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

FORM 10-Q

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

For the
Quarterly Period Ended
September 30, 2022

OR

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

For the transition period from _____to_____

Commission File Number 001-35887

MIMEDX GROUP, INC.

(Exact name of registrant as specified in its charter)

Florida	**26-2792552**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1775 West Oak Commons Ct NE Marietta, GA	**30062**
(Address of principal executive offices)	(Zip Code)

(770) 651-9100
(Registrant's telephone number, including area code)

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

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
Common Stock, par value $0.001 per share	MDXG	The Nasdaq Stock Market

Securities registered pursuant to Section 12(g) of the Act: None.

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 x 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 x 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 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 x	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	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 x

There were 113,668,179 shares of the registrant's common stock, par value $0.001 per share, outstanding as of October 26, 2022.

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As used herein, the terms "***MIMEDX***," the "***Company***," "***we***," "***our***" and "***us***" refer to MiMedx Group, Inc., a Florida corporation, and its consolidated subsidiaries as a combined entity, except where it is clear that the terms mean only MiMedx Group, Inc.

Important Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (this "***Quarterly Report***") contains forward-looking statements. All statements relating to events or results that may occur in the future are forward-looking statements, including, without limitation, statements regarding the following:

- our strategic focus and current business priorities, and our ability to implement these priorities, including as a result of our no longer being able to market our micronized products and certain other products;
- our expectations regarding our ability to fund our ongoing operations and future operating costs and the sufficiency of our liquidity and existing capital resources to implement our current business priorities;
- our expectations regarding future income tax liability;
- the advantages of our products and development of new products;
- our expectations regarding the size of potential markets for our products and any growth in such markets;
- our expectations regarding the regulatory pathway for our products, including our existing and planned investigative new drug application and pre-market approval requirements; current plans, designs, expected timelines, and expectations for success of our clinical trials; and our expectations regarding timing and receipt of necessary regulatory approvals for certain of our products, including Biological License Applications ("***BLAs***");
- our expectations regarding ongoing regulatory obligations and oversight and the changing nature thereof impacting our products, research and clinical programs, and business, including those relating to patient privacy;
- our expectations regarding our ability to manufacture certain of our products in compliance with current Good Manufacturing Practices ("***CGMP***") in sufficient quantities to meet current and potential demand;
- our expectations regarding costs relating to compliance with regulatory requirements, including those arising from our clinical trials, pursuit of Investigational New Drug applications and BLAs, and CGMP compliance;
- the likelihood, timing, and scope of possible regulatory approval and commercial launch of our late-stage product candidates and new indications for our products;
- our expectations regarding government and other third-party coverage and reimbursement for our existing and new products;
- our expectations regarding future revenue growth;
- our belief in the sufficiency of our intellectual property rights in our technology;
- our expectations regarding our ability to procure sufficient supplies of human tissue to manufacture and process our products;
- our expectations regarding the outcome of pending litigation and investigations;
- our expectations regarding the ongoing and future effects arising from the investigation conducted by the Audit Committee (the "***Audit Committee***") of our Board of Directors (the "***Board***") that concluded in May 2019 relating to allegations regarding certain sales and distribution practices at the Company and certain other matters (the "***Investigation***" or the "***Audit Committee Investigation***"), the restatement of our consolidated financial statements previously filed in our Annual Report for the year ended December 31, 2016, as well as selected unaudited condensed consolidated financial data as of and for the years ended December 31, 2015 (Restated) and 2014 (Restated), which reflected adjustments to our previously filed consolidated financial statements as of and for the years ended December 31, 2015 and 2014 (collectively, the "***Restatement***"), and related litigation;
- the ongoing and future effects arising from the COVID-19 pandemic ("***Covid-19***") on our business, employees, suppliers and other third parties with whom we do business, and our responses intended to mitigate such effects;
- demographic and market trends; and

- our ability to compete effectively.

Forward-looking statements generally can be identified by words such as “expect,” “will,” “change,” “intend,” “seek,” “target,” “future,” “plan,” “continue,” “potential,” “possible,” “could,” “estimate,” “may,” “anticipate,” “to be” and similar expressions. These statements are based on numerous assumptions and involve known and unknown risks, uncertainties and other factors that could significantly affect the Company’s operations and may cause the Company’s actual actions, results, financial condition, performance or achievements to differ materially from any future actions, results, financial condition, performance or achievements expressed or implied by any such forward-looking statements.

Factors that may cause such a difference include, without limitation, those discussed under the heading “*Risk Factors*” in our Annual Report on Form 10-K for the year ended December 31, 2021 (our “***2021 Form 10-K***”), filed with the Securities and Exchange Commission (“***SEC***”) on February 28, 2022.

Unless required by law, the Company does not intend, and undertakes no obligation, to update or publicly release any revision to any forward-looking statements, whether as a result of the receipt of new information, the occurrence of subsequent events, a change in circumstances or otherwise. Each forward-looking statement contained in this Quarterly Report is specifically qualified in its entirety by the aforementioned factors. Readers are advised to carefully read this Quarterly Report in conjunction with the important disclaimers set forth above prior to reaching any conclusions or making any investment decisions and not to place undue reliance on forward-looking statements, which speak only as of the date of the filing of this Quarterly Report with the SEC.

Estimates and Projections

This Quarterly Report includes certain estimates, projections and other statistical data. These estimates and projections reflect management’s best estimates based upon currently available information and certain assumptions we believe to be reasonable as of the date of this Quarterly Report. These estimates are inherently uncertain, subject to risks and uncertainties, many of which are not within our control, have not been reviewed by our independent auditors and may be revised as a result of management’s further review. In addition, these estimates and projections are not a comprehensive statement of our financial results, and our actual results may differ materially from these estimates and projections due to developments that may arise between now and the time the results are final. There can be no assurance that the estimates will be realized, and our results may vary significantly from the estimates, including as a result of unexpected issues in our business and operations. Accordingly, you should not place undue reliance on such information. Projections, assumptions and estimates of our future performance and the future performance of the markets in which we operate are necessarily subject to a high degree of uncertainty and risk.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MIMEDX GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)
(unaudited)

	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 73,217	$ 87,083
Accounts receivable, net	40,830	40,353
Inventory	13,976	11,389
Prepaid expenses	4,679	6,146
Income tax receivable	756	743
Other current assets	2,582	2,809
Total current assets	136,040	148,523
Property and equipment, net	7,912	9,165
Right of use asset	3,728	4,696
Goodwill	19,976	19,976
Intangible assets, net	4,992	5,383
Other assets	150	186
Total assets	$ 172,798	$ 187,929
LIABILITIES, CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	$ 8,820	$ 7,385
Accrued compensation	24,090	23,595
Accrued expenses	10,986	9,812
Other current liabilities	1,962	1,565
Total current liabilities	45,858	42,357
Long term debt, net	48,475	48,127
Other liabilities	5,491	4,869
Total liabilities	$ 99,824	$ 95,353
Commitments and contingencies (Note 13)		
Convertible preferred stock Series B; $0.001 par value; 100,000 shares authorized, issued and outstanding at September 30, 2022 and December 31, 2021	$ 92,494	$ 92,494
Stockholders' (deficit) equity		
Preferred stock Series A; $0.001 par value; 5,000,000 shares authorized, 0 issued and outstanding at September 30, 2022 and December 31, 2021	$ —	$ —
Common stock; $0.001 par value; 187,500,000 shares authorized; 113,670,017 issued and 113,668,179 outstanding at September 30, 2022 and 112,703,926 issued and 111,925,216 outstanding at December 31, 2021	114	113
Additional paid-in capital	171,865	165,695
Treasury stock at cost; 1,838 shares at September 30, 2022 and 778,710 shares at December 31, 2021	(7)	(4,017)
Accumulated deficit	(191,492)	(161,709)
Total stockholders' (deficit) equity	(19,520)	82
Total liabilities, convertible preferred stock, and stockholders' (deficit) equity	$ 172,798	$ 187,929

See notes to unaudited condensed consolidated financial statements

MIMEDX GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net sales	$ 67,689	$ 63,074	$ 193,466	$ 191,206
Cost of sales	12,188	10,129	33,947	32,530
Gross profit	55,501	52,945	159,519	158,676
Operating expenses:				
Selling, general and administrative	53,475	46,289	158,838	145,291
Research and development	5,953	4,368	17,429	12,770
Investigation, restatement and related	3,001	3,170	8,771	8,304
Amortization of intangible assets	175	193	519	647
Operating loss	(7,103)	(1,075)	(26,038)	(8,336)
Other expense, net				
Interest expense, net	(1,270)	(963)	(3,566)	(3,806)
Other expense, net	—	—	(1)	(3)
Loss before income tax provision	(8,373)	(2,038)	(29,605)	(12,145)
Income tax provision expense	(53)	(301)	(178)	(355)
Net loss	$ (8,426)	$ (2,339)	$ (29,783)	$ (12,500)
Net loss available to common stockholders (Note 9)	$ (10,096)	$ (3,913)	$ (34,667)	$ (17,039)
Net loss per common share - basic	$ (0.09)	$ (0.04)	$ (0.31)	$ (0.15)
Net loss per common share - diluted	$ (0.09)	$ (0.04)	$ (0.31)	$ (0.15)
Weighted average common shares outstanding - basic	113,448,251	110,717,073	112,650,713	110,136,517
Weighted average common shares outstanding - diluted	113,448,251	110,717,073	112,650,713	110,136,517

See notes to unaudited condensed consolidated financial statements

MIMEDX GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY
(in thousands, except share data)
(unaudited)

