$ 225,748	\$ 130,692
Cost of goods sold	29,940	20,042	55,435	38,835
Gross profit	93,256	48,918	170,313	91,857
Operating expenses:				
Selling, general and administrative	62,349	46,502	120,581	99,115
Research and development	7,320	4,668	13,529	10,078
Total operating expenses	69,669	51,170	134,110	109,193
Income (loss) from operations	23,587	(2,252)	36,203	(17,336)
Other expense, net:				
Interest expense, net	(2,431)	(2,912)	(4,901)	(5,422)
Gain on settlement of deferred acquisition consideration	—	—	—	1,295
Other income, net	18	25	15	46
Total other expense, net	(2,413)	(2,887)	(4,886)	(4,081)
Net income (loss) before income taxes	21,174	(5,139)	31,317	(21,417)
Income tax expense	(487)	(27)	(687)	(62)
Net income (loss)	\$ 20,687	\$ (5,166)	\$ 30,630	\$ (21,479)
Net income (loss), per share:				
Basic	\$ 0.16	\$ (0.05)	\$ 0.24	\$ (0.21)
Diluted	\$ 0.15	\$ (0.05)	\$ 0.23	\$ (0.21)
Weighted-average common shares outstanding				
Basic	128,235,224	104,714,725	128,053,654	104,600,825
Diluted	133,988,413	104,714,725	133,721,191	104,600,825

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

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

	Three and Six Months Ended June 30, 2021				
	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity
Balance as of March 31, 2021	128,102,255	\$ 13	\$ 298,095	\$ (140,816)	\$ 157,292
Exercise of stock options	78,163	—	221	—	221
Vesting of RSUs, net of shares surrendered to pay taxes	102,823	—	(320)	—	(320)
Stock-based compensation expense	—	—	1,042	—	1,042
Net income	—	—	—	20,687	20,687
Balance as of June 30, 2021	<u>128,283,241</u>	<u>\$ 13</u>	<u>\$ 299,038</u>	<u>\$ (120,129)</u>	<u>\$ 178,922</u>
Balance as of December 31, 2020 (as reported)	127,731,833	\$ 13	\$ 299,129	\$ (153,058)	\$ 146,084
Adjustment due to Private Warrant reclassification	—	—	(2,299)	2,299	—
Balance as of December 31, 2020 (as adjusted)	127,731,833	13	296,830	(150,759)	146,084
Exercise of stock options	363,507	—	1,205	—	1,205
Vesting of RSUs, net of shares surrendered to pay taxes	187,901	—	(737)	—	(737)
Stock-based compensation expense	—	—	1,740	—	1,740
Net income	—	—	—	30,630	30,630
Balance as of June 30, 2021	<u>128,283,241</u>	<u>\$ 13</u>	<u>\$ 299,038</u>	<u>\$ (120,129)</u>	<u>\$ 178,922</u>
	Three and Six Months Ended June 30, 2020				
	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity
Balance as of March 31, 2020 (as reported)	105,360,015	\$ 11	\$ 227,604	\$ (187,320)	\$ 40,295
Adjustment due to Private Warrant reclassification	—	—	(2,299)	2,299	—
Balance as of March 31, 2020 (as adjusted)	105,360,015	11	225,305	(185,021)	40,295
Exercise of stock options	57,153	—	152	—	152
Stock-based compensation expense	—	—	469	—	469
Net loss	—	—	—	(5,166)	(5,166)
Balance as of June 30, 2020 (as adjusted)	<u>105,417,168</u>	<u>\$ 11</u>	<u>\$ 225,926</u>	<u>\$ (190,187)</u>	<u>\$ 35,750</u>
Balance as of December 31, 2019 (as reported)	104,870,886	\$ 10	\$ 226,580	\$ (171,007)	\$ 55,583
Adjustment due to Private Warrant reclassification	—	—	(2,299)	2,299	—
Balance as of December 31, 2019 (as adjusted)	104,870,886	10	224,281	(168,708)	55,583
Exercise of stock options	546,282	1	967	—	968
Stock-based compensation expense	—	—	678	—	678
Net loss	—	—	—	(21,479)	(21,479)
Balance as of June 30, 2020 (as adjusted)	<u>105,417,168</u>	<u>\$ 11</u>	<u>\$ 225,926</u>	<u>\$ (190,187)</u>	<u>\$ 35,750</u>

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

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

	Six Months Ended June 30,	
	2021	2020
Cash flows from operating activities:		
Net income (loss)	\$ 30,630	\$(21,479)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	2,073	1,793
Amortization of intangible assets	2,486	1,633
Amortization of operating lease right-of-use assets	2,562	—
Non-cash interest expense	143	103
Deferred interest expense	1,036	1,022
Deferred rent expense	—	64
Gain on settlement of deferred acquisition consideration	—	(1,295)
Provision recorded for sales returns and doubtful accounts	2,158	970
Loss on disposal of property and equipment	239	201
Adjustment for excess and obsolete inventories	4,678	1,709
Stock-based compensation	1,740	678
Change in fair value of Earnout liability	(3,058)	—
Changes in operating assets and liabilities:		
Accounts receivable	(22,122)	(5,727)
Inventory	(4,984)	(7,353)
Prepaid expenses and other current assets	(1,649)	(1,302)
Operating leases	(2,774)	—
Accounts payable	716	235
Accrued expenses and other current liabilities	2,646	1,266
Other liabilities	(340)	864
Net cash provided by (used in) operating activities	16,180	(26,618)
Cash flows from investing activities:		
Purchases of property and equipment	(9,290)	(6,411)
Proceeds from the repayment of notes receivable from related parties	—	293
Net cash used in investing activities	(9,290)	(6,118)
Cash flows from financing activities:		
Line of credit borrowings	—	5,869
Proceeds from term loan	—	10,000
Payments of withholding taxes in connection with RSUs vesting	(737)	—
Proceeds from the exercise of stock options	1,205	968
Principal repayments of finance lease obligations	(1,374)	(1,149)
Payment of deferred acquisition consideration	(483)	(2,568)
Net cash (used in) provided by financing activities	(1,389)	13,120
Change in cash and restricted cash	5,501	(19,616)
Cash and restricted cash, beginning of period	84,806	60,370
Cash and restricted cash, end of period	<u>\$ 90,307</u>	<u>\$ 40,754</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 3,836	\$ 4,626
Cash paid for income taxes	\$ 582	\$ —
Supplemental disclosure of non-cash investing and financing activities:		
Purchases of property and equipment included in accounts payable and accrued expenses	\$ 4,349	\$ 4,692
Right-of-use assets obtained through operating lease obligations	\$ 29,092	\$ —

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

ORGANOGENESIS HOLDINGS INC.

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

1. Nature of the Business and Basis of Presentation

Organogenesis Holdings Inc. (formerly Avista Healthcare Public Acquisition Corp.) (“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, Business License Applicant (“BLA”) 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.

COVID-19 pandemic

The emergence of the coronavirus (COVID-19) around the world, and particularly in the United States, continues to present risks to the Company. While the COVID-19 pandemic has not materially adversely affected the Company’s financial results and business operations through the second quarter ended June 30, 2021, the Company is unable to predict the impact that COVID-19 will have on its financial position and operating results because of the numerous uncertainties created by the unprecedented nature of the pandemic.

The Company is closely monitoring the evolving impact of the pandemic on all aspects of its business. The Company has implemented a number of measures designed to protect the health and safety of its employees, support its customers and promote business continuity.

Merger with Avista Healthcare Public Acquisition Corp

On December 10, 2018, Avista Healthcare Public Acquisition Corp., our predecessor company (“AHPAC”), consummated a business combination (the “Avista Merger”) pursuant to an Agreement and Plan of Merger, dated as of August 17, 2018 (as amended, the “Avista Merger Agreement”), by and among AHPAC, Avista Healthcare Merger Sub, Inc., a Delaware corporation and a direct wholly-owned subsidiary of AHPAC (“Avista Merger Sub”) and Organogenesis Inc., a Delaware corporation (“Organogenesis Inc.”). As a result of the Avista Merger and the other transactions contemplated by the Avista Merger Agreement, Avista Merger Sub merged with and into Organogenesis Inc., with Organogenesis Inc. surviving the Avista Merger and becoming a wholly-owned subsidiary of AHPAC. AHPAC changed its name to Organogenesis Holdings Inc. (ORGO).

The Avista Merger was accounted for as a reverse merger in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Under this method of accounting, AHPAC was treated as the “acquired” company for accounting purposes. This determination was primarily based on Organogenesis Inc.’s equity holders having a majority of the voting power of the combined company, Organogenesis Inc. comprising the ongoing operations of the combined entity, Organogenesis Inc. comprising a majority of the governing body of the combined company, and Organogenesis Inc.’s senior management comprising the senior management of the combined company. Accordingly, for accounting purposes, the Avista Merger was treated as the equivalent of Organogenesis Inc. issuing stock for the net assets of AHPAC, accompanied by a recapitalization. The net assets of AHPAC were recorded at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the Avista Merger are those of Organogenesis Inc.

Liquidity and Financial Conditions

In accordance with ASC 205-40, *Going Concern* (“ASC 205-40”), the Company has evaluated whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date the financial statements are issued. Since its inception, the Company has funded its operations primarily with cash flow from product sales, proceeds from loans from affiliates and entities controlled by its affiliates, sales of its Class A common stock and third-party debt. As of June 30, 2021, the Company had an accumulated deficit of \$120,129 and working capital of \$117,218. The Company also had up to \$30,000 available (subject to Borrowing Base) for future revolving borrowings under our Revolving Facility (see Note “13. Long-Term Debt Obligations”). For the six months ended June 30, 2021, the Company has generated a net income of \$30,630 and \$16,180 of cash in operations. The Company expects that its cash of \$89,790 and other components of working capital of \$27,428 as of June 30, 2021, plus net cash flows from product sales and availability under the 2019 Credit Agreement, 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.

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The Company expects to continue investing in product development, sales and marketing, and customer support for its products. The Company may seek to raise additional funding through public and/or private equity financings, debt financings, or other strategic transactions. There can be no assurance that the Company will be able to obtain additional debt or equity financing on terms acceptable to the Company, on a timely basis or at all. The failure of the Company to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on the Company's business, results of operations, and financial condition.

2. Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared by management in accordance with GAAP and the rules and regulations of the Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles 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 Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (the "Annual Report").

The unaudited consolidated financial statements include the accounts and results of operations of Organogenesis Holdings Inc. and its wholly-owned subsidiaries of Organogenesis Inc., including 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 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 six months ended June 30, 2021 are not necessarily indicative of the results to be expected for the year ending December 31, 2021, 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 and the related disclosure as of the date of the consolidated financial statements and the reported results of operations during the reporting periods. Actual results could differ from those estimates.

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 Annual Report. There have been no material changes to the significant accounting policies previously disclosed in the Annual Report, other than as it related to the recently adopted accounting pronouncement disclosed below.

Revision to Previously Issued Financial Statements

On April 12, 2021, the Staff of the SEC issued a statement regarding the accounting and reporting considerations for warrants issued by special purpose acquisition companies entitled "Staff Statement on Accounting and Reporting Considerations for Warrants Issued by Special Purpose Acquisition Companies ("SPACs")" (the "SEC Statement"). In the SEC Statement, the SEC Staff expressed its view that certain terms and conditions common to SPAC warrants may require the warrants to be classified as liabilities on the SPAC's financial statements as opposed to equity.

As of December 31, 2018, the Company had 4.1 million private warrants outstanding, which were issued to Avista Capital Partners IV, L.P. and Avista Capital Partners IV (Offshore), L.P. in connection with the Avista Merger on December 10, 2018 (the "Private Warrants"), and 31.0 million public warrants outstanding that were issued in connection with the initial public offering of Avista Healthcare Public Acquisition Corp. on October 10, 2016 (the "Public Warrants", together with the Private Warrants, the "Warrants"). The Company originally classified the Warrants as equity on its financial statements. In 2019, the outstanding Warrants were exchanged for 3.3 million shares of the Company's Class A common stock. There were no Warrants outstanding as of December 31, 2019.

As a result of the SEC Statement, the Company reevaluated the historical accounting treatment of its Public Warrants and Private Warrants and determined that the Private Warrants should have been recorded at fair value as a liability in the Company's consolidated balance sheet with changes to

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the fair value recorded to the consolidated statements of operations. The Company assessed the materiality of this error on prior period financial statements in accordance with SEC Staff Accounting Bulletin Number 99, Materiality, and ASC 250-10, Accounting Changes and Error Corrections. The Company determined that this error was not material to the financial statements of any prior annual or interim period. The Company reclassified \$2,299 from additional paid-in capital to accumulated deficit on the consolidated balance sheet as of December 31, 2020 as the cumulative adjustment for this error.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2016-02 (“ASU 2016-02”), Leases (Topic 842), as further amended (“ASC 842”), to increase transparency and comparability among organizations by requiring the recognition of, at the lease commencement date, a lease liability for the obligation to make lease payments, and a right-of-use (“ROU”) asset for the right to use the underlying asset, on the balance sheet. Although the Company remains an emerging growth company until December 31, 2021, it elected to early adopt ASC 842 on January 1, 2021. ASC 842 requires a modified retrospective transition method that could either be applied at the earliest comparative period in the financial statements or in the period of adoption. The Company elected to use the period of adoption (January 1, 2021) transition method and therefore did not recast prior periods. Results for reporting periods beginning on January 1, 2021 are presented under ASC 842, while prior period amounts continue to be reported and disclosed in accordance with the Company’s historical accounting treatment under Accounting Standards Codification 840, Leases (“ASC 840”). In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed the Company: (1) to carry forward the historical lease classification; (2) not to reassess whether expired or existing contracts are or contain leases; and, (3) not to reassess the treatment of initial direct costs for existing leases. The Company made an accounting policy election under ASC 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. The Company also elected to account for lease components and the associated non-lease components in the contracts as a single lease component for most of the leased assets. Upon the adoption of this standard on January 1, 2021, the Company recognized an operating lease liability of \$15,935, representing the present value of the minimum lease payments remaining as of the adoption date, and a right-of-use asset in the amount of \$13,525. The right-of-use asset reflects adjustments for de-recognition of deferred lease liabilities and lease incentives. The Company’s accounting for finance leases (previously classified as capital leases under ASC 840) remained substantially unchanged. See Note “17. Leases” for further disclosures.

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). Subsequent to the issuance of ASU 2016-13, the FASB has issued the following updates: ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326)—Targeted Transition Relief* and ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. The objective of ASU 2016-13 and all the related updates is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 and the related updates are effective for fiscal years, and interim periods within those years, beginning after December 15, 2019 for public business entities excluding entities eligible to be smaller reporting companies and for fiscal years, and interim periods within those years, beginning after December 15, 2022 for all other entities. Early adoption is permitted. The Company will adopt this standard and the related improvements on January 1, 2023 by recognizing a cumulative-effect adjustment to retained earnings for any impact. The Company is currently assessing the adoption of ASU 2016-13 and the related impact on the Company’s consolidated financial statements.

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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 Company is obligated to pay a contingent consideration (the “Earnout”) to CPN’s former shareholders if CPN’s legacy product revenue in the Earnout Period (defined as a twelve-month period, starting on the first day of the next calendar quarter immediately following the post-closing sales meeting), exceeds CPN’s 2019 revenue. The amount of the Earnout, if any, will be equal to 70% of the excess and will be payable 60 days after the expiration of the Earnout Period. The post-closing sales meeting took place in April 2021 and the Earnout Period is July 1, 2021 to June 30, 2022. The Company recorded a non-current liability of \$3,782 on the Acquisition Date for the fair value of the contingent consideration related to the expected Earnout. The Company assesses the fair value of the Earnout liability at each reporting period. As of June 30, 2021, the Earnout liability was estimated at \$927. Subsequent changes in the estimated fair value of the liability are reflected in earnings until the liability is settled (see Note “5. Fair Value Measurement of Financial Instruments”).

4. Product and Geographic Sales

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. The entire transaction price reflects a single performance obligation. 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 June 30, 2021 and 2020, the Company recorded GPO fees of \$829 and \$837, respectively, as a direct reduction of revenue. For the six months ended June 30, 2021 and 2020, the Company recorded GPO fees of \$1,529 and \$1,797, respectively, as a direct reduction of revenue.

The following tables set forth revenue by product category:

	Three Months Ended June 30,	
	2021	2020
Advanced Wound Care	\$111,436	\$ 59,731
Surgical & Sports Medicine	11,760	9,229
Total net revenue	<u>\$123,196</u>	<u>\$ 68,960</u>

	Six Months Ended June 30,	
	2021	2020
Advanced Wound Care	\$202,144	\$111,019
Surgical & Sports Medicine	23,604	19,673
Total net revenue	<u>\$225,748</u>	<u>\$130,692</u>

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

5. Fair Value of Financial Assets and Liabilities

The following table presents information about the Company’s financial assets and liabilities measured at fair value on a recurring basis and indicates the level of the fair value hierarchy utilized to determine such fair values as of June 30, 2021 and December 31, 2020.

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	Fair Value Measurements as of June 30, 2021 Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Earnout liability	\$ —	\$ —	\$ 927	\$ 927
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 927</u>	<u>\$ 927</u>

	Fair Value Measurements as of December 31, 2020 Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Earnout liability	\$ —	\$ —	\$3,985	\$3,985
	<u>\$ —</u>	<u>\$ —</u>	<u>\$3,985</u>	<u>\$3,985</u>

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 is classified as a Level 3 measurement within the fair value hierarchy for which fair value is derived from inputs that are unobservable and significant to the overall fair value measurement. The fair value of such Earnout Liability is estimated using a Monte Carlo simulation model that utilizes key assumptions including forecasted revenues and volatilities of the underlying financial metrics during the Earnout period. The Company assesses the fair value of the Earnout liability at each reporting period. Any subsequent changes in the estimated fair value of the liability are reflected in selling, general and administrative expenses until the liability is settled. For more information about the Earnout liability, refer to Note “3. Acquisition”. As of June 30, 2021, the Earnout liability decreased to \$927 as a result of the Company’s updated assessment of the near-term market for the CPN product portfolio. The following table provides a roll-forward of the fair value of the Company’s Earnout liability, for which fair value is determined using Level 3 inputs:

	Earnout liability
Balance as of December 31, 2020	\$ 3,985
Change in fair value	(3,058)
Balance as of June 30, 2021	<u>\$ 927</u>

The Company did not have any financial assets and liabilities measured at fair value on a non-recurring basis as of June 30, 2021 and December 31, 2020.

6. Accounts Receivable, Net

Accounts receivable consisted of the following:

	June 30, 2021	December 31, 2020
Accounts receivable	\$ 83,880	\$ 61,792
Less — allowance for sales returns and doubtful accounts	(7,113)	(4,988)
	<u>\$ 76,767</u>	<u>\$ 56,804</u>

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The Company's allowance for sales returns and doubtful accounts was comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Balance at beginning of period	\$ 6,076	\$ 3,204	\$4,988	\$3,049
Additions	1,056	753	2,158	970
Write-offs	(19)	(29)	(33)	(91)
Balance at end of period	<u>\$ 7,113</u>	<u>\$ 3,928</u>	<u>\$7,113</u>	<u>\$3,928</u>

7. Inventories

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

	June 30, 2021	December 31, 2020
Raw materials	\$ 10,144	\$ 10,075
Work in process	1,732	1,305
Finished goods	16,230	16,419
	<u>\$ 28,106</u>	<u>\$ 27,799</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 June 30, 2021 and 2020, the Company charged \$2,388 and \$940, respectively, for inventory excess and obsolescence to cost of goods sold within the consolidated statements of operations. During the six months ended June 30, 2021 and 2020, the Company charged \$4,678 and \$1,709, respectively, for inventory excess and obsolescence to cost of goods sold within the consolidated statements of operations.

8. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	June 30, 2021	December 31, 2020
Subscriptions	\$ 2,211	\$ 2,013
Conferences and marketing expenses	921	63
Deposits	1,796	1,438
Reimbursement of offering expenses	—	1,009
Other	1,655	412
	<u>\$ 6,583</u>	<u>\$ 4,935</u>

Prepaid deposits are deposits 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:

	June 30, 2021	December 31, 2020
Leasehold improvements	\$ 48,503	\$ 39,574
Furniture, computers and equipment	50,221	48,236
	98,724	87,810
Accumulated depreciation and amortization	(71,593)	(69,521)
Construction in progress	42,608	41,779
	<u>\$ 69,739</u>	<u>\$ 60,068</u>

Depreciation expense was \$1,063 and \$891 for the three months ended June 30, 2021 and 2020. Depreciation expense was \$2,073 and \$1,793 for the six months ended June 30, 2021 and 2020. As of June 30, 2021 and December 31, 2020, the Company had \$21,689 of buildings under finance leases recorded within leasehold improvements. As of June 30, 2021 and December 31, 2020, the Company had \$15,573 and \$14,974 recorded within accumulated depreciation and amortization related to buildings under finance leases, respectively. Construction in progress primarily represents unfinished construction work on a building under a finance lease and, more recently, improvements at the Company's leased facilities in Canton and Norwood, Massachusetts.

10. Goodwill and Intangible Assets

Goodwill was \$28,772 as of June 30, 2021 and December 31, 2020.

Identifiable intangible assets consisted of the following as of June 30, 2021:

	Original Cost	Accumulated Amortization	Net Book Value
Developed technology	\$32,620	\$ (16,020)	\$16,600
Trade names and trademarks	2,080	(1,056)	1,024
Customer relationships	10,690	(846)	9,844
Non-compete agreements	1,010	(342)	668
Total	<u>\$46,400</u>	<u>\$ (18,264)</u>	<u>\$28,136</u>

Identifiable intangible assets consisted of the following as of December 31, 2020:

	Original Cost	Accumulated Amortization	Net Book Value
Developed technology	\$32,620	\$ (14,330)	\$18,290
Trade names and trademarks	2,080	(906)	1,174
Customer relationship	10,690	(312)	10,378
Non-compete agreements	1,010	(230)	780
Total	<u>\$46,400</u>	<u>\$ (15,778)</u>	<u>\$30,622</u>

Amortization of intangible assets, calculated on a straight-line basis or using an accelerated method, was \$1,243 and \$816 for the three months ended June 30, 2021 and 2020, respectively, and \$2,486 and \$1,633 for the six months ended June 30, 2021 and 2020, respectively.

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11. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	June 30, 2021	December 31, 2020
Personnel costs	\$ 22,024	\$ 18,943
Royalties	2,718	2,971
Other	1,876	2,059
	<u>\$ 26,618</u>	<u>\$ 23,973</u>

12. Restructuring

On October 21, 2020, the Company committed to a plan to restructure the workforce and consolidate its La Jolla facilities as part of the Company's long-term plan to consolidate manufacturing operations in Massachusetts to reduce the Company's cost structure. The majority of the restructuring costs are expected to be incurred by the end of 2021, with certain facility and storage costs continuing through the middle of 2024. The restructuring will result in a charge of approximately \$7.0 million, of which approximately \$4.5 million is attributable to the retention benefits associated with approximately 70 employees and the remaining \$2.5 million is related to the facility closures. As employees are required to provide future services, employee retention and other benefit-related costs related to the Company's restructuring are expensed over the service period.

As a result of this restructuring activity, the Company incurred a pre-tax charge of \$939 and \$1,866 during the three and six months ended June 30, 2021. This charge was primarily related to employee retention benefits and was included in selling, general and administrative expenses in the consolidated statements of operations. The liability related to the restructuring activities was \$2,410 as of June 30, 2021 and was included in accrued expenses and other current liabilities in the consolidated balance sheets. The following table provides a roll-forward of the restructuring liability.

	Employee	Facility
Liability balance as of March 31, 2021	\$ 1,528	\$ 17
Expenses	853	86
Payments	—	(74)
Liability balance as of June 30, 2021	<u>\$ 2,381</u>	<u>\$ 29</u>
	Employee	Facility
Liability balance as of December 31, 2020	\$ 618	\$ —
Expenses	1,763	103
Payments	—	(74)
Liability balance as of June 30, 2021	<u>\$ 2,381</u>	<u>\$ 29</u>

13. Long-Term Debt Obligations

Long-term debt obligations consisted of the following:

	June 30, 2021	December 31, 2020
Line of credit	\$ 10,000	\$ 10,000
Term loan	60,000	60,000
Less debt discount and debt issuance cost	(210)	(290)
Less current maturities	(22,500)	(16,666)
Term loan, net of debt discount, debt issuance cost and current maturities	<u>\$ 37,290</u>	<u>\$ 43,044</u>

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2019 Credit Agreement

In March 2019, the Company, its subsidiaries and Silicon Valley Bank (“SVB”), and the several other lenders thereto (collectively, the “Lenders”) entered into a credit agreement, as amended (the “2019 Credit Agreement”), providing for a term loan (the “Term Loan Facility”) and a revolving credit facility (the “Revolving Facility”) in an aggregate principal amount of \$100,000. Capitalized terms used herein and not otherwise defined are defined as set forth in the 2019 Credit Agreement.

The Term Loan Facility is structured in three tranches, as follows: (i) the first tranche of \$40,000 was made available to the Company and fully funded on March 14, 2019; (ii) the second tranche of \$10,000 was made available to the Company and fully funded in September 2019 upon achievement of certain financial metrics; and (iii) the third tranche of \$10,000 was made available to the Company and fully funded in March 2020 upon achievement of a certain financial metric. The interest rate for the Term Loan Facility is a floating per annum interest rate equal to the greater of 3.75% above the Wall Street Journal Prime Rate and 9.25%. The interest rate as of June 30, 2021 was 9.25%. The 2019 Credit Agreement requires the Company to make monthly interest-only payments on outstanding balances under the Term Loan Facility through June 2021. Thereafter, each term loan advance is repaid in thirty-two equal monthly installments of principal, plus accrued interest, with the Term Loan Facility maturing on February 1, 2024 (the “Term Loan Maturity Date”).

The Company’s final payment on the Term Loan Facility, due on the Term Loan Maturity Date, will include all outstanding principal and accrued and unpaid interest under the Term Loan Facility, plus a final payment (the “Final Payment”) equal to the original aggregate principal amount of the Term Loan Facility multiplied by 6.5%. The Company may prepay the Term Loan Facility, subject to paying the Prepayment Premium (described below) and the Final Payment. The Prepayment Premium is equal to 1.50% of the outstanding principal amount of the Term Loan Facility if the prepayment occurs after the two-year anniversary but prior to the three-year anniversary of the closing, and 0.50% thereafter. Once repaid, amounts borrowed under the Term Loan Facility may not be re-borrowed.

The Revolving Facility is equal to the lesser of \$40,000 and the amount determined by the Borrowing Base, which is defined as a percentage of the Company’s book value of qualifying finished goods inventory and eligible accounts receivable. The interest rate for advances under the Revolving Facility is a floating per annum interest rate equal to the greater of the Wall Street Journal Prime Rate and 5.50%. The interest rate as of June 30, 2021 was 5.50%. If the actual outstanding advances are less than 25% of the then-available Revolving Commitments, the Company must pay monthly interest equal to the interest that would have accrued if the average outstanding advances had been 25% of the then-available Revolving Commitments. The Company is also required to pay an unused line fee equal to 0.25% per annum, calculated based on the difference of \$40,000 *minus* the greater of (i) the average balance outstanding under the Revolving Facility for such period and (ii) 25% of the then-available Revolving Commitments. The maturity date for advances made under the Revolving Facility is March 1, 2024.

The Company may elect to reduce or terminate the Revolving Facility in its entirety at any time by repaying all outstanding principal, unpaid accrued interest and a reduction or termination fee equal to 2.00% of the aggregate Revolving Commitments so reduced or terminated if the reduction or termination occurs after the two year anniversary but prior to the three year anniversary of the closing, and \$0 thereafter.

The Company is required to achieve certain financial covenants under the 2019 Credit Agreement, including Minimum Trailing Twelve Month Consolidated Revenue and Non-PurAPly Revenue, tested quarterly. In addition, the Company is required to maintain Minimum Liquidity equal to the greater of (i) 6 months Monthly Burn and (ii) \$10,000.

As of June 30, 2021, the Company had outstanding borrowings of \$60,000 under the Term Loan Facility and \$10,000 under the Revolving Facility with up to \$30,000 available (subject to Borrowing Base) for future revolving borrowings. The Company accrues for the Final Payment of \$3,900 over the term of the Term Loan Facility through a charge to the interest expense. The related liability of \$2,416 and \$1,858 as of June 30, 2021 and December 31, 2020, respectively, was included in other liabilities on the consolidated balance sheets. The Company incurred costs of \$554 in connection with the Term Loan Facility, which are recorded as a reduction of the carrying value of the term loan on the Company’s consolidated balance sheets. In connection with the Revolving Facility, the Company incurred costs of \$370, which are recorded as other assets. Both of these costs are being amortized to interest expense through the maturity date of the facilities.

Future payments of the 2019 Credit Agreement, as of June 30, 2021, are as follows for the calendar years ending December 31:

2021	\$11,250
2022	22,500
2023	22,500
2024	13,750
Total	<u>\$70,000</u>

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14. Stockholders' Equity

Common Stock

As of June 30, 2021, the Company was authorized to issue 400,000,000 shares of \$0.0001 par value Class A common stock and 1,000,000 shares of \$0.0001 par value preferred stock. 129,011,789 shares of Class A common stock were issued and 128,283,241 shares were outstanding as of June 30, 2021. No shares of preferred stock were outstanding as of June 30, 2021. 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 June 30, 2021 and December 31, 2020, the Company reserved the following shares of Class A common stock for future issuance:

	June 30, 2021	December 31, 2020
Shares reserved for issuance for outstanding options	7,070,008	6,425,040
Shares reserved for issuance for outstanding restricted stock units	787,023	806,048
Shares reserved for issuance for future grants	5,642,864	6,832,649
Total shares of authorized common stock reserved for future issuance	<u>13,499,895</u>	<u>14,063,737</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.

As of June 30, 2021, a total of 9,198,996 shares of Class A common stock have been authorized to be issued under the 2018 Plan (subject to adjustment in the case of any stock dividend, stock split, reverse stock split, or similar change in capitalization of the Company).

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 as of the closing of the Avista Merger on 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 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 \$1,042 and \$469 for the three months ended June 30, 2021 and 2020, respectively, and was \$1,740 and \$678 for the six months ended June 30, 2021 and 2020, respectively. The total amount of stock-based compensation expense was included within selling, general and administrative expenses on the consolidated statements of operations.