	Common Stock Issued		Additional Paid - in	Treasury Stock		Accumulated	
	Shares	Amount	Capital	Shares	Amount	Deficit	Total
Balance at June 30, 2022	113,609,274	$ 114	$ 169,352	1,003	$ (3)	$ (183,066)	$ (13,603)
Share-based compensation expense	—	—	2,372	—	—	—	2,372
Exercise of stock options	49,666	—	132	(1,001)	5	—	137
Issuance of restricted stock	11,077	—	—	—	—	—	—
Restricted stock canceled/forfeited	—	—	9	1,836	(9)	—	—
Net loss	—	—	—	—	—	(8,426)	(8,426)
Balance at September 30, 2022	113,670,017	$ 114	$ 171,865	1,838	$ (7)	$ (191,492)	$ (19,520)

	Common Stock Issued		Additional Paid - in	Treasury Stock		Accumulated	
	Shares	Amount	Capital	Shares	Amount	Deficit	Total
Balance at June 30, 2021	112,703,926	$ 113	$ 158,720	821,988	$ (4,385)	$ (161,585)	$ (7,137)
Share-based compensation expense	—	—	3,811	—	—	—	3,811
Exercise of stock options	—	—	(250)	(30,032)	295	—	45
Issuance of restricted stock	—	—	(477)	(48,630)	477	—	—
Restricted stock shares canceled/forfeited	—	—	199	18,348	(199)	—	—
Shares repurchased for tax withholding	—	—	—	15,354	(188)	—	(188)
Net loss	—	—	—	—	—	(2,339)	(2,339)
Balance at September 30, 2021	112,703,926	$ 113	$ 162,003	777,028	$ (4,000)	$ (163,924)	$ (5,808)

	Common Stock Issued		Additional Paid - in	Treasury Stock		Accumulated	
	Shares	Amount	Capital	Shares	Amount	Deficit	Total
Balance at December 31, 2021	112,703,926	$ 113	$ 165,695	778,710	$ (4,017)	$ (161,709)	$ 82
Share-based compensation expense	—	—	10,798	—	—	—	10,798
Exercise of stock options	133,762	—	(697)	(151,239)	1,271	—	574
Issuance of restricted stock	832,329	1	(3,960)	(880,749)	3,959	—	—
Restricted stock canceled/forfeited	—	—	29	5,338	(29)	—	—
Shares repurchased for tax withholding	—	—	—	249,778	(1,191)	—	(1,191)
Net loss	—	—	—	—	—	(29,783)	(29,783)
Balance at September 30, 2022	113,670,017	$ 114	$ 171,865	1,838	$ (7)	$ (191,492)	$ (19,520)

	Common Stock Issued		Additional Paid - in	Treasury Stock		Accumulated	
	Shares	Amount	Capital	Shares	Amount	Deficit	Total
Balance at December 31, 2020	112,703,926	$ 113	$ 158,610	1,773,683	$ (7,449)	$ (151,424)	$ (150)
Deemed dividends	—	—	(926)	—	—	—	(926)
Share-based compensation expense	—	—	11,115	—	—	—	11,115
Exercise of stock options	—	—	(1,184)	(482,361)	2,588	—	1,404
Issuance of restricted stock	—	—	(4,053)	(810,405)	4,053	—	—
Restricted stock canceled/forfeited	—	—	450	66,374	(450)	—	—
Shares repurchased for tax withholding	—	—	—	469,239	(4,751)	—	(4,751)
Net loss	—	—	—	—	—	(12,500)	(12,500)
Other	—	—	(2,009)	(239,502)	2,009	—	—
Balance at September 30, 2021	112,703,926	$ 113	$ 162,003	777,028	$ (4,000)	$ (163,924)	$ (5,808)

See notes to unaudited condensed consolidated financial statements

MIMEDX GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net loss	$ (29,783)	$ (12,500)
Adjustments to reconcile net loss to net cash flows (used in) provided by operating activities:		
Share-based compensation	10,798	11,115
Depreciation	2,549	3,390
Bad debt expense	2,817	—
Amortization of intangible assets	519	647
Amortization of deferred financing costs	348	943
Non-cash lease expenses	931	724
Accretion of asset retirement obligation	69	57
(Gain) loss on fixed asset disposal	(17)	236
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	(3,295)	(1,113)
Inventory	(2,586)	(835)
Prepaid expenses	1,467	3,527
Income taxes	(13)	9,420
Other assets	(287)	1,990
Accounts payable	1,090	(828)
Accrued compensation	495	2,085
Accrued expenses	1,724	(16,768)
Other liabilities	905	(840)
Net cash flows (used in) provided by operating activities	(12,269)	1,250
Cash flows from investing activities:		
Purchases of equipment	(847)	(2,893)
Patent application costs	(128)	(263)
Principal payments from note receivable	—	75
Proceeds from sale of equipment	24	—
Net cash flows used in investing activities	(951)	(3,081)
Cash flows from financing activities:		
Stock repurchased for tax withholdings on vesting of restricted stock	(1,191)	(4,751)
Proceeds from exercise of stock options	574	1,404
Principal payments on finance lease	(29)	(27)
Net cash flows used in financing activities	(646)	(3,374)
Net change in cash	(13,866)	(5,205)
Cash and cash equivalents, beginning of period	87,083	95,812
Cash and cash equivalents, end of period	$ 73,217	$ 90,607

See notes to unaudited condensed consolidated financial statements

1. Nature of Business

MiMedx Group, Inc. (together with its subsidiaries, except where the context otherwise requires, "***MIMEDX***," or the "***Company***") is a transformational placental biologics company, developing and distributing placental tissue allografts with patent-protected, proprietary processes for multiple sectors of healthcare. As a pioneer in placental biologics, the Company is focused on addressing unmet clinical needs in the areas of advanced wound care, surgical recovery applications, and musculoskeletal conditions. The Company derives its products from human placental tissues and processes these tissues using its proprietary methods, including the PURION® process. The Company applies Current Good Tissue Practices, Current Good Manufacturing Practices, and terminal sterilization to produce its allografts. MIMEDX provides products primarily in the wound care, burn, and surgical recovery sectors of healthcare. All of its products are regulated by the U.S. Food & Drug Administration ("***FDA"***).

As of September 30, 2022, the Company manages itself as two reportable segments: Wound & Surgical and Regenerative Medicine. Information regarding the principal operations and results of these segments can be found in Note 15, *Segment Information*.

The Company's business is currently focused primarily in the United States. The Company is pursuing opportunities for international expansion, with specific focus on the launch of its placental tissue products in Japan.

Enforcement Discretion

In November 2017, the FDA published a series of guidances that established an updated framework for the regulation of cellular and tissue-based products. These guidances clarified the FDA's views about the criteria that differentiate those products subject to regulation solely under Section 361 of the Public Health Service Act ("***Section 361***") from those considered to be drugs, devices, and/or biological products subject to licensure under Section 351 of the Public Health Service Act and related regulations. The Company identified its micronized and certain other products (collectively, the "***Section 351 products***") as being subject to regulation under Section 351, requiring pre-market approval from the FDA for a specified indication with demonstrated clinical efficacy.

The FDA exercised enforcement discretion with respect to Investigational New Drug applications and pre-market approval requirements through May 31, 2021. As of May 31, 2021, the Company stopped marketing its Section 351 products in the United States and is precluded from marketing such products until a Biologics License Application ("***BLA***") is granted. If and when the FDA approves a BLA, the Company expects to be allowed to market its Section 351 products in the United States again, but only for specific indications as permitted by the FDA. Sales of the Company's Section 351 products were $0.8 million and $0.5 million for the three months ended September 30, 2022 and 2021, respectively, and $1.8 million and $17.2 million for the nine months ended September 30, 2022 and 2021, respectively. Sales of Section 351 products during the three and nine months ended September 30, 2022 were derived from sales outside the United States.

The Company currently markets EPICORD® and AMNIOCORD® tissue products derived from human umbilical cord as providing a protective environment or as a barrier. If the FDA were to determine that EPICORD and AMNIOCORD do not meet the requirements for regulation solely under Section 361, then pre-market clearance or approval would be required for these products. The loss of the Company's ability to market and sell its umbilical cord-derived products could have an adverse effect on the Company's revenue, business, financial condition, and results of operations. Net sales of the Company's umbilical cord-derived products were $5.7 million and $6.2 million for the three months ended September 30, 2022 and 2021 and $17.2 million and $17.1 million for the nine months ended September 30, 2022 and 2021, respectively. The Company's cord inventory, which would be at risk for write-down in the case of such a determination by the FDA, was $1.8 million and $1.9 million as of September 30, 2022 and December 31, 2021, respectively.

2. Significant Accounting Policies

Please see Note 2 to the Company's Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 (the "***2021 Form 10-K***"), filed with the Securities and Exchange Commission ("***SEC***") on February 28, 2022 for a description of all significant accounting policies.

Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("***GAAP***") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations for the periods presented have been included. The operating results for the three and nine months ended September 30, 2022 and 2021 are not necessarily indicative of the results that may be expected for the full fiscal year. The balance sheet as of December 31, 2021 was derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

These unaudited condensed consolidated financial statements should be read in conjunction with the historical consolidated financial statements of the Company included in the 2021 Form 10-K.

Use of Estimates

The unaudited condensed consolidated financial statements have been prepared in accordance with GAAP. Conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported unaudited condensed consolidated statements of operations during the reporting period. Actual results could differ from those estimates. Significant estimates include estimated useful lives and potential impairment of property and equipment and intangible assets, estimates regarding asset retirement obligations, estimates for contingent liabilities, estimates related to the Company's assessment of goodwill impairment, the measurement of right of use assets and lease liabilities, management's assessment of the Company's ability to continue as a going concern, estimates of fair value of share-based payments, estimate for allowance for doubtful accounts, estimates of sales returns and allowances, and valuation of deferred tax assets.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of MiMedx Group, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

Segment Reporting

The application of GAAP requires the use of the "management approach" model for segment reporting. The management approach model is based on the way a company's chief operating decision maker ("***CODM***") organizes segments within the Company for which separate, discrete financial information is available regarding resource allocation and assessing performance. The Company has concluded that its Chief Executive Officer ("***CEO***") is its CODM. Prior to June 30, 2022, the Company assessed that it operated as one operating and reportable segment. The Company reassesses the existence of operating segments when facts and circumstances suggest that there may have been a change in the way that the Company was managed.

On September 30, 2022, the Company reassessed its operating segments, concluding that the CODM assesses performance and allocates resources between two, distinct reportable segments: Wound & Surgical and Regenerative Medicine. Information regarding the principal operations and results of these segments can be found in Note 15, *Segment Information*.

Goodwill

The Company assesses goodwill for impairment at least annually on October 1 and more frequently whenever events or substantive changes in circumstances indicate that it is more likely than not that goodwill is impaired. In performing the goodwill impairment test, the Company first assesses qualitative factors to determine the existence of impairment. If the qualitative factors indicate that the carrying value of a reporting unit exceeds its fair value, the Company proceeds to a quantitative test to measure the existence and amount, if any, of goodwill impairment. The Company may also choose to bypass the qualitative assessment and proceed directly to the quantitative test.

In performing the quantitative test, impairment loss is recorded to the extent that the carrying value of the reporting unit exceeds its assessed fair value. The Company determines the fair value using the income and market approaches.

Under the income approach, the fair value of a reporting unit is the present value of its future cash flows as viewed from the lens of a hypothetical market participant in an orderly transaction. These future cash flows are derived from expectations of revenue, expenses, tax deductions and credits, working capital flows, capital expenditures, and other projected sources and uses of cash, as applicable. Value indications are developed by discounting expected cash flows to their present value using a discount rate commensurate with the risks associated with the reporting unit subject to testing.

Under the market approach, the Company uses market multiples derived from the various comparable companies based on measures salient to investors in those companies.

If the Company concludes that a reporting unit is being managed on the basis of multiple reporting units, the goodwill assigned to the original reporting unit is allocated to the new reporting units based on the relative fair value of the new reporting units.

As indicated above, on September 30, 2022, the Company changed its operating segments, determining that it operates as three operating segments. In concert with this re-evaluation, the Company concluded that it has three reporting units. Management performed a goodwill impairment test as of that date on its previous reporting unit, concluding that goodwill was not impaired as of that date. Management subsequently allocated the goodwill assigned to its previous reporting unit to its new reporting units. Refer to Note 6, *Goodwill and Intangible Assets, Net* for information regarding the reallocation of goodwill to the new reporting units.

Recently Adopted Accounting Standards

In November 2021, the Financial Accounting Standards Board ("***FASB***") issued Accounting Standards Update ("***ASU***") 2021-10, "*Government Assistance (Topic 832)"*, which provides disclosure requirements regarding government grants and contributions. The ASU requires disclosure of the nature of transactions and related accounting policies used to account for transactions, the effect, including amounts, of government assistance on individual line items on the financial statements, and significant terms and conditions of the transactions, including commitments and contingencies. This ASU is effective for fiscal years beginning after December 15, 2021. The Company adopted the provisions of this ASU effective January 1, 2022. There was no impact upon adoption.

Recently Issued Accounting Standards Not Yet Adopted

All ASUs issued and not yet effective for the three and nine months ended September 30, 2022, and through the date of this report, were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's financial position and results of operations.

3. Accounts Receivable, Net

Accounts receivable, net, consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Accounts receivable, gross	$ 44,660	$ 41,540
Less: allowance for doubtful accounts	(3,830)	(1,187)
Accounts receivable, net	$ 40,830	$ 40,353

Bad debt expense, included in selling, general and administrative expense on the condensed consolidated statements of operations, for the three and nine months ended September 30, 2022 was $0.4 million and $2.8 million, respectively. Bad debt expense for the three and nine months ended September 30, 2021 was not significant in either period.

4. Inventory

Inventory consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Raw materials	$ 670	$ 364
Work in process	7,604	6,112
Finished goods	5,702	4,913
Inventory	$ 13,976	$ 11,389

As a result of the conclusion of the FDA's period of Enforcement Discretion on May 31, 2021, the Company wrote-off $1.0 million of its Section 351 product inventory during the nine months ended September 30, 2021. In addition, during the three and nine months ended September 30, 2021, the Company wrote-down $0.5 million and $0.7 million, respectively, for inventory related to product lines which had been discontinued. These amounts are included as part of cost of sales on the unaudited condensed consolidated statements of operations for those periods.

There were no significant, unusual write-downs of inventory during the three or nine months ended September 30, 2022.

5. Property and Equipment, Net

Property and equipment, net, consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Leasehold improvements	$ 9,190	$ 9,052
Laboratory and clean room equipment	16,302	16,567
Furniture and equipment	14,997	14,975
Construction in progress	1,383	397
Asset retirement cost	982	863
Finance lease right-of-use asset	189	189
Property and equipment, gross	43,043	42,043
Less: accumulated depreciation and amortization	(35,131)	(32,878)
Property and equipment, net	$ 7,912	$ 9,165

Depreciation expense for the three and nine months ended September 30, 2022 and 2021 is summarized in the table below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Depreciation expense	$ 831	$ 923	$ 2,549	$ 3,390

Depreciation expense is allocated amongst cost of sales, research and development expense, and selling, general, and administrative expense on the unaudited condensed consolidated statements of operations.

6. Goodwill and Intangible Assets, Net

Goodwill

Historically, the Company had concluded that it operated as a single operating segment and single reporting unit. During the three and nine months ended September 30, 2022, as a result of changes in the management of the Company's business, management concluded that the Company operates as three operating segments, including two distinct reportable segments: Wound & Surgical and Regenerative Medicine. See Note 15 for a description of the Company's operating segments. Management further concluded that it had three reporting units.

The Company allocated the $20.0 million of consolidated goodwill, which was entirely allocated to its previous reporting unit, to each of Wound & Surgical and Regenerative Medicine based on their relative fair values from a market participant standpoint. The result was $19.5 million and $0.5 million allocated to Wound & Surgical and Regenerative Medicine, respectively. A third reporting unit associated with the Company's third operating segment was deemed immaterial and no goodwill was assigned to it.

The Company performed goodwill impairment tests using the Company's single reporting unit and the new reporting units. In all cases, the Company concluded that the estimated fair values of each reporting unit exceeded their respective carrying values. Therefore, the Company did not record impairment for goodwill during the three or nine months ended September 30, 2022. There was no other activity related to goodwill during the three or nine months ended September 30, 2022.

Intangible Assets, Net

Intangible assets, net, are summarized as follows (in thousands):

	September 30, 2022			December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets						
Patents and know-how	$ 9,810	$ (6,928)	$ 2,882	$ 9,578	$ (6,408)	$ 3,170
Unamortized intangible assets:						
Tradenames and trademarks	$ 1,008		$ 1,008	$ 1,008		$ 1,008
Patents in Process	1,102		1,102	1,205		1,205
Total intangible assets	$ 11,920		$ 4,992	$ 11,791		$ 5,383

Amortization expense for the three and nine months ended September 30, 2022 and 2021 is summarized in the table below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Amortization expense	$ 175	$ 193	$ 519	$ 647

Expected future amortization of intangible assets as of September 30, 2022, is as follows (in thousands):

Year ending December 31,	Estimated Amortization Expense
2022 (excluding the nine months ended September 30, 2022)	$ 174
2023	698
2024	698
2025	303
2026	148
Thereafter	861
Total amortized intangible assets	$ 2,882

7. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Legal and settlement costs	$ 4,185	$ 2,806
Commissions to sales agents	2,238	2,630
Accrued rebates	878	1,343
Accrued group purchasing organization fees	616	559
Estimated sales returns	999	788
Accrued travel	402	385
Accrued clinical trials	214	694
Other	1,454	607
Accrued expenses	$ 10,986	$ 9,812

8. Long Term Debt, Net

Hayfin Loan Agreement

On June 30, 2020, the Company entered into a Loan Agreement with, among others, Hayfin Services, LLP ("***Hayfin***"), an affiliate of Hayfin Capital Management LLP (the "***Hayfin Loan Agreement***"), which Hayfin funded on July 2, 2020 (the "***Closing Date***"), providing the Company with a senior secured term loan in an aggregate amount of $50 million (the "***Term Loan***"). The Term Loan matures on June 30, 2025 (the "***Maturity Date***"). Interest is payable on the Term Loan for the principal balance outstanding quarterly through the Maturity Date. No principal payments on the Term Loan are due and payable until the Maturity Date.

The Hayfin Loan Agreement also provided the Company an option to draw on an additional delayed draw term loan (the "***DD TL***," collectively with the Term Loan, the "***Credit Facilities***") in the form of a committed but undrawn facility until June 30, 2021. The Company did not exercise the option.

On February 28, 2022 (the "***Amendment Date***"), the Company executed an Amendment to the Hayfin Loan Agreement (the "***Amendment***"). The Amendment was accounted for as a modification. No gain or loss was recognized nor was there a change to the carrying amount of the debt as a result of the Amendment.

Interest on any borrowings under the Hayfin Loan Agreement, as amended (the "***Amended Hayfin Loan Agreement***"), is equal to the London Interbank Offered Rate ("***LIBOR***") (subject to a floor of 1.5%), plus a margin of 6.75% per annum. If LIBOR is unavailable, the Term Loan will carry interest at the 6.75% margin plus the greatest of the Prime Rate, the Federal Funds Rate plus 0.5% per annum, and 2.5%.

An additional 3.0% margin is applied to the interest rate in the event of a default as defined in the Amended Hayfin Loan Agreement. The Term Loan carried an interest rate of 8.3% at issuance and 10.4% as of September 30, 2022.

The Amended Hayfin Loan Agreement, contains financial covenants requiring the Company, on a consolidated basis, to maintain the following:

- Minimum Consolidated Total Net Sales (as defined in the Amended Hayfin Loan Agreement) of varying amounts, required to be calculated on a quarterly basis, and
- Minimum Liquidity (as defined in the Amended Hayfin Loan Agreement) of $20 million, an at-all-times financial covenant tested monthly.