[Table of Contents](#)**Restricted Stock Units (RSUs)**

In the six months ended June 30, 2021, the Company granted 290,027 time-based restricted stock units to its employees, executives and the Board of Directors. Each restricted stock unit represents the contingent right to receive one share of the Company's 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 Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2020	806,048	\$ 3.82
Granted	290,027	14.45
Vested	(252,743)	4.20
Canceled/Forfeited	(56,309)	8.29
Unvested at June 30, 2021	<u>787,023</u>	<u>\$ 7.30</u>

As of June 30, 2021, the total unrecognized compensation cost related to unvested restricted stock units expected to vest was \$3,891 and the weighted average remaining recognition period for unvested awards was 3.16 years.

Stock Option Valuation

The stock options granted during the six months ended June 30, 2021 and 2020 were 1,037,099 and 1,538,723 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:

	June 30, 2021	June 30, 2020
Risk-free interest rate	0.82%	0.46%
Expected term (in years)	6.21	6.22
Expected volatility	39.30%	37.41%
Expected dividend yield	0.0%	0.0%
Exercise price	\$13.54	\$ 4.04
Underlying stock price	\$13.54	\$ 3.36

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These assumptions resulted in an estimated weighted-average grant-date fair value per share of stock options granted during the six months ended June 30, 2021 and 2020 of \$5.31 and \$1.04, respectively.

Stock Option Activity

The following table summarizes the Company's stock option activity since December 31, 2020:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2020	6,620,318	\$ 2.33	5.22	\$ 34,458
Granted	1,037,099	13.54		
Exercised	(558,785)	2.15		5,526
Canceled / forfeited	(28,624)	9.54		
Outstanding as of June 30, 2021	<u>7,070,008</u>	3.95	5.56	89,543
Options exercisable as of June 30, 2021	<u>4,709,080</u>	1.83	3.91	69,665
Options vested or expected to vest as of June 30, 2021	<u>6,557,753</u>	\$ 3.57	5.28	\$ 85,578

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 six months ended June 30, 2021 and 2020 was \$586 and \$209, respectively.

As of June 30, 2021, the total unrecognized stock compensation expense related to unvested stock options expected to vest was \$4,676 and was expected to be recognized over a weighted-average period of 3.27 years.

Between 2010 and 2013, a former executive took several partial recourse notes totaling \$635 to exercise his 675,990 shares of stock options. The notes were secured with these shares held by the former executive. When the loans were outstanding, the options were not considered exercised and were included within the options outstanding for accounting purposes. As of December 31, 2020, \$334 of the principal balance of the partial recourse notes was outstanding and 195,278 shares were not considered outstanding for accounting purposes. In the three months ended March 31, 2021, the former executive repaid the remaining principal balance of the notes (see Note "19. Related Parties Transactions"). The repayments were treated as the exercise price for 195,278 shares of the options and were included in the consolidated statement of stockholders' equity. As of June 30, 2021, none of the partial recourse notes was outstanding and all of the 675,990 shares used to secure the notes were considered outstanding for accounting purposes.

16. Net Income (Loss) 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.

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A reconciliation of the numerator and denominator used in the calculation of the basic and diluted net income (loss) attributable to the common stockholders of Organogenesis Holdings Inc. is as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Numerator:				
Net Income (loss)	\$ 20,687	\$ (5,166)	\$ 30,630	\$ (21,479)
Denominator:				
Weighted average common shares outstanding—basic	128,235,224	104,714,725	128,053,654	104,600,825
Dilutive effect of restricted stock units	508,015	—	517,837	—
Dilutive effect of options	5,245,174	—	5,149,700	—
Weighted-average common shares outstanding—diluted	133,988,413	104,714,725	133,721,191	104,600,825
Earnings (loss) per share—basic	\$ 0.16	\$ (0.05)	\$ 0.24	\$ (0.21)
Earnings (loss) per share—diluted	\$ 0.15	\$ (0.05)	\$ 0.23	\$ (0.21)

For the three and six months ended June 30, 2021, outstanding stock-based awards of 923,907 and 967,146 were excluded from the diluted EPS calculation. For the three and six months ended June 30, 2020, the Company had a net loss. As such, 8,695,401 shares of potentially dilutive securities were excluded from the computation of diluted net loss per share as these securities had anti-dilutive effect and including them would reduce the net loss per share. Therefore, the weighted-average number of common shares outstanding used to calculate both basic and diluted net loss per share attributable to common stockholders was the same for these periods.

17. Leases

As of December 31, 2020 and June 30, 2021, the Company's contracts that contained a lease consisted primarily of real estate, equipment and vehicle leases.

The Company leases real estate for office, lab and production space under noncancelable operating and finance leases that expire at various dates through 2031, 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 operating and finance leases that expire at various dates through 2025.

The Company determines if an arrangement is a lease at lease inception. The options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Company will exercise the options. Operating leases are included in operating lease right-of-use assets and operating lease obligations on the consolidated balance sheets. Finance lease right-of-use assets are included in property and equipment, net, and the related liabilities are included in finance lease obligations on the consolidated balance sheets.

Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the leases. Right-of-use assets and lease liabilities are recognized based on the present value of the fixed lease payments over the lease term at the commencement date. The right-of-use assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by lease incentives. The Company uses its incremental borrowing rate as the discount rate to determine the present value of the lease payments for leases that do not have a readily determinable implicit discount rate. The Company's incremental borrowing rate is the rate of interest that it would have to borrow on a collateralized basis over a similar term and amount in a similar economic environment. The Company determines the incremental borrowing rates for its leases by adjusting the risk-free interest rate with a credit risk premium corresponding to the Company's credit rating.

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The Company records rent expense for its operating leases on a straight-line basis from the lease commencement date until the end of the lease term. The Company records finance lease cost as a combination of the depreciation expense for the right-of-use assets and interest expense for the outstanding lease liabilities using the discount rate discussed above. Variable lease payments are primarily related to the office and fleet leases which include but are not limited to taxes, insurance, common area maintenance and maintenance programs for leased vehicles. Variable lease payments are based on the occurrence or usage; therefore, they are not included as part of the initial right-of-use assets and liabilities calculation.

In August 2020, the Company entered into a lease for approximately 23,000 square feet in San Diego, California for office and laboratory use. The lease commenced on April 1, 2021. The initial lease term is ten years from the lease commencement date, with an option to extend the term for a period of five years. Annual lease payments during the first year are \$1,562 with 3% increase each year during the lease term. A security deposit of \$237 is required throughout the term of the lease.

In conjunction with the acquisition of NuTech Medical in March 2017, the Company entered into an operating lease with Oxmoor Holdings, LLC, an entity that is affiliated with the former sole shareholder of NuTech Medical, related to the facility at NuTech Medical's headquarters in Birmingham, Alabama. Under the lease, the Company is required to make monthly rent payments of approximately \$22 through the lease termination date on December 31, 2022.

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 stockholders of the Company. The leases terminate on December 31, 2022 and each contains a renewal option for a five-year period with the rental rate at the greater of (i) rent for the last year of the prior term, or (ii) the then fair market value. Notice of the exercise of this renewal option is due one year prior to the expiration of the initial term. Aggregate annual lease payments are approximately \$4,308 with future rent increases of 10% effective January 1, 2022.

As of June 30, 2021 and December 31, 2020, the Company owed an aggregate of \$10,336 of accrued but unpaid lease obligations, which are subordinated to the 2019 Credit Agreement and will not be paid until the debt under the 2019 Credit Agreement is paid off in 2024 even though the finance leases expire in December 2022. The accrued but unpaid lease obligations include rent in arrears and unpaid operating and common area maintenance costs under the aforementioned leases. The principal portion of rent in arrears on the finance leases totaled \$7,307 and \$6,946 as of June 30, 2021 and December 31, 2020, respectively, and is included in the long-term portion of finance lease obligations. The interest portion of rent in arrears totaled \$2,475 and \$2,865 as of June 30, 2021 and December 31, 2020, respectively, and is included in other liabilities on the consolidated balance sheets. The unpaid operating and common area maintenance costs totaled \$554 and \$525 as of June 30, 2021 and December 31, 2020, respectively, and are included in other liabilities on the consolidated balance sheets.

Effective April 1, 2019, the Company agreed to accrue interest on the accrued but unpaid lease obligations at an interest rate equal to the rate charged in the 2019 Credit Agreement (see Note "13. Long-Term Debt Obligations"). The accrued interest is also subordinated to the 2019 Credit Agreement and, as such, is included in other liabilities on the consolidated balance sheet. Interest accrual as of June 30, 2021 and December 31, 2020 totaled \$2,151 and \$1,673, respectively.

The components of lease cost were as follows:

	Classification	Three Months Ended June 30, 2021	Six Months Ended June 30, 2021
Finance lease			
Amortization of right-of-use assets	COGS and SG&A	\$ 304	\$ 603
Interest on lease liabilities	Interest Expense	312	661
Total Finance lease cost		616	1,264
Operating lease cost	COGS, R&D, SG&A	1,735	3,015
Short-term lease cost	COGS, R&D, SG&A	699	1,414
Variable lease cost	COGS, R&D, SG&A	1,086	2,449
Total lease cost		<u>\$ 4,136</u>	<u>\$ 8,142</u>

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

	<u>June 30, 2021</u>	<u>January 1, 2021</u>
Property and equipment, gross	\$ 22,989	\$ 22,989
Accumulated depreciation	(15,578)	(14,974)
Property and equipment, net	<u>\$ 7,411</u>	<u>\$ 8,015</u>
Current portion of finance lease obligations	\$ 4,134	\$ 3,619
Finance lease long-term obligations	9,553	11,442
Total finance lease liabilities	<u>\$ 13,687</u>	<u>\$ 15,061</u>

Supplemental cash flow information related to leases was as follows:

	<u>Six Months Ended June 30, 2021</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	3,228
Operating cash flows for finance leases	1,022
Financing cash flows for finance leases	1,374
Right-of-use assets obtained in exchange for lease obligations - upon adoption:	
Operating leases	13,525
Finance leases	—
Right-of-use assets obtained in exchange for lease obligations - post adoption:	
Operating leases	15,567
Finance leases	—
	<u>June 30, 2021</u>
Weighted-average remaining lease term	
Finance leases	1.49
Operating leases	8.27
	<u>June 30, 2021</u>
Weighted-average discount rate	
Finance leases	19.69%
Operating leases	4.19%

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As of June 30, 2021, maturities of lease liabilities were as follows:

	Operating leases	Finance leases
2021 (remaining 6 months)	\$ 3,319	\$ 2,390
2022	4,507	4,945
2023	3,845	—
2024	3,177	9,782
2025	3,164	—
Thereafter	16,341	—
Total lease payments	34,353	17,117
Less: interest	(5,625)	(3,430)
Total lease liabilities	\$ 28,728	\$ 13,687

Under ASC 840, for the three and six months ended June 30, 2020, the Company recorded lease expense of \$1,837 and \$3,351, respectively for operating leases.