As of September 30, 2022, the Company is in compliance with all applicable financial covenants under the Amended Hayfin Loan Agreement.

The Amended Hayfin Loan Agreement also includes certain negative covenants and events of default customary for facilities of this type, and upon the occurrence of such events of default, subject to customary cure rights, the Term Loan may be accelerated or the lenders' commitments terminated. Mandatory prepayments are also required in the event of a change in control, incurring other indebtedness, certain proceeds from disposal of assets and insured casualty event (as defined in the Amended Hayfin Loan Agreement). Annually, beginning with the fiscal year ended December 31, 2021, the Company is required to prepay the outstanding loans based on a percentage of Excess Cash Flow (as defined in the Amended Hayfin Loan Agreement), if such is generated. No such prepayments have been required as of September 30, 2022.

A breach of a financial covenant in the Amended Hayfin Loan Agreement, if uncured or unable to be cured, would likely result in an event of default that could trigger the lender's remedies, including acceleration of the entire principal balance of the loan as well as any applicable prepayment premiums.

The Amended Hayfin Loan Agreement also specifies that any prepayment of the Term Loan, voluntary or mandatory, will subject the Company to a prepayment premium applicable as of the date of the prepayment as follows:

- On or before July 2, 2023: 2% of the principal balance repaid.
- After July 2, 2023 and on or before July 2, 2024: 1% of the principal balance repaid.
- After July 2, 2024: no premium.

Hayfin maintains a first-priority security interest in substantially all of the Company's assets.

Original issue discount and deferred financing costs were allocated between the sale of the Series B Preferred Stock (which occurred on the same day as the funding of the Hayfin Loan Agreement as described in Note 10) and the Hayfin Loan Agreement on the basis of the relative fair values of the transactions. The costs allocated to the Hayfin Loan Agreement were further allocated between the Term Loan and the DD TL on the basis of the maximum potential principal outstanding between the Credit Facilities. The allocation of the deferred financing costs and original issue discount between the Term Loan and the DD TL on July 2, 2020 was as follows (in thousands):

	July 2, 2020		
	Term Loan	DD TL	Total
Original issue discount	$ 333	$ 167	$ 500
Deferred financing costs	2,169	1,084	3,253

Deferred financing costs and original issue discount associated with the Term Loan are amortized using the effective interest method through the Maturity Date. The amortization of such amounts is presented as part of interest expense, net on the unaudited condensed consolidated statement of operations. Unamortized deferred financing costs and original issue discount associated with the Term Loan are presented as a reduction to the principal balance on the Term Loan as part of long term debt, net on the unaudited condensed consolidated balance sheets as of September 30, 2022 and December 31, 2021.

Deferred financing costs and original issue discount associated with the DD TL were amortized using the straight-line method through the expiration of the DD TL commitment term on June 30, 2021. Amortization of these amounts is presented as part of interest expense, net on the unaudited condensed consolidated statement of operations for the nine months ended September 30, 2021. The DD TL was subject to a commitment fee of 1% per annum of the amount undrawn, which was recognized as interest expense.

The balances of the Term Loan as of September 30, 2022 and December 31, 2021 were as follows (in thousands):

	September 30, 2022	December 31, 2021
Outstanding principal	$ 50,000	$ 50,000
Deferred financing costs	(1,322)	(1,624)
Original issue discount	(203)	(249)
Long term debt, net	$ 48,475	$ 48,127

Interest expense related to the Term Loan, included in interest expense, net in the unaudited condensed consolidated statements of operations, was as follows (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Stated interest	$ 1,151	$ 1,054	$ 3,225	3,116
Amortization of deferred financing costs	103	95	302	276
Accretion of original issue discount	16	15	46	42
Interest expense	$ 1,270	$ 1,164	$ 3,573	$ 3,434

Interest expense related to the DD TL, included in interest expense, net in the unaudited condensed consolidated statements of operations, was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Commitment fee	$ —	$ —	$ —	$ 126
Amortization of deferred financing costs	—	—	—	542
Accretion of original issue discount	—	—	—	83
Interest expense	$ —	$ —	$ —	$ 751

A summary of principal payments due on the Term Loan, by year, from September 30, 2022 through maturity are as follows (in thousands):

Year ending December 31,	Principal
2022 (excluding the nine months ended September 30, 2022)	$ —
2023	—
2024	—
2025	50,000
2026	—
Thereafter	—
Total long term debt	$ 50,000

As of September 30, 2022, the fair value of the Term Loan was $44.7 million. This valuation was calculated based on a series of Level 2 and Level 3 inputs, including a discount rate based on the credit risk spread of debt instruments of similar risk character in reference to U.S. Treasury instruments with similar maturities, with an incremental risk premium for risk factors specific to the Company. The remaining cash flows associated with the Term Loan were discounted to September 30, 2022 using this discount rate to determine fair value.

9. Net Loss Per Common Share

Net loss per common share is calculated using two methods: basic and diluted.

Basic Net Loss Per Common Share

Basic net loss per common share is calculated as net loss available to common stockholders divided by weighted average common shares outstanding. Net loss available to common stockholders is calculated as net loss less (i) dividends accumulated on the Company's Series B Convertible Preferred Stock during the period, and (ii) periodic accretion of the increasing-rate dividend feature.

The following table provides a reconciliation of net loss to net loss available to common stockholders and calculation of basic net loss per common share for each of the three and nine months ended September 30, 2022 and 2021 (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	$ (8,426)	$ (2,339)	$ (29,783)	$ (12,500)
Adjustments to reconcile to net loss available to common stockholders				
Accumulated dividend on Series B Preferred Stock	1,670	1,574	4,884	3,613
Accretion of increasing-rate dividend feature	—	—	—	926
Total adjustments	1,670	1,574	4,884	4,539
Net loss available to common stockholders	$ (10,096)	$ (3,913)	$ (34,667)	$ (17,039)
Weighted average common shares outstanding	113,448,251	110,717,073	112,650,713	110,136,517
Basic net loss per common share	$ (0.09)	$ (0.04)	$ (0.31)	$ (0.15)

Diluted Net Loss Per Common Share

Diluted net loss per common share is calculated as net loss available to common stockholders, adjusted for dividends on convertible preferred stock (to the extent conversion would be dilutive), divided by weighted average common shares outstanding plus potential common shares. The calculation of potential common shares considers incremental shares resulting from certain transactions, including the exercise of stock options and the issuance of restricted stock, using the treasury stock method, as well as the hypothetical conversion of the Company's Series B Convertible Preferred Stock using the if-converted method. The treasury stock method assumes that proceeds from the transaction are used to purchase common stock at the average market price throughout the period. The if-converted method adds back periodic accrued or deemed dividends on the Company's Series B Convertible Preferred Stock, and assumes conversion as of the beginning of the period.

Each individual transaction is assessed for its dilutive effect on net loss per common share. To the extent that the transaction is antidilutive or does not reduce net loss per common share, the effect is excluded from the calculation.

The following table sets forth the computation of diluted net loss per common share (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss available to common stockholders	$ (10,096)	$ (3,913)	$ (34,667)	$ (17,039)
Adjustments:				
Dividends on Series B Convertible Preferred Stock	1,670	1,574	4,884	4,539
Less: antidilutive adjustments	(1,670)	(1,574)	(4,884)	(4,539)
Total adjustments	—	—	—	—
Numerator	$ (10,096)	$ (3,913)	$ (34,667)	$ (17,039)
Weighted average shares outstanding	113,448,251	110,717,073	112,650,713	110,136,517
Adjustments				
Potential common shares	29,269,481	30,658,193	28,858,049	30,185,813
Less: antidilutive potential common shares (a)	(29,269,481)	(30,658,193)	(28,858,049)	(30,185,813)
Total adjustments	—	—	—	—
Weighted average shares outstanding adjusted for potential common shares	113,448,251	110,717,073	112,650,713	110,136,517
Diluted net loss per common share	$ (0.09)	$ (0.04)	$ (0.31)	$ (0.15)

(a) Weighted average common shares outstanding for the calculation of diluted net loss per common share does not include the following adjustments for potential common shares below because their effects were determined to be antidilutive for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Series B Convertible Preferred Stock	28,685,739	27,027,252	27,850,916	26,497,570
Restricted stock unit awards	474,355	1,840,483	574,507	1,500,674
Restricted stock awards	22,327	974,687	293,778	1,287,635
Outstanding stock options	22,528	805,437	97,190	875,714
Performance stock unit awards	59,996	10,334	40,141	24,220
Employee Stock Purchase Plan	4,536	—	1,517	—
Potential common shares	29,269,481	30,658,193	28,858,049	30,185,813

10. Equity

Series B Convertible Preferred Stock

The Series B Convertible Preferred Stock of the Company (the "***Series B Preferred Stock***") paid a 4.0% cumulative dividend per annum prior to the quarterly dividend payment ending on June 30, 2021, and pays a 6.0% cumulative dividend per annum thereafter. Dividends, if declared, are paid at the end of each quarter based on dividend amounts that accumulate beginning on the last payment date through the day prior to the end of each quarter. In lieu of paying a dividend, the Company may elect to accrue the dividend owed to shareholders. Accrued dividend balances accumulate dividends at the prevailing dividend rate for each dividend period for which they are outstanding.

Each share of Series B Preferred Stock is convertible into the Company's common stock at any time at the option of the holder. Shares are converted based on the liquidation preference of $1,000 per share (the "***Liquidation Preference***") plus any accrued or accumulated dividends through the date of the conversion at a conversion price of $3.85 per common share. The Series B Preferred Stock, including any accumulated and unpaid dividends, automatically converts into common stock at any time after

July 2, 2023, provided that the common stock has traded at $7.70 per share or more for (i) 20 out of the preceding 30 consecutive trading days and (ii) on such date of conversion.

The holders of the Series B Preferred Stock, voting as a class, are entitled to appoint two members to the board of directors. The holders of the Series B Preferred Stock are entitled to vote on all matters to be voted on by the Company's shareholders on an as-converted basis as a single class with the common stock; provided that the votes represented by the Series B Preferred Stock cannot exceed 19.9% of the total voting stock of the Company and their votes cannot exceed a number of shares equal to the Liquidation Preference divided by $5.25 per share.

Holders of the Series B Preferred Stock are also entitled to the Liquidation Preference plus all accumulated and unpaid dividends in the event of a liquidation, dissolution, or winding-up of the Company.

If the Company undergoes a change of control (as defined), the Company will have the option to repurchase some or all of the then-outstanding shares of Series B Preferred Stock for cash in an amount equal to the Liquidation Preference plus any accumulated and unpaid dividends, subject to the rights of the holders of the Series B Preferred Stock in connection with such change in control. If the Company does not exercise such repurchase right, holders of the Series B Preferred Stock will have the option to (1) require the Company to repurchase any or all of their then-outstanding shares of Series B Preferred Stock for cash in an amount equal to the Liquidation Preference plus accumulated and unpaid dividends or (2) convert the Series B Preferred Stock into common stock and receive their pro rata consideration thereunder. Since the contingent redemption of the Series B Preferred Stock by the holders in the event of a change in control is outside the Company's control, the Series B Preferred Stock is classified as temporary equity.

There was no change in the balance of Series B Preferred Stock for the three or nine months ended September 30, 2022 or the three months ended September 30, 2021. The below table illustrates changes in the Company's balance of Series B Preferred Stock for the nine months ended September 30, 2021 (in thousands, except share amounts):

	Series B Preferred Stock	
	Shares	Amount
Balance at December 31, 2020	100,000	$ 91,568
Deemed dividends	—	926
Balance at September 30, 2021	100,000	$ 92,494

The Company has not declared or paid any dividends on the Series B Preferred Stock since issuance. Dividends accumulated but not paid as of September 30, 2022 were $12.1 million. As this amount has not been declared, the Company has not recorded this amount on its unaudited condensed consolidated balance sheet as of September 30, 2022.

Based on accumulated dividends as of September 30, 2022, the Series B Preferred Stock was convertible into an aggregate of 29,119,562 shares of the Company's common stock.

Restricted Stock Awards

The Company has issued restricted stock awards ("***RSAs***"), restricted stock unit awards ("***RSUs***"), and performance stock unit awards ("***PSUs***") to its employees. The following is summary information for restricted stock awards for the nine months ended September 30, 2022.

As of September 30, 2022, there was $26.7 million of unrecognized share-based compensation expense related to share-based payment arrangements. This expense is expected to be recognized over a weighted-average period of 1.93 years, which approximates the remaining vesting period of these grants. The below table summarizes activity of unvested restricted stock awards by award type from January 1, 2022 through September 30, 2022. Unvested RSAs noted below are included in issued and outstanding common stock as of September 30, 2022, while unvested RSUs and unvested PSUs are not included in issued or outstanding common stock as of September 30, 2022.

	RSA		RSU		PSU	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2022	877,197	$ 4.26	4,228,919	$ 8.64	—	$ —
Granted	—	—	4,181,885	4.82	441,964	4.62
Vested	(703,405)	3.77	(1,713,078)	8.34	—	—
Forfeited	(5,338)	5.11	(1,274,985)	6.40	(200,893)	4.62
Unvested at September 30, 2022	168,454	$ 6.32	5,422,741	$ 6.32	241,071	$ 4.62

Performance Stock Units

The Company granted PSUs to certain executive officers during the nine months ended September 30, 2022. These PSUs vest only to the extent that stipulated cumulative net sales targets are achieved for the year ending December 31, 2022, the two-year period ending December 31, 2023, and the three-year period ending December 31, 2024. Performance factors range from 50% to 150% of the net sales targets; if performance is below 50%, the PSUs do not vest. If total shareholder return ("***TSR***"), as defined below, is negative, vesting is limited to 100% of the award. All of the PSUs require recipients to continue employment with the Company through the vesting date, which will occur upon approval of the results with respect to the established targets by the Compensation Committee of the Board of Directors after December 31, 2024, but no later than March 15, 2025.

The TSR is calculated as the average trading price of the Company's common stock during the final 30 trading days of 2024, adjusted for dividends paid on the Company's common stock, less the average trading price during the final 30 trading days of 2021.

Since TSR is based on the Company's share price, it represents a market condition, which is incorporated in the grant date fair value of shares in excess of 100% vesting. These awards were valued on the date of grant using a Monte Carlo simulation, the inputs for which were informed by a Black-Scholes option pricing model. The assumptions used in determining the fair value of these PSUs were as follows:

	Assumption
Risk-free interest rate	2.68 %
Expected term (years)	2.74
Expected volatility (annualized)	63.7 %
Dividend yield	— %
Closing stock price on grant date	$ 4.62
Grant date fair value	$ 2.78

The expected term was derived from the date of the grant through the latest date of the resolution of the market condition. The risk-free interest rate was derived based on the U.S. Treasury Yield curve in effect at the date of grant for maturities of similar periods to the concluded term. The expected volatility was based on the Company's historical daily stock price movements for a term similar in length to the expected term. The dividend yield was based on the Company's history of dividends on its common stock.

Expense related to PSUs is recognized, straight-line, based on the grant date fair value of the relevant shares, over the requisite service period related to each individual tranche, limited to the extent that the achievement of the associated performance condition associated with that tranche is probable. These expectations are derived from the Company's latest budget and forecasts for net sales in the associated periods. The fair value of the awards subject to a market condition and expense recognized on such awards are not subsequently reconsidered based on the probability of achievement or ultimate resolution of the market condition. Accordingly, the Company may recognize share-based compensation expense for awards that do not ultimately vest.

Stock Options

A summary of stock option activity for the nine months ended September 30, 2022 is presented below:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2022	1,444,845	$ 5.18		
Granted	—	—		
Exercised	(285,001)	2.01		
Unvested options forfeited	—	—		
Vested options expired	(109,500)	4.00		
Outstanding at September 30, 2022	1,050,344	6.14	1.07	700
Exercisable at September 30, 2022	1,050,344	$ 6.14	1.07	$ 700

Employee Stock Purchase Plan

On June 7, 2022, the Company adopted the MiMedx, Inc. Employee Stock Purchase Plan (the "***ESPP***"). The ESPP is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. All regular full-time employees of the Company (including officers) and all other employees who meet the eligibility requirements of the plan may participate in the ESPP. The ESPP provides eligible employees an opportunity to acquire the Company's common stock on a semi-annual basis at a purchase price of 85% of the lower of the closing price per share of the Company's common stock on the first day and the last day of each six-month purchase period (the "***Purchase Period***"). The aggregate number of shares which may be issued and sold under the ESPP is 3 million shares of Common Stock. The first Purchase Period under the ESPP commenced on August 1, 2022 and will result in a purchase of shares on January 31, 2023.

For the three and nine months ended September 30, 2022, the Company recorded $0.1 million in stock-based compensation related to the ESPP. As of the nine months ended September 30, 2022, the Company had cumulative payroll deferrals under the ESPP for future share purchases of $0.2 million. This amount is included in accrued compensation in the unaudited condensed balance sheet. No shares have been issued under the plan to date.

11. Income Taxes

The effective tax rates for the Company were (0.6)% and (14.8)% for the three months ended September 30, 2022 and 2021, respectively.

The effective tax rates for the Company were (0.6)% and (2.9)% for the nine months ended September 30, 2022 and 2021, respectively.

There were no material discrete items affecting the effective tax rate in any period. Net operating losses incurred were offset by a valuation allowance.

12. Supplemental Disclosure of Cash Flow and Non-cash Investing and Financing Activities

Selected cash payments, receipts, and non-cash activities are as follows (in thousands):

	Nine Months Ended September 30,	
	2022	2021
Cash paid for interest	$ 3,233	$ 3,269
Income taxes paid	184	157
Non-cash activities:		
Purchases of equipment in accounts payable	353	6
Right of use assets arising from operating lease liabilities	(37)	—
Deemed dividends on Series B Preferred Stock	—	926
Fair value of non-cash consideration received for option exercises	—	380
Right of use assets arising from finance lease liabilities	—	189
Note receivable for sale of property and equipment	—	75

13. Commitments and Contingencies

Separation Agreement with Timothy R. Wright

On September 15, 2022, the Company entered into a Separation Agreement and General Release with Timothy R. Wright, the former Chief Executive Officer of the Company (the "***Separation Agreement***"). Pursuant to the terms of the Separation Agreement and Mr. Wright's general release of all claims against the Company, the Company will pay Mr. Wright a total of $3.1 million in cash in a series of installments through September 2024. The terms of the severance benefits provided in the Separation Agreement were the same as those provided for in the original employment Letter Agreement between Mr. Wright and the Company dated April 8, 2019. The $3.1 million was recorded as part of selling, general, and administrative expense on the condensed consolidated statements of operations for the three and nine months ended September 30, 2022.

Of the $3.1 million, $1.6 million is reflected in accrued compensation and the remainder is reflected in other liabilities in the unaudited condensed consolidated balance sheet as of September 30, 2022. No payments were required to Mr. Wright under the terms of the Separation Agreement during the nine months ended September 30, 2022.

Nordic Agreement

In June 2022, the Company entered into a collaboration agreement (the "***Nordic Agreement***") with Nordic Bioscience Clinical Development A/S ("***NBCD***") to provide full operational support for the Company's upcoming Knee Osteoarthritis ("***KOA***") clinical trial program. As part of the agreement, NBCD will perform site selection and monitoring, manage patient recruitment and enrollment, data management, statistical analysis and reporting activities for the duration of the trial. Under the terms of the Nordic Agreement, the Company is obligated to pay $13.3 million upon the achievement of specified milestones over the course of the clinical trial. The milestones are based upon various factors including, but not limited to, site selection and enrollment, patient enrollment, patient completion, and certain other activities related to clinical trial operations. The milestone payments are revised semi-annually based on fluctuations in the consumer price index. The Company has the ability to terminate the Nordic Agreement with 30 days written notice to NBCD. At such time, the Company would be required to pay for services performed through the date of termination and any non-cancelable obligations.