18. Commitments and Contingencies

Royalty Commitments

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 June 30, 2021 and December 31, 2020, respectively, and were classified as part of accrued expenses on the Company's consolidated balance sheets. There was no royalty expense incurred during the three and six months ended June 30, 2021 or 2020 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 of \$1,134 and \$839 during the three months ended June 30, 2021 and 2020, respectively, and \$2,355 and \$1,819 during the six months ended June 30, 2021 and 2020, respectively, within selling, general and administrative expenses on the consolidated statement of operations.

As part of the NuTech Medical acquisition, the Company inherited certain product development and consulting agreements for ongoing consulting services and royalty payments based on a percentage of net sales on certain products over a period of 15 years from the execution of the agreements. These product development and consulting agreements were cancelled in January 2020 for total consideration of \$1,950 that was paid on February 14, 2020. The \$1,950 cancellation fee was recorded within selling, general and administrative expenses on the consolidated statement of operations for the six months ended June 30, 2020.

Legal Proceedings

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 \$150 as of June 30, 2021 and December 31, 2020 for certain pending lawsuits.

The purchase price for NuTech Medical acquired in 2017 included \$7,500 deferred acquisition consideration of which the Company paid \$2,500 in 2017. The remaining \$5,000 of deferred acquisition consideration plus accrued interest owed to the sellers of NuTech Medical was previously in dispute. In February 2020, the Company entered into a settlement agreement with the sellers of NuTech Medical and settled the dispute for \$4,000, of which, \$2,000 was paid immediately on February 24, 2020 and the remaining \$2,000 was paid in four quarterly installments of \$500 each. As of March 31, 2021, the entire settlement was paid off. In addition, the Company assumed from the sellers of NuTech Medical the payment responsibilities related to a legacy lawsuit existing at the acquisition date of NuTech Medical. The assumed legacy lawsuit was settled in October 2020. In connection with the settlement of the deferred acquisition consideration dispute and the legacy lawsuit, the Company recorded a gain of \$1,295 and \$951 for the three months ended March 31, 2020 and September 30, 2020, respectively. The gain was included as a component of other expense, net, on the consolidated statement of operations.

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19. Related Party Transactions

Finance lease obligations to affiliates, including unpaid lease obligations, and an operating lease with affiliates are further described in Note “17. Leases”.

During 2010, the Company’s Board of Directors approved a loan program that permitted the Company to make loans to three executives of the Company (the “Employer Loans”) to (i) provide them with liquidity (“Liquidity Loans”) and (ii) fund the exercise of vested stock options (“Option Loans”). Two of the executives left the Company in 2014. The Employer Loans matured with all principal and accrued interest due on the tenth anniversary of the issuance date of each subject loan. Interest on the Employer Loans was at various rates ranging from 2.30%—3.86% per annum, compounded annually. The Employer Loans were secured by shares of the Company’s Class A common stock held by the former executives. With respect to the Liquidity Loans, the Company had no personal recourse against the borrowers beyond the pledged shares. As of December 31, 2020, Liquidity Loans and Option Loans to one former executive were outstanding with an aggregate principal balance of \$100 and \$334, respectively. During the three months ended March 31, 2021, this former executive paid off the outstanding principal balance of his Employer Loans and the related interest receivable. As a result, the Company recorded \$179 as a recovery of the previously reserved related party receivables within selling, general and administrative expenses on the consolidated statement of operations for the six months ended June 30, 2021. The \$334 of the repaid principal balance of the Option Loans was recorded to equity. See Note “15. Share-Based Compensation”.

20. Taxes

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. The Company’s wholly owned Swiss subsidiary, Organogenesis GmbH, is subject to taxation in Switzerland and generally has profits as a result of a transfer pricing arrangement in place with Organogenesis Inc., its U.S. parent and a wholly owned subsidiary of the Company.

The income tax rate for the six months ended June 30, 2021 varied from the U.S. statutory rate of 21% primarily due to the utilization of net operating losses federally and in many states as well as the cash taxes in Switzerland. The Company maintains a full valuation allowance against its U.S. deferred tax assets and as such, the Company’s provision for income taxes primarily relates to cash taxes to be paid in certain states where the net operating losses are expected to be fully utilized or limited based on state statute. Income tax expense for the six months ended June 30, 2021 was \$687, which included discrete tax expense of \$20 related to the interest on certain uncertain tax positions. Income tax expense for the six months ended June 30, 2020 was \$62 and related primarily to state and foreign taxes.

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. The Company has significant negative evidence in the form of cumulative losses and believes that it is more likely than not that these United States deferred tax assets will not be utilized. As such, the Company maintained the valuation allowance against its U.S. deferred tax asset as of June 30, 2021. There are no material deferred tax assets in the other jurisdictions. On a quarterly basis, the Company reassesses the 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 evidence and the negative evidence, the Company may determine it is more likely than not that the deferred tax assets would be realized in the future and the Company would therefore release all or a portion of the valuation allowance related to the net operating loss carryforwards and other deferred tax assets.

21. Subsequent Events

The Company has evaluated subsequent events through August 9, 2021, the date on which these consolidated financial statements were issued.

On August 6, 2021, the Company, as borrower, its subsidiaries, as guarantors, and SVB, and the several other lenders entered into a credit agreement (the “2021 Credit Agreement”) providing for a term loan facility not to exceed \$75,000 and a revolving credit facility not to exceed \$125,000, both of which mature on August 6, 2026. On the same date, the Company paid all amount due under the 2019 Credit Agreement, including unpaid principal, accrued interest, Final Payment, and Prepayment Premium, and the 2019 Credit Agreement was terminated.

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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 Quarterly Report on 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, 2020, filed with the Securities and Exchange Commission, or SEC, on March 16, 2021, as amended. Please refer to our 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, BLA 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 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 ("VLUs") and diabetic foot ulcers ("DFUs"); Dermagraft for the treatment of DFUs; PuraPly AM and PuraPly XT as antimicrobial barriers for a broad variety of wound types; and the Affinity 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 exceptional customer support services.

In the Surgical & Sports Medicine market, we focus on products that support the healing of musculoskeletal injuries, including degenerative conditions such as osteoarthritis and tendonitis. We are leveraging our regenerative medicine capabilities in this attractive, adjacent market. Our Surgical & Sports Medicine products include ReNu for in-office knee osteoarthritis treatment; NuCel for bony fusion in the lumbar spine; NuShield and Affinity barrier products for surgical application in targeted soft tissue repairs; and PuraPly AM for management of open wounds in the surgical setting. We currently sell these products through independent agencies and our growing direct sales force other than ReNu and NuCel which we stopped marketing after May 31, 2021. Refer to further discussion in section "End of Enforcement Grace Period for ReNu and NuCel" below.

On December 10, 2018, Avista Healthcare Public Acquisition Corp., our predecessor company ("AHPAC"), consummated a business combination pursuant to that certain Agreement and Plan of Merger, dated as of August 17, 2018 (as amended, the "Avista Merger Agreement"), by and among AHPAC, Avista Healthcare Merger Sub, Inc., a Delaware corporation and a direct wholly-owned subsidiary of AHPAC ("Avista Merger Sub") and Organogenesis Inc., a Delaware corporation. As a result of the transactions contemplated by the Avista Merger Agreement, Avista Merger Sub merged with and into Organogenesis Inc., with Organogenesis Inc. surviving the merger (the "Avista Merger"). In addition, in connection with the business combination, AHPAC redomesticated as a Delaware corporation (the "Domestication"). After the Domestication, AHPAC changed its name to "Organogenesis Holdings Inc." As a result of the Avista Merger, Organogenesis Inc. became a wholly-owned direct subsidiary of Organogenesis Holdings Inc.

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For the six months ended June 30, 2021, we generated \$225.7 million of net revenue and \$30.6 million of net income compared to \$130.7 million of net revenue and \$21.5 million of net loss for the six months ended June 30, 2020. We have incurred significant losses since inception and, while we have reported net income for the four consecutive quarters ended June 30, 2021, 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 June 30, 2021, we had an accumulated deficit of \$120.1 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 common stock. We operate in one segment of regenerative medicine.

COVID-19 pandemic

The emergence of the coronavirus (COVID-19) around the world, and particularly in the United States, continues to present risks to the Company. While the COVID-19 pandemic has not materially adversely affected our financial results and business operations through the second quarter ended June 30, 2021, we are unable to predict the impact that COVID-19 will have on our financial position and operating results because of the numerous uncertainties created by the unprecedented nature of the pandemic. We are closely monitoring the evolving impact of the pandemic on all aspects of our business. We have implemented a number of measures designed to protect the health and safety of our employees, support our customers and promote business continuity. We continue to evaluate the Company's liquidity position, communicate with and monitor the actions of our customers and suppliers, and review our near-term financial performance as we manage the Company through this period of uncertainty.

CPN Acquisition

On September 17, 2020, we acquired certain assets and assumed certain liabilities of CPN Biosciences, LLC ("CPN") pursuant to an asset purchase agreement dated July 24, 2020. This transaction was accounted for as a business combination using the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. The aggregated consideration amounted to \$19.0 million as of the acquisition date which consisted of \$6.4 million in cash, 2,151,438 shares of our common stock with a fair value of \$8.8 million, and a contingent consideration (the "Earnout") with a fair value of \$3.8 million. At the closing, we paid \$5.8 million in cash and issued 1,947,953 shares of our Class A common stock. The remaining consideration was held back and will be paid or issued, as applicable, eighteen months after the closing date, subject to any offsetting indemnification claims against CPN. The results of operations of CPN have been included in our consolidated financial statements beginning on the acquisition date. Revenue and expenses of CPN since the acquisition date were not material.