As of September 30, 2022, the Company has paid $2.0 million under the Nordic Agreement, relating to milestones which have been achieved from inception through that date. During each of the three and nine months ended September 30, 2022, the Company recognized $0.6 million of expense. This amount is included as part of research and development expense in the unaudited condensed consolidated statements of operations for those periods. The remaining $1.4 million is reflected in prepaid expenses on the consolidated balance sheet as of September 30, 2022.

Litigation and Regulatory Matters

In the ordinary course of business, the Company and its subsidiaries are parties to numerous civil claims and lawsuits and subject to regulatory examinations, investigations, and requests for information. Some of these matters involve claims for substantial amounts. The Company's experience has shown that the damages alleged by plaintiffs or claimants are often overstated, based on unsubstantiated legal theories, unsupported by facts, and/or bear no relation to the ultimate award that a court might grant. Additionally, the outcome of litigation and regulatory matters and the timing of ultimate resolution are

inherently difficult to predict. These factors make it difficult for the Company to provide a meaningful estimate of the range of reasonably possible outcomes of claims in the aggregate or by individual claim. However, on a case-by-case basis, reserves are established for those legal claims for which it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. The Company's unaudited condensed consolidated balance sheet as of September 30, 2022 reflects the Company's current best estimate of probable losses associated with these matters, including costs to comply with various settlement agreements, where applicable. The actual costs of resolving these claims, as well as the cost to resolve claims that are either not probable or not estimable at this time, may be substantially higher or lower than the amounts reserved. For more information regarding the Company's legal proceedings, refer to Note 14, "*Commitments and Contingencies*" in the 2021 Form 10-K.

The Company paid $0.7 million toward the resolution of legal matters involving the Company during the nine months ended September 30, 2022. In addition, insurance providers paid $0.6 million on the Company's behalf to settle legal matters.

The Company also recovered amounts from certain former officers and directors of the Company relating to legal fees previously advanced on their behalf. These funds were recognized as a reduction to investigation, restatement, and related expense on the condensed consolidated statement of operations for the nine months ended September 30, 2022.

The following is a description of certain litigation and regulatory matters to which the Company is a party:

Securities Class Action

On January 16, 2019, the United States District Court for the Northern District of Georgia entered an order consolidating two purported securities class actions (MacPhee v. MiMedx Group, Inc., et al. filed February 23, 2018 and Kline v. MiMedx Group, Inc., et al. filed February 26, 2018). The order also appointed Carpenters Pension Fund of Illinois ("***CPFI***") as lead plaintiff. On May 1, 2019, CPFI filed a consolidated amended complaint, naming as defendants the Company, Michael J. Senken, Parker H. "Pete" Petit, William C. Taylor, Christopher M. Cashman and Cherry Bekaert & Holland LLP. The amended complaint (the "***Securities Class Action Complaint***") alleged violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the "***Exchange Act***"), Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act. It asserted a class period of March 7, 2013 through June 29, 2018. Following the filing of motions to dismiss by the various defendants, CPFI was granted leave to file an amended complaint. CPFI filed its amended complaint against the Company, Michael J. Senken, Parker H. Petit, William C. Taylor, and Cherry Bekaert & Holland (Christopher Cashman was dropped as a defendant) on March 30, 2020. The defendants filed motions to dismiss on May 29, 2020. On March 25, 2021, the Court granted defendants' respective motions to dismiss, finding that CPFI lacked standing to bring the underlying claims and also could not establish loss causation because it sold all of its shares in MIMEDX prior to any corrective disclosures, and dismissed the case. On April 22, 2021, CPFI filed a motion for reconsideration of the dismissal and for leave to amend to add a new plaintiff to attempt to cure the standing and loss causation issues.

On January 28, 2022, the Court denied CPFI's motion to reconsider and motion to substitute class representative. On February 25, 2022, CPFI filed a Notice of Appeal in the 11th Circuit Court of Appeals, Case No. 22-10633-CC. The parties have completed their briefings on the issues on the appeal.

Former Employee Litigation and Related Matters

On January 12, 2021, the Company filed suit in the Circuit Court of the Eleventh Judicial District in and for Miami-Dade County, Florida (MiMedx Group, Inc. v. Petit, et. al.) against its former CEO, Parker H. "Pete" Petit, and its former COO, William C. Taylor, seeking a determination of its rights and obligations under indemnification agreements with Petit and Taylor following a federal jury's guilty verdict against Petit for securities fraud and Taylor for conspiracy to commit securities fraud. The Company is seeking a declaratory judgment that it is not obligated to indemnify or advance expenses to Petit and Taylor in connection with certain cases to which Petit and Taylor are parties and also seeking to recoup amounts previously paid on behalf of Petit and Taylor in connection with such cases. On April 22, 2021, Petit and Taylor filed an answer and asserted counterclaims against the Company alleging breach of their indemnification agreements, breach of the covenant of good faith and fair dealing with respect to their indemnification agreements, and seeking a declaration that the Company remains obligated to indemnify and advance fees in connection with certain cases. Petit and Taylor simultaneously also filed a motion seeking to compel the Company to advance and reinstate its payments of Petit and Taylor's legal expenses. The Company opposed Petit and Taylor's motion and a hearing was set for June 23, 2021. At the joint request of the parties, the hearing was cancelled to allow the parties to attend a mediation to attempt a resolution of this matter; such mediation was held on August 11, 2021.

Following the mediation, the Company and Mr. Taylor reached an agreement to settle the matter between them. Negotiations with Mr. Petit are ongoing.

Other Matters

Under the Florida Business Corporation Act and agreements with its current and former officers and directors, the Company is obligated to indemnify its current and former officers and directors who are made party to a proceeding, including a proceeding brought by or in the right of the corporation, with certain exceptions, and to advance expenses to defend such matters. The Company has already borne substantial costs to satisfy these indemnification and expense advance obligations and may continue to do so in the future.

In addition to the matters described above, the Company is a party to a variety of other legal matters that arise in the ordinary course of the Company's business, none of which are deemed to be individually material at this time. Due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on the Company's business, results of operations, financial position or liquidity.

14. Revenue

Disaggregation of Revenue by Product

MIMEDX has two primary classes of products: (1) Advanced Wound Care, or Section 361, products, consisting of its tissue and cord sheet allograft products as well as certain particulate products regulated under Section 361, and (2) Section 351 products, consisting of the Company's micronized and certain other particulate products. Advanced Wound Care is further disaggregated between the Company's Tissue/Other and Cord products.

Information regarding the business units responsible for the sale of each of these classes of product can be found in Note 15, *Segment Information*.

Below is a summary of net sales by class of product (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Advanced Wound Care				
Tissue/Other	$ 61,131	$ 56,035	$ 174,256	$ 156,012
Cord	5,678	6,247	17,165	17,093
Total Advanced Wound Care	66,809	62,282	191,421	173,105
Section 351	796	489	1,815	17,187
Other[(1)]	84	303	230	914
Total	$ 67,689	$ 63,074	$ 193,466	$ 191,206

(1) "Other" represents revenue transactions in the indicated period relating to performance obligations settled prior to October 1, 2019, the date at which the Company changed its pattern of revenue recognition. For all practical purposes, the Company is not able to allocate these revenue transactions to different product groups. This revenue is reflected as part of the Wound & Surgical segment.

Disaggregation of Revenue by Customer

MIMEDX has two primary distribution channels: (1) direct to customers (healthcare professionals and/or facilities) ("***Direct Customers***"), and (2) sales to distributors ("***Distributors***").

Below is a summary of net sales by each customer type (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Direct Customers	$ 65,898	$ 61,087	$ 188,231	$ 184,706
Distributors	1,791	1,987	5,235	6,500
Net sales	$ 67,689	$ 63,074	$ 193,466	$ 191,206

The Company did not have significant foreign operations or a single external customer from which 10% or more of revenues were derived during the three or nine months ended September 30, 2022 or 2021.

15. Segment Information

The Company has two reportable segments: Wound & Surgical and Regenerative Medicine.

Wound & Surgical focuses on the Advanced Wound Care and Surgical Recovery markets, the Company's existing product portfolio, and near-term product development. Its platform technologies include tissue allografts derived from human placental membrane (EPIFIX®, AMNIOFIX®, and AMNIOEFFECT™), tissue allografts derived from human umbilical cord (EPICORD® and AMNIOCORD®), and a particulate extracellular matrix derived from human placental disc (AXIOFILL™). This segment is also responsible for the international sales of the Company's Section 351 products.

The Regenerative Medicine business focuses solely on Regenerative Medicine technologies, specifically progressing the Company's placental biologics platform towards registration as a FDA-approved biological drug. Micronized dehydrated human amnion chorion membrane is the lead product candidate in its late-stage pipeline targeted at achieving FDA approval for specific clinical indications, including degenerative musculoskeletal conditions, beginning with KOA.

The Company's corporate function includes expenses incurred by executive, finance, human resource, information systems, legal, other functions which are generally shared and whose activities are not specifically identifiable solely to either of the other segments. It also includes amortization of intangible assets. The Company has another operating segment related to an expiring dental sales contract. All net sales and cost of sales presented in the Corporate & Other columns below relate to this operating segment.

Wound & Surgical net sales reflects sales of the Company's Advanced Wound Care products (as discussed in Note 14, *Revenue*), except for sales of the Company's dental product. Sales of the Company's dental product are included in the Corporate & Other columns in the tables below. In addition, Wound & Surgical reflects international sales of the Company's Section 351 products, which represent all Section 351 sales not reflected in Regenerative Medicine.

The accounting policies of the segments are the same as the Company's accounting policies. See Note 2, *Significant Accounting Policies*, included in the 2021 Form 10-K for significant accounting policies.

The Company evaluates the performance of its segments and allocates resources based on segment contribution, defined as net sales less (i) cost of sales, (ii) selling, general and administrative expense, (iii) research and development expense, and (iv) amortization of intangible assets. Prior period results were recast on the basis of new operating segments. The only components which comprise loss before income tax provision that are not included in operating loss are interest expense, net and other expense, net.

Net sales and segment contribution for each reportable segment for the three months ended September 30, 2022 were as follows (in thousands):

	Wound & Surgical	Regenerative Medicine	Corporate & Other	Consolidated
Net sales	$ 66,873	$ —	$ 816	$ 67,689
Cost of sales	11,159	—	1,029	12,188
Selling, general and administrative expense	35,531	—	17,944	53,475
Research and development expense	1,680	4,273	—	5,953
Amortization of intangible assets	—	—	175	175
Segment contribution	$ 18,503	$ (4,273)		
Investigation, restatement and related expense				3,001
Operating loss				$ (7,103)
Supplemental information				
Depreciation expense	$ 451	$ 36	$ 344	$ 831
Share-based compensation	$ 1,945	$ 347	$ 80	$ 2,372

Net sales and segment contribution by each reportable segment for the three months ended September 30, 2021 were as follows (in thousands):

	Wound & Surgical	Regenerative Medicine	Corporate & Other	Consolidated
Net sales	$ 62,138	$ 76	$ 860	$ 63,074
Cost of sales	8,924	16	1,189	10,129
Selling, general and administrative expense	32,104	1,285	12,900	46,289
Research and development expense	1,423	2,945	—	4,368
Amortization of intangible assets	—	—	193	193
Segment contribution	$ 19,687	$ (4,170)		
Investigation, restatement and related expense				3,170
Operating loss				$ (1,075)
Supplemental information				
Depreciation expense	$ 511	$ 34	$ 378	$ 923
Share-based compensation	$ 1,435	$ 322	$ 2,054	$ 3,811

Net sales and segment contribution by each reportable segment for the nine months ended September 30, 2022 were as follows (in thousands):

	Wound & Surgical	Regenerative Medicine	Corporate & Other	Consolidated
Net sales	$ 191,297	$ —	$ 2,169	$ 193,466
Cost of sales	31,126	—	2,821	33,947
Selling, general and administrative expense	108,256	—	50,582	158,838
Research and development expense	6,068	11,361	—	17,429
Amortization of intangible assets	—	—	519	519
Segment contribution	$ 45,847	$ (11,361)		
Investigation, restatement and related expense				8,771
Operating loss				$ (26,038)
Supplemental information				
Depreciation expense	$ 1,364	$ 120	$ 1,065	$ 2,549
Share-based compensation	$ 5,609	$ 910	$ 4,279	$ 10,798

Net sales and segment contribution by each reportable segment for the nine months ended September 30, 2021 were as follows (in thousands):

	Wound & Surgical	Regenerative Medicine	Corporate & Other	Consolidated
Net sales	$ 172,401	$ 16,584	$ 2,221	$ 191,206
Cost of sales	25,646	3,652	3,232	32,530
Selling, general and administrative expense	87,392	11,127	46,772	145,291
Research and development expense	4,080	8,690	—	12,770
Amortization of intangible assets	—	—	647	647
Segment contribution	$ 55,283	$ (6,885)		
Investigation, restatement and related expense				8,304
Operating loss				$ (8,336)
Supplemental information				
Depreciation expense	$ 1,172	$ 213	$ 2,005	$ 3,390
Share-based compensation	$ 3,827	$ 1,147	$ 6,141	$ 11,115

The Company does not allocate any assets to the reportable segments. No asset information is reported or disclosed to the chief operating decision maker in the financial information for each segment.

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

Overview

Our Business

MIMEDX is a transformational placental biologics company and a pioneer in placental tissue engineering, focused on addressing the needs of patients with acute and chronic non-healing wounds. The Company is also advancing a promising late-stage biologics pipeline targeted at decreasing pain and improving function for patients with degenerative musculoskeletal conditions. To accomplish these goals, the Company operates under two defined internal business units: Wound & Surgical and Regenerative Medicine. All of our products are regulated by the U.S. Food & Drug Administration ("***FDA***").

The Wound & Surgical business focuses on the Advanced Wound Care and Surgical Recovery markets, the Company's existing product portfolio (as described in detail in the *Our Products* section below), and near-term product development.

The Regenerative Medicine business focuses on progressing the Company's placental biologics platform towards registration as a FDA-approved biological drug. Micronized dehydrated human amnion chorion membrane ("***mdHACM***") is the lead product candidate in its late-stage pipeline targeted at achieving FDA approval for specific clinical indications, including degenerative musculoskeletal conditions, beginning with Knee Osteoarthritis ("***KOA"***).

Our Products

MIMEDX is a leading supplier of human placental allografts, which are human tissues that are derived from one person (the donor) and used to produce products that treat another person (the recipient). MIMEDX has supplied over two million allografts, through both direct and consignment shipments.

We have two classes of products: (1) Advanced Wound Care products, or Section 361 products, consisting of our tissue and cord sheet allograft products, as well as certain particulate products regulated under Section 361, and (2) Section 351 products, consisting of our micronized and certain other particulate products, which, prior to May 31, 2021, the date the FDA's period of enforcement discretion ended (as described below), were used to treat a variety of clinical conditions, including both advanced wound care and musculoskeletal applications. Our Advanced Wound Care products includes two product categories: Tissue/Other and Cord products. We sell product through two distribution channels: (1) direct to customers (healthcare professionals and/or facilities); and (2) sales through distributors. We apply Current Good Tissue Practice ("***CGTP***") and Current Good Manufacturing Practice ("***CGMP***") standards in addition to terminal sterilization to produce our allografts. MIMEDX provides products primarily in the wound care, burn, and surgical recovery sectors of healthcare.

Our platform technologies include tissue allografts derived from the amnion and chorion layers of human placental membrane (EPIFIX® and AMNIOFIX®) and tissue allografts derived from human umbilical cord (EPICORD® and AMNIOCORD®).

Our most recent product innovations, AMNIOEFFECT™ and AXIOFILL™, were introduced in September 2022. AMNIOEFFECT is a tri-layer placental tissue allograft that contains amnion, intermediate layer and chorion membranes. This product is designed to meet the needs of surgeons performing procedures where a more robust allograft with expansive size offerings is desired. AXIOFILL is an extracellular matrix derived from human placental disc, and is designed to provide a cost-effective human collage scaffold that is conducive for use in large, complex wounds and those of irregular geometries.

EPIFIX and EPICORD products are marketed for external use, such as in advanced wound care applications, while our AMNIOFIX, AMNIOEFFECT, AXIOFILL and AMNIOCORD products are positioned for use in surgical recovery applications, including lower extremity repair, plastic surgery, vascular surgery and multiple orthopedic repairs and reconstructions.

AMNIOFIX Injectable, or mdHACM, is a micronized configuration of AMNIOFIX and is not currently marketed in the United States. mdHACM is our lead product candidate for our late-stage pipeline targeted at achieving FDA approval for specific clinical indications, including degenerative musculoskeletal conditions, beginning with KOA.

In November 2017, the FDA published a series of guidances that established an updated framework for the regulation of cellular and tissue-based products. These guidances 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 of the Public Health Service Act and related regulations. The FDA exercised enforcement discretion with respect to Investigational New Drug ("***IND***") applications and pre-market approval requirements until May 31, 2021 ("***Enforcement Discretion***"). As of May 31, 2021, we stopped marketing our Section 351 products in the United States and are precluded from marketing such products until a Biologics License Application ("***BLA***") is granted. If and when the FDA approves a BLA, we expect to be allowed to market our Section 351 products in the United States again, but only for specific indications as permitted by the FDA.

Effect of Covid-19 Pandemic

The COVID-19 Pandemic is still ongoing, though the effects on our operations, such as restricted access to hospitals and difficulties obtaining donor materials, have largely been ameliorated and did not materially affect our operations during the three months ended September 30, 2022. We are continuously monitoring for any developments that may impact our operations, including novel variants of the virus and government and societal responses to mitigate the spread.

We continue to exercise an abundance of caution with respect to the health and well-being of our employees. Our offices are open and staffed, and we are operating under a hybrid work model for some personnel as well as encouraging all employees to get vaccinated if they have not already done so.

Former CEO Separation

In September 2022, MIMEDX entered into a separation agreement with Timothy R. Wright, our former CEO, under which he will receive the same severance benefits as those provided for in his original employment Letter Agreement dated April 8, 2019, including compensation of $3.1 million. Additionally, credits related to the forfeiture of the former CEO's share-based compensation awards during the three and nine months ended September 30, 2022 were $2.0 million.

Results of Operations

Three Months Ended September 30, 2022 Compared to the Three Months Ended September 30, 2021

Total Company

	Three Months Ended September 30, (in thousands)			
	2022	2021	$ Change	% Change
Net sales	$ 67,689	$ 63,074	$ 4,615	7.3 %
Cost of sales	12,188	10,129	2,059	20.3 %
Gross profit	55,501	52,945	2,556	4.8 %
Selling, general and administrative	53,475	46,289	7,186	15.5 %
Research and development	5,953	4,368	1,585	36.3 %
Investigation, restatement and related	3,001	3,170	(169)	(5.3)%
Amortization of intangible assets	175	193	(18)	(9.3)%
Interest expense, net	(1,270)	(963)	(307)	31.9 %
Income tax provision expense	(53)	(301)	248	(82.4)%
Net loss	$ (8,426)	$ (2,339)	$ (6,087)	nm

Net Sales

We recorded net sales for the three months ended September 30, 2022 of $67.7 million, a $4.6 million, or 7.3%, increase compared to the three months ended September 30, 2021, in which we recognized net sales of $63.1 million.