End of Enforcement Grace Period for ReNu and NuCel

On November 16, 2017, the FDA issued a final guidance document entitled, "Regulatory Considerations for Human Cells, Tissues, and Cellular and Tissue-Based Products: Minimal Manipulation and Homologous Use", or 361 HCT/P Guidance, which provided the FDA's thinking on how to apply the existing regulatory criteria for regulation as a Section 361 HCT/P. The 361 HCT/P Guidance clarified the FDA's views about the criteria that differentiate those products subject to regulation under Section 361 of the Public Health Service Act from those considered to be drugs, devices, and/or biological products subject to licensure under Section 351 and related regulations. The 361 HCT/P Guidance originally indicated that the FDA was providing a 36-month enforcement grace period to allow time for distributors of HCT/Ps to make any regulatory submissions and obtain any premarket approvals necessary to comply with the guidance. In July 2020, the FDA announced that the enforcement grace period would be extended until May 31, 2021 as a result of the challenges presented by the COVID-19 public health emergency. On April 21, 2021, the FDA reaffirmed that the enforcement grace period would end on May 31, 2021 and would not be extended. At that time, the FDA began regulating our ReNu and NuCel products under Section 351. We continued to market our ReNu and NuCel products during the enforcement grace period, but we ceased commercial distribution after May 31, 2021. We are continuing to conduct clinical studies of ReNu to support FDA approval of a Biologics License Application for the treatment of knee osteoarthritis and, based on favorable feasibility studies, we believe ReNu has potential as a treatment for additional osteoarthritis and tissue regeneration applications. Accordingly, we have decided to focus on clinical development of ReNu and discontinue clinical development of NuCel.

Components of Our 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 June 30, 2021, we had approximately 325 direct sales representatives and approximately 185 independent agencies.

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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.

Included within our product revenue are our PuraPly and PuraPly AM products. We launched PuraPly in mid-2015, and introduced PuraPly AM in 2016. In order to encourage the development of innovative medical devices, drugs and biologics, CMS can grant new products an additional “pass-through payment” in addition to the bundled payment amount for a limited period of no more than three years. Our PuraPly and PuraPly AM products were granted pass-through status from launch through December 31, 2017, which created an economic incentive for practitioners to use PuraPly and PuraPly AM over other skin substitutes. As a result, we saw increases in revenue related to these products in 2017. Beginning January 1, 2018, PuraPly AM and PuraPly transitioned to the bundled payment structure for skin substitutes, which provides for a two-tiered payment system in the hospital outpatient and ASC setting. The two-tiered Medicare payment system bundles payment for our Advanced Wound Care products (and all skin substitutes) into the payment for the procedure for applying the skin substitute, resulting in a single payment to the provider that includes reimbursement for both the procedure and the product itself. As a result of the transition to the bundled payment structure, total Medicare reimbursement for procedures using our PuraPly AM and PuraPly products decreased substantially. This reduction in reimbursement resulted in a substantial decrease in revenue from our PuraPly AM and PuraPly products during the first nine months of 2018 and had a negative effect on our business, results of operations and financial condition. On March 23, 2018, Congress passed, and the President signed into law, the Consolidated Appropriations Act of 2018, or the Act. The Act restored the pass-through status of PuraPly and PuraPly AM from October 1, 2018 through September 30, 2020. As a result, during this period, Medicare resumed making pass-through payments to hospitals using PuraPly and PuraPly AM in the outpatient hospital setting and in ASCs. With the expiration of pass-through reimbursement status on September 30, 2020, we anticipated that our net revenue from PuraPly and PuraPly AM might decrease as they transitioned to the bundled payment structure. As of June 30, 2021, we have not observed such a decrease primarily due to our recently launched PuraPly line extensions.

Cost of goods sold, gross profit and gross profit margin

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 increases in our cost of goods sold correspond with the increases in sales units driven by the expansion of our sales force and sales territories, expansion of our product portfolio offerings, and the number of healthcare facilities that offer our products. We expect our cost of goods sold to increase due primarily to increased sales volumes.

Gross profit is calculated as net revenue less cost of goods sold and generally increases as revenue increases. Gross profit margin is calculated as gross profit divided by total net revenue. Our gross profit and gross profit margin are 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 and gross profit margin.

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 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 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. Our research and development expenses also include expenses for clinical trials. 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 existing products, move

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products through the regulatory pathway (e.g., seek BLA 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, net—Interest expense, net consists of interest on our outstanding indebtedness, including amortization of debt discount and debt issuance costs, net of interest income recognized.

Gain on settlement of deferred acquisition consideration—In February 2020, we settled the dispute on the \$5.0 million deferred purchase acquisition consideration with the sellers of NuTech Medical for \$4.0 million and assumed from the sellers of NuTech Medical the responsibilities related to a legacy lawsuit of NuTech Medical, which was settled in October 2020. In connection with the settlement of this dispute and the legacy lawsuit, we recorded a gain of \$1.3 million and \$1.0 million for the three months ended March 31, 2020 and December 31, 2020, respectively.

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 and inherent in that, assess the likelihood of sufficient future taxable income. We also consider the expected reversal of deferred tax liabilities and analyze the period in which these liabilities would be expected to reverse to determine whether the taxable temporary difference amounts serve as an adequate source of future taxable income to support realizability of the deferred tax assets. 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. Based on a consideration of the factors discussed above, including the fact that through the period ended June 30, 2021, our results reflected a twelve-quarter cumulative loss position, we have determined that a valuation allowance is necessary against the full amount of our net U.S. deferred tax assets. Our U.S. provision for income taxes relates to current tax expense associated with taxable income that could not be offset by state net operating losses. We will utilize net operating losses to offset all of the projected 2021 federal taxable income; but have exhausted net operating losses and are subject to limitations in the net operating loss utilization in certain states. We have also recorded a foreign provision for income taxes related to our wholly owned subsidiary in Switzerland.

We account for uncertainty in income taxes recognized in the 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 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.

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Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net revenue	\$123,196	\$68,960	\$225,748	\$130,692
Cost of goods sold	29,940	20,042	55,435	38,835
Gross profit	93,256	48,918	170,313	91,857
Operating expenses:				
Selling, general and administrative	62,349	46,502	120,581	99,115
Research and development	7,320	4,668	13,529	10,078
Total operating expenses	69,669	51,170	134,110	109,193
Income (loss) from operations	23,587	(2,252)	36,203	(17,336)
Other expense, net:				
Interest expense, net	(2,431)	(2,912)	(4,901)	(5,422)
Gain on settlement of deferred acquisition consideration	—	—	—	1,295
Other income, net	18	25	15	46
Total other expense, net	(2,413)	(2,887)	(4,886)	(4,081)
Net income (loss) before income taxes	21,174	(5,139)	31,317	(21,417)
Income tax expense	(487)	(27)	(687)	(62)
Net income (loss)	<u>\$ 20,687</u>	<u>\$ (5,166)</u>	<u>\$ 30,630</u>	<u>\$ (21,479)</u>

EBITDA and Adjusted EBITDA

Our management uses financial measures that are not in accordance with generally accepted accounting principles in the United States, or GAAP, in addition to financial measures in accordance with 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)		(in thousands)	
Net income (loss)	\$20,687	\$(5,166)	\$30,630	\$(21,479)
Interest expense, net	2,431	2,912	4,901	5,422
Income tax expense	487	27	687	62
Depreciation	1,063	891	2,073	1,793
Amortization	1,243	816	2,486	1,633
EBITDA	25,911	(520)	40,777	(12,569)
Stock-based compensation expense	1,042	469	1,740	678
Gain on settlement of deferred acquisition consideration (1)	—	—	—	(1,295)
Recovery of certain notes receivable from related parties (2)	—	—	(179)	—
Change in fair value of Earnout (3)	(2,762)	—	(3,058)	—
Restructuring charge (4)	939	—	1,866	—
Transaction cost (5)	—	325	—	568
Cancellation fee (6)	—	—	—	1,950
Adjusted EBITDA	\$25,130	\$ 274	\$41,146	\$(10,668)

- (1) Amount reflects the gain recognized related to the settlement of the deferred acquisition consideration dispute with the sellers of NuTech Medical in February 2020. See Note “18. Commitments and Contingencies”.
- (2) Amount reflects the collection of certain notes receivable from related parties previously reserved. See Note “19. Related Party Transactions”.
- (3) Amounts reflect the change in the fair value of the Earnout liability in connection with the CPN acquisition. See Note “3. Acquisition”.
- (4) Amounts reflect employee retention and benefits as well as the facility-related cost associated with the Company’s restructuring activities. See Note “12. Restructuring”.
- (5) Amounts reflect the legal, advisory and other professional fees incurred related directly to the CPN acquisition. See Note “3. Acquisition”.
- (6) Amount reflects the cancellation fee for terminating certain product development and consulting agreements the Company inherited from NuTech Medical. See Note “18. Commitments and Contingencies”.

Comparison of the Three and Six Months Ended June 30, 2021 and 2020

Revenue

	Three Months Ended June 30,		Change	
	2021	2020	\$	%
	(in thousands, except for percentages)			
Advanced Wound Care	\$111,436	\$ 59,731	\$51,705	87%
Surgical & Sports Medicine	11,760	9,229	2,531	27%
Net revenue	\$123,196	\$ 68,960	\$54,236	79%
	Six Months Ended June 30,		Change	
	2021	2020	\$	%
	(in thousands, except for percentages)			
Advanced Wound Care	\$202,144	\$111,019	\$91,125	82%
Surgical & Sports Medicine	23,604	19,673	3,931	20%
Net revenue	\$225,748	\$130,692	\$95,056	73%

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Net revenue from our Advanced Wound Care products increased by \$51.7 million, or 87%, to \$111.4 million in the three months ended June 30, 2021 from \$59.7 million in the three months ended June 30, 2020. Net revenue from our Advanced Wound Care products increased by \$91.1 million, or 82%, to \$202.1 million in the six months ended June 30, 2021 from \$111.0 million in the six months ended June 30, 2020. The increase in Advanced Wound Care net revenue was primarily attributable to the expanded sales force, increased sales to existing and new customers and increased adoption of our amniotic product portfolio, including our Affinity product.

Net revenue from our Surgical & Sports Medicine products increased by \$2.5 million, or 27%, to \$11.8 million in the three months ended June 30, 2021 from \$9.2 million in the three months ended June 30, 2020. Net revenue from our Surgical & Sports Medicine products increased by \$3.9 million, or 20%, to \$23.6 million in the six months ended June 30, 2021 from \$19.7 million in the six months ended June 30, 2020. The increase in Surgical & Sports Medicine net revenue was primarily attributable to the expanded sales force and penetration of existing and new customer accounts.

Included within net revenue is PuraPly revenue of \$37.6 million and \$28.5 million for the three months ended June 30, 2021 and 2020, respectively, and \$78.9 million and \$61.0 million for the six months ended June 30, 2021 and 2020, respectively. PuraPly exited pass-through status on October 1, 2020. The continued increase in PuraPly revenue in the three and six months ended June 30, 2021 was due to the expanded sales forces, increased sales to existing and new customers, and increased adoption of our recently launched line extensions.

Cost of goods sold, gross profit and gross profit margin

	Three Months Ended June 30,		Change	
	2021	2020	\$	%
	(in thousands, except for percentages)			
Cost of goods sold	\$ 29,940	\$ 20,042	\$ 9,898	49%
Gross profit	\$ 93,256	\$ 48,918	\$44,338	91%
Gross profit%	76%	71%		
	Six Months Ended June 30,		Change	
	2021	2020	\$	%
	(in thousands, except for percentages)			
Cost of goods sold	\$ 55,435	\$ 38,835	\$16,600	43%
Gross profit	\$ 170,313	\$ 91,857	\$78,456	85%
Gross profit%	75%	70%		

Cost of goods sold increased by \$9.9 million, or 49%, to \$29.9 million in the three months ended June 30, 2021 from \$20.0 million in the three months ended June 30, 2020. Cost of goods sold increased by \$16.6 million or 43% to \$55.4 million in the six months ended June 30, 2021 from \$38.8 million in the six months ended June 30, 2020. The increase in cost of goods sold was primarily due to increased unit volumes, and additional manufacturing and quality control headcount.

Gross profit increased by \$44.3 million, or 91%, to \$93.3 million in the three months ended June 30, 2021 from \$48.9 million in the three months ended June 30, 2020. Gross profit increased by \$78.5 million, or 85%, to \$170.3 million in the six months ended June 30, 2021 from \$91.9 million in the six months ended June 30, 2020. The increase in gross profit resulted primarily from increased sales volume due to the strength in our Advanced Wound Care and Surgical & Sports Medicine products as well as a shift in product mix to our higher gross margin products.

Research and Development Expenses

	Three Months Ended June 30,		Change	
	2021	2020	\$	%
	(in thousands, except for percentages)			
Research and development	\$7,320	\$4,668	\$2,652	57%
Research and development as a percentage of net revenue	6%	7%		

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	Six Months Ended June 30,		Change	
	2021	2020	\$	%
	(in thousands, except for percentages)			
Research and development	\$13,529	\$10,078	\$3,451	34%
<i>Research and development as a percentage of net revenue</i>	6%	8%		

Research and development expenses increased by \$2.7 million, or 57%, to \$7.3 million in the three months ended June 30, 2021 from \$4.7 million in the three months ended June 30, 2020. Research and development expenses increased by \$3.5 million, or 34%, to \$13.5 million in the six months ended June 30, 2021 from \$10.1 million in the six months ended June 30, 2020. The increase in research and development expenses was primarily due to increased headcount associated with our existing Advanced Wound Care and Surgical & Sports Medicine products, an increase in product costs associated with our pipeline products not yet commercialized and an increase in the clinical study and related costs necessary to seek regulatory approvals for certain of our products.

Selling, General and Administrative Expenses

	Three Months Ended June 30,		Change	
	2021	2020	\$	%
	(in thousands, except for percentages)			
Selling, general and administrative	\$ 62,349	\$46,502	\$15,847	34%
<i>Selling, general and administrative as a percentage of net revenue</i>	51%	67%		

	Six Months Ended June 30,		Change	
	2021	2020	\$	%
	(in thousands, except for percentages)			
Selling, general and administrative	\$120,581	\$99,115	\$21,466	22%
<i>Selling, general and administrative as a percentage of net revenue</i>	53%	76%		

Selling, general and administrative expenses increased by \$15.8 million, or 34%, to \$62.3 million in the three months ended June 30, 2021 from \$46.5 million in the three months ended June 30, 2020. The increase in selling, general and administrative expenses was primarily due to a \$10.2 million increase related to additional headcount, primarily in our direct sales force and increased sales commissions due to increased sales, a \$4.2 million increase related to increased travel and marketing programs amid the relaxed travel restrictions for the COVID-19, a \$0.9 million increase in restructuring cost associated with closing La Jolla office, and a \$3.3 million increase in various costs resulting from increased revenue and increase in legal, consulting fees and other costs associated with the ongoing operations of our business. These increases were partially offset by a \$2.8 million decrease resulting from the CPN Earnout fair value adjustment.

Selling, general and administrative expenses increased by \$21.5 million, or 22%, to \$120.6 million in the six months ended June 30, 2021 from \$99.1 million in the six months ended June 30, 2020. The increase in selling, general and administrative expenses was primarily due to a \$19.7 million increase related to additional headcount, primarily in our direct sales force and increased sales commissions due to increased sales, a \$1.9 million increase in restructuring cost associated with closing La Jolla office, and a \$5.1 million increase in various costs resulting from increased revenue and increase in legal, consulting fees and other costs associated with the ongoing operations of our business. These increases were partially offset by a \$3.1 million decrease resulting from the CPN Earnout fair value adjustment and a \$2.0 million decrease in the cancellation fee incurred in the three months ended March 31, 2020 to cancel certain product development and consulting agreements.

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Other Expense, net

	Three Months Ended June 30,		Change	
	2021	2020	\$	%
	(in thousands, except for percentages)			
Interest expense, net	\$ (2,431)	\$ (2,912)	\$ 481	(17%)
Other income (expense), net	18	25	(7)	(28%)
Total other expense, net	<u>\$ (2,413)</u>	<u>\$ (2,887)</u>	<u>\$ 474</u>	<u>(16%)</u>

	Six Months Ended June 30,		Change	
	2021	2020	\$	%
	(in thousands, except for percentages)			
Interest expense, net	\$ (4,901)	\$ (5,422)	\$ 521	(10%)
Gain on settlement of deferred acquisition consideration	—	1,295	(1,295)	(100%)
Other income, net	15	46	(31)	(67%)
Total other expense, net	<u>\$ (4,886)</u>	<u>\$ (4,081)</u>	<u>\$ (805)</u>	<u>20%</u>

Total other expense, net, decreased by \$0.5 million, or 16%, to \$2.4 million in the three months ended June 30, 2021 from \$2.9 million in the three months ended June 30, 2020. The decrease is primarily due to decrease in interest expense resulting from the reduced borrowings under the 2019 Credit Agreement.

Total other expense, net, increased by \$0.8 million or 20% to \$4.9 million in the six months ended June 30, 2021 from \$4.1 million in the six months ended June 30, 2020. Interest expense, net, decreased by \$0.5 million or 10% primarily due to the reduced borrowings under the 2019 Credit Agreement. The gain of \$1.3 million on the settlement of deferred acquisition consideration for the six months ended June 30, 2020 was related to the settlement of the deferred acquisition consideration dispute with the sellers of NuTech Medical in February 2020.

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 June 30, 2021, we had \$117.2 million in working capital which included \$89.8 million in cash. We also had up to \$30,000 available (subject to Borrowing Base) for future revolving borrowings under our Revolving Facility (see Note “13. Long-Term Debt Obligations”). We expect that our cash on hand and other components of working capital as of June 30, 2021, availability under the 2019 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. We continue to closely monitor ongoing developments in connection with the COVID-19 pandemic, which may negatively impact our commercial prospects, cash position and access to capital in fiscal 2021 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. Any failure to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on our business, results of operations, and financial condition.

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Cash Flows

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

	Six Months Ended June 30,	
	2021	2020
	(in thousands)	
Net cash provided by (used in) operating activities	\$16,180	\$(26,618)
Net cash used in investing activities	(9,290)	(6,118)
Net cash used in (provided by) financing activities	(1,389)	13,120
Net change in cash and restricted cash	<u>\$ 5,501</u>	<u>\$(19,616)</u>

Operating Activities

During the six months ended June 30, 2021, net cash provided by operating activities was \$16.2 million, resulting from our net income of \$30.6 million and non-cash charges of \$14.1 million, partially offset by net cash used in connection with changes in our operating assets and liabilities of \$28.5 million. \$28.5 million cash used in changes in our operating assets and liabilities included an increase in accounts receivable of \$22.1 million, an increase in inventory of \$5.0 million, an increase in prepaid expenses and other current assets of \$1.6 million, and a decrease in operating leases and other liabilities of \$3.1 million, all of which were partially offset by an increase in accounts payable, accrued expenses and other liabilities of \$3.4 million.

During the six months ended June 30, 2020, net cash used in operating activities was \$26.6 million, resulting from our net loss of \$21.5 million and net cash used in connection with changes in our operating assets and liabilities of \$12.0 million, partially offset by non-cash charges of \$6.9 million. Net cash used in changes in our operating assets and liabilities included an increase in inventory of \$7.4 million, an increase in prepaid expenses and other current assets of \$1.3 million, and an increase in accounts receivable of \$5.7 million, all of which were partially offset by an increase in accounts payable, accrued expenses and other liabilities of \$2.4 million.

Investing Activities

During the six months ended June 30, 2021, we used \$9.3 million of cash in investing activities solely consisting of capital expenditures.

During the six months ended June 30, 2020, we used \$6.1 million of cash in investing activities consisting of capital expenditures of \$6.4 million, partially offset by notes receivable repayment of \$0.3 million from one of our former executives.

Financing Activities

During the six months ended June 30, 2021, net cash used in financing activities was \$1.4 million. This consisted primarily of the payment of finance lease obligations of \$1.4 million, the payment of \$0.5 million related to the NuTech Medical deferred acquisition consideration, and the payments of \$0.7 million withholding taxes in connection with stock-based awards. The net cash used by financing activities was partially offset by the \$1.2 million in proceeds from the exercise of common stock options.

During the six months ended June 30, 2020, net cash provided by financing activities was \$13.1 million. This consisted primarily of \$15.9 million in proceeds from our 2019 Credit Agreement, and \$0.9 million in proceeds from the exercise of common stock options. The net cash provided by financing activities was partially offset by the payment of finance lease obligations of \$1.1 million and the payment of \$2.6 million related to the NuTech Medical deferred acquisition consideration.

Indebtedness

2019 Credit Agreement

On March 14, 2019, we and our subsidiaries entered into a credit agreement with SVB and several other lenders, which we refer to as the 2019 Credit Agreement. Capitalized terms used herein and not otherwise defined are defined as set forth in the 2019 Credit Agreement.

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The 2019 Credit Agreement, as amended, provides for a revolving credit facility (the “Revolving Facility”) of up to the lesser of \$40.0 million and the amount determined by the Borrowing Base. Additionally, we entered into a \$60.0 million term loan (the “Term Loan Facility”) structured in three tranches. The first tranche of \$40.0 million was made available to us and fully funded on March 14, 2019; (ii) the second tranche of \$10.0 million was made available to us and fully funded in September 2019 upon achievement of certain financial metrics; and (iii) the third tranche of \$10.0 million was made available to us and fully funded in March 2020 upon achievement of a certain financial metric.

We are required to comply with certain covenants and restrictions under the 2019 Credit Agreement. If we fail to comply with these requirements, the lenders will be entitled to exercise certain remedies, including the termination of the lending commitments and the acceleration of the debt payments under either or both of the Revolving Facility and the Term Loan Facility. We are also required to achieve certain financial covenants, including Minimum Trailing Twelve Month Consolidated Revenue and Non-PuraPly Revenue, tested quarterly. The Minimum Trailing Twelve Month Consolidated Revenue requirements for the year ending December 31, 2021 are set at the following levels: \$265.6 million for the trailing twelve months ending March 31, 2021; \$269.6 million for the trailing twelve months ending June 30, 2021; \$306.1 million for the trailing twelve months ending September 30, 2021; and \$338.3 million for the trailing twelve months ending December 31, 2021. The Trailing Twelve Month Non-PuraPly Revenue requirements are set at the following levels: \$141.6 million for the trailing twelve months ending March 31, 2021; \$147.2 million for the trailing twelve months ending June 30, 2021; \$176.6 million for the trailing twelve months ending September 30, 2021; and \$205.4 million for the trailing twelve months ending December 31, 2021. We are also required to maintain Minimum Liquidity equal to the greater of (i) 6 months Monthly Burn and (ii) \$10.0 million.

As of June 30, 2021, we were in compliance with the financial covenants under the 2019 Credit Agreement and we had outstanding borrowings under the Revolving Facility and Term Loan Facility of the 2019 Credit Agreement of \$10.0 million and \$60.0 million, respectively.

On August 6, 2021, we terminated the 2019 Credit Agreement and entered into a new credit agreement. Please refer to Note “21. Subsequent Events” for more information.

Contractual Obligations and Commitments

There have been no material changes to our contractual obligations and commitments as of June 30, 2021 from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020.

Critical Accounting Policies and Significant Judgments and Estimates

Our consolidated financial statements have been prepared in accordance with GAAP. The preparation of our 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 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 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 consolidated statements of operations, liquidity and financial condition. See also our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 for information about these accounting policies as well as a description of our other significant accounting policies.

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Emerging Growth Company Status

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. We may take advantage of these exemptions until we are no longer an emerging growth company. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards. We have elected to use the extended transition period for complying with new or revised accounting standards (such as ASU 2016-02, *Leases (Topic 842)*) and, as a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates. We may take advantage of these exemptions up until December 31, 2021, or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more than \$1.07 billion in annual revenue, we have more than \$700.0 million in market value of our stock held by non-affiliates or we issue more than \$1.0 billion of non-convertible debt securities over a three-year period.

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 consolidated financial statements included in this Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Pursuant to Item 305(e) of Regulation S-K, the Company is not required to provide the information required by this Item as it is a “smaller reporting company,” as defined by Rule 229.10(f)(1).

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Material Weaknesses on Internal Control over Financial Reporting

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 June 30, 2021. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms promulgated by the Securities and Exchange Commission (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.

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.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, our management has assessed the effectiveness of our internal control over financial reporting based on the criteria set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As previously disclosed under “Item 9A. Controls and Procedures” in our Annual Report on Form 10-K for our fiscal year ended December 31, 2020, we identified the following material weakness that existed as of December 31, 2020 and continued to exist at June 30, 2021. A material weakness is a control deficiency or a combination of control deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

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We did not design and maintain formal accounting, business operations, and Information Technology policies, procedures and controls to achieve complete, accurate and timely financial accounting, reporting and disclosures, including (i) formalized policies and procedures for reviews over account reconciliations, journal entries, and other accounting analyses and memos and procedures to ensure completeness and accuracy of information used in these review controls and (ii) controls to support the objectives of proper segregation of the initiation of transactions, the recording of transactions, and the custody of assets.

Because of the deficiencies noted above, in consultation with management, our principal executive officer and principal financial officer concluded that we did not maintain effective internal control over financial reporting and our disclosure controls and procedures were not effective as of both December 31, 2020 and June 30, 2021, based on the criteria in Internal Control—Integrated Framework (2013) issued by COSO.

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. Although the Company has made significant progress in remediating the aforementioned deficiencies, management did not perform sufficient control testing to conclude that the controls were operating effectively for a reasonable period of time.

Management is committed to finalizing the remediation of the material weakness during 2021. Management's internal control remediation efforts include the following:

- In 2019, we began the implementation of a new company-wide enterprise resource planning system to provide additional systematic controls and segregation of duties for our accounting processes. We anticipate that the enterprise resource planning system will go live during the first half of 2022.
- We have designed and implemented more effective controls throughout 2019 and 2020.
- We completed the risk assessment activities by evaluating whether the design of our internal controls appropriately addresses changes in the business (including changes to people, processes and systems) that could impact our system of internal controls.
- We designed controls that address the completeness and accuracy of any key reports utilized in the execution of internal controls.
- We reported regularly to the audit committee on the progress and results of control remediation.
- We developed and executed upon a monitoring protocol that allows the Company to validate the operating effectiveness of certain controls over financial reporting to gain assurance that such controls are present and functioning as designed.

We also continue to engage an outside firm to assist management with performing sufficient testing throughout the year to validate the operating effectiveness of certain controls over financial reporting.

Management believes these actions will be effective in remediating the material weakness described above. As management continues to evaluate and work to improve its internal control over financial reporting, management may determine it is necessary to take additional measures to address the material weakness. Until the controls have been operating for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively, the material weakness 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 June 30, 2021 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, 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.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any 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 common stock involves a high degree of risk. Our Annual Report on Form 10-K for the year ended December 31, 2020, as amended, 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 June 30, 2021. You should consider carefully the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2020, 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, 2020 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 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.

On May 6, 2021, we ceased to qualify as a “controlled company” within the meaning of the Nasdaq rules. Although we are no longer a controlled company, during the phase-in period we may continue to rely on exemptions from certain corporate governance requirements that provide protection to stockholders of other Nasdaq listed companies.

On May 6, 2021, upon the completion of a distribution by Organo PFG LLC, an affiliate of one of our directors and a significant stockholder, of shares of our Class A common stock to its members, we ceased to be a controlled company within the meaning of the Nasdaq rules. The Nasdaq rules exempt controlled companies from certain governance requirements including (i) the requirement that a majority of the board of directors consist of independent directors, (ii) the requirement to have a nominating and corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities or independent director involvement in the selection of director nominees, by having director nominees selected or recommended by a majority of its independent directors meeting in executive session and (iii) the requirement to have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities.

Under the Nasdaq rules, a company that ceases to be a controlled company must comply with the independent board committee requirements as they relate to the nominating and corporate governance committee (if applicable) and compensation committee on the following phase-in schedule: (1) one independent committee member at the time it ceases to be a controlled company, (2) a majority of independent committee members within 90 days of the date it ceases to be a controlled company and (3) all independent committee members within one year of the date it ceases to be a controlled company. Additionally, the Nasdaq rules provide a 12-month phase-in period from the date a company ceases to be a controlled company to comply with the majority independent board requirement.

Accordingly, following the loss of controlled company status on May 6, 2021, our board of directors determined to have director nominees recommended by a majority of our independent directors meeting in executive session. In addition, one member of our compensation committee was independent on May 6, 2021, a majority of the members of our compensation committee were independent by August 4, 2021 and all of the members of the compensation committee must be independent by May 6, 2022. A majority of the members of our board of directors must be independent by May 6, 2022,

During these phase-in periods, our stockholders will not have the same protections afforded to stockholders of companies of which the majority of directors are independent and, if, within the phase-in periods, we are not able to recruit additional directors who would qualify as independent, or otherwise comply with the Nasdaq listing requirements, we may be subject to enforcement actions by Nasdaq. In addition, a change in our board of directors and committee membership may result in a change in corporate strategy and operating philosophies, and may result in deviations from our current growth strategy.

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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

None.

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Item 6. Exhibits

<u>Exhibit number</u>	<u>Description</u>
3.1	<u>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)</u>
3.2	<u>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)</u>
10.1	<u>Fifth Amendment to Credit Agreement dated and effective as of May 5, 2021 among Organogenesis Holdings Inc., Organogenesis Inc. and Prime Merger Sub, LLC, collectively as borrower, and Silicon Valley Bank, in its capacity as the Issuing Lender and Swingline Lender, Silicon Valley Bank, as Administrative Agent, and Silicon Valley Bank and the other lenders listed therein, collectively as Lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-37906) filed with the SEC on May 10, 2021)</u>
10.2*	<u>Change in Control Retention Agreement between Organogenesis Holdings Inc. and Gary S. Gillheeney, Sr. effective as of May 10, 2021 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (File No. 001-37906) filed with the SEC on May 10, 2021)</u>
10.3*	<u>Form of Change in Control Retention Agreement (Non-CEO Executive Officers) (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (File No. 001-37906) filed with the SEC on May 10, 2021)</u>
10.4*	<u>Form of Change in Control Retention Agreement (Independent Directors) (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q (File No. 001-37906) filed with the SEC on May 10, 2021)</u>
31.1†	<u>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</u>
31.2†	<u>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</u>
32.1†	<u>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</u>
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

* Management contract or compensatory plan or arrangement

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: August 9, 2021

Organogenesis Holdings Inc.

(Registrant)

/s/ David Francisco

David Francisco
Chief Financial Officer

(Principal Financial and Accounting Officer)