Our sales by product were as follows (amounts in thousands):

	Three Months Ended September 30,		Change	
	2022	2021	$	%
Advanced Wound Care				
Tissue/Other	$ 61,131	$ 56,035	$ 5,096	9.1 %
Cord	5,678	6,247	(569)	(9.1)%
Total Advanced Wound Care	66,809	62,282	4,527	7.3 %
Section 351	796	489	307	62.8 %
Other	84	303	(219)	(72.3)%
Net sales	$ 67,689	$ 63,074	$ 4,615	7.3 %

The increase in net sales was driven primarily by growth of our Wound & Surgical products in the Surgical Recovery market, including early results from the recent launches of AMNIOEFFECT and AXIOFILL, both of which were launched in September 2022.

Cost of Sales and Gross Profit Margin

Cost of sales for the three months ended September 30, 2022 and 2021 was $12.2 million and $10.1 million, respectively, an increase of $2.1 million, or 20.3%. Gross profit margin for the three months ended September 30, 2022 was 82.0% compared to 83.9% for the three months ended September 30, 2021. Decreases in margins were driven by lower production levels.

These effects were partially offset by $0.5 million of inventory write-downs taken during the three months ended September 30, 2021 related to discontinued products. There were no significant, unusual write-downs during the three months ended September 30, 2022.

Selling, General and Administrative Expense

Selling, general and administrative ("***SG&A***") expense for the three months ended September 30, 2022 was $53.5 million, compared to $46.3 million for the three months ended September 30, 2021, an increase of $7.2 million, or 15.5%. The increase in SG&A was driven by year-over-year increases in commissions due to greater sales volume as well as proportionally more sales through sales agents. In addition, we incurred more travel expenses during the three months ended September 30, 2022 compared to the prior year when we had more restrictions on travel due to the COVID-19 Pandemic. The remaining variance was primarily due to year-over-year increases in bad debt expense. The increase was further driven by personnel costs. This was primarily due to severance expense associated with our former CEO, whose employment terminated in September 2022, net of credits for forfeitures related to share-based compensation arrangements. The remainder of the increase was primarily the result of year-over-year increases in consulting expenses related to various market assessments conducted as part of the Company's strategic planning process and evaluation.

Selling, general and administrative expense in Corporate & Other was 26.5% and 20.5% of total net sales for the three months ended September 30, 2022 and 2021, respectively.

Research and Development Expense

Our research and development expense increased $1.6 million, or 36.3%, to $6.0 million for the three months ended September 30, 2022, compared to $4.4 million for the three months ended September 30, 2021. This increase spans both our Wound & Surgical and Regenerative Medicine business units, with investments in clinical research efforts connected to our Knee Osteoarthritis clinical trial program, along with higher development and testing costs, primarily related to the launches of AMNIOEFFECT and AXIOFILL.

Investigation, Restatement and Related Expense

Investigation, restatement and related expense for the three months ended September 30, 2022 was $3.0 million compared to $3.2 million for the three months ended September 30, 2021. Expenses incurred during the three months ended September 30, 2022 and 2021 included amounts related to legal fees advanced under indemnification agreements with certain former members of management. We remain subject to indemnification agreements with certain former officers and directors of the Company (other than Messrs. Petit and Taylor, our former Chief Executive Officer and Chief Operating Officer) for whom legal proceedings are still ongoing, in particular, our former Chief Financial Officer.

Amortization of Intangible Assets

Amortization expense related to intangible assets was $0.2 million for each of the three months ended September 30, 2022 and 2021.

Interest Expense, Net

Interest expense, net was $1.3 million for the three months ended September 30, 2022 compared to $1.0 million for the three months ended September 30, 2021, an increase of $0.3 million, or 31.9%. The increase was primarily the result of interest income on our income tax receivable recognized in the prior year. The remaining variance was the result of the impact of rising rates on the variable portion of our interest rate index. We expect interest expense to increase in future quarters as a result of rising interest rates.

Income Tax Provision Expense

The effective tax rates for the Company were (0.6)% and (14.8)% for the three months ended September 30, 2022 and September 30, 2021, respectively. There were no material discrete items affecting the effective tax rate in either period. Net operating losses incurred during both periods were offset by a valuation allowance.

Wound & Surgical

	Three Months Ended September 30, (in thousands)			
	2022	2021	$ Change	% Change
Net sales	$ 66,873	$ 62,138	$ 4,735	7.6 %
Cost of sales	11,159	8,924	2,235	25.0 %
Selling, general and administrative expense	35,531	32,104	3,427	10.7 %
Research and development expense	1,680	1,423	257	18.1 %
Segment contribution	$ 18,503	$ 19,687	$ (1,184)	(6.0)%

Our Wound & Surgical business recorded $66.9 million of net sales for the three months ended September 30, 2022, a $4.7 million, or 7.6%, increase compared to the $62.1 million we recorded for the three months ended September 30, 2021. The increase in net sales was driven primarily by growth of our Wound & Surgical products in the Surgical Recovery market, including early results from the recent launches of AMNIOEFFECT and AXIOFILL, both of which were launched in September 2022.

Cost of sales for the three months ended September 30, 2022 was $11.2 million, a $2.2 million, or 25.0%, increase compared to the $8.9 million recognized for the three months ended September 30, 2021. Cost of sales increased due to negative impacts from production variances, primarily due to lower production levels, as well as increases in sales volume.

Selling, general and administrative expense was $35.5 million for the three months ended September 30, 2022, a $3.4 million, or 10.7%, increase over the three months ended September 30, 2021, during which we incurred $32.1 million of expenses. The increase was driven by year-over-year increases in commissions resulting from increases in sales volume and proportionally more sales through sales agents, as well as increases in bad debt expense.

Research and development expense was $1.7 million for the three months ended September 30, 2022, compared to $1.4 million for the three months ended September 30, 2021. The increase was due to greater development and testing costs, primarily related to AMNIOEFFECT and AXIOFILL, both of which launched during the three months ended September 30, 2022.

Regenerative Medicine

	Three Months Ended September 30, (in thousands)			
	2022	2021	$ Change	% Change
Net sales	$ —	$ 76	$ (76)	nm
Cost of sales	—	16	(16)	nm
Selling, general and administrative expense	—	1,285	(1,285)	nm
Research and development expense	4,273	2,945	1,328	45.1 %
Segment contribution	$ (4,273)	$ (4,170)	$ (103)	2.5 %

Research and development expense was $4.3 million for the three months ended September 30, 2022, compared to $2.9 million for the three months ended September 30, 2021, an increase of $1.3 million. This increase was due to investments in clinical research efforts connected to our Knee Osteoarthritis clinical trial program, along with higher development and testing costs.

Nine Months Ended September 30, 2022 Compared to the Nine Months Ended September 30, 2021

Total Company

	Nine Months Ended September 30, (in thousands)			
	2022	2021	$ Change	% Change
Net sales	$ 193,466	$ 191,206	$ 2,260	1.2 %
Cost of sales	33,947	32,530	1,417	4.4 %
Gross profit	159,519	158,676	843	0.5 %
Selling, general and administrative	158,838	145,291	13,547	9.3 %
Research and development	17,429	12,770	4,659	36.5 %
Investigation, restatement and related	8,771	8,304	467	5.6 %
Amortization of intangible assets	519	647	(128)	(19.8)%
Interest expense, net	(3,566)	(3,806)	240	(6.3)%
Other expense, net	(1)	(3)	2	(66.7)%
Income tax provision expense	(178)	(355)	177	(49.9)%
Net loss	$ (29,783)	$ (12,500)	$ (17,283)	nm

Net Sales

We recorded net sales for the nine months ended September 30, 2022 of $193.5 million, a $2.3 million, or 1.2%, increase compared to the nine months ended September 30, 2021, for which we recorded net sales of $191.2 million. Our sales by product were as follows (amounts in thousands):

	Nine Months Ended September 30,		Change	
	2022	2021	$	%
Advanced Wound Care				
Tissue/Other	$ 174,256	$ 156,012	$ 18,244	11.7 %
Cord	17,165	17,093	72	0.4 %
Total Advanced Wound Care	191,421	173,105	18,316	10.6 %
Section 351	1,815	17,187	(15,372)	(89.4)%
Other	230	914	(684)	(74.8)%
Total	$ 193,466	$ 191,206	$ 2,260	1.2 %

The increase in net sales reflects sales growth in our Advanced Wound Care products of $18.3 million, or 10.6%, year-over-year, offset in part by the decrease in Section 351 product sales described below. Our sales growth in this area was a result of our focus on the application of these products into areas of Surgical Recovery, as well as the results of our prior initiatives to expand, realign and train our sales team.

These results reflect a return to pre-Enforcement Discretion revenue levels, before Section 351 products were removed from the US market, following the end of Enforcement Discretion on May 31, 2021. Sales of our Section 351 products were $1.8 million for the nine months ended September 30, 2022, compared to $17.2 million for the nine months ended September 30, 2021, a decrease of $15.4 million. Sales of Section 351 products during the nine months ended September 30, 2022 were outside the United States.

Cost of Sales and Gross Profit Margin

Cost of sales for the nine months ended September 30, 2022 was $33.9 million, an increase of $1.4 million, or 4.4%, compared to $32.5 million for the nine months ended September 30, 2021.

Gross profit margin for the nine months ended September 30, 2022 was 82.5% compared to 83.0% for the nine months ended September 30, 2021. Cost of sales and gross profit margin for the nine months ended September 30, 2021 included inventory write-downs related to our Section 351 products, resulting from the end of Enforcement Discretion and products which were discontinued. Such write-downs were $1.7 million in total. There were no significant unusual write-downs during the nine months ended September 30, 2022. Offsetting this were the negative impacts from production levels.

Selling, General and Administrative Expense

Selling, general and administrative expenses for the nine months ended September 30, 2022 increased $13.5 million, or 9.3%, to $158.8 million, compared to $145.3 million for the nine months ended September 30, 2021. The increase in SG&A reflects increases in travel costs, sales commissions, bad debt expense, and personnel costs, offset, in part, by lower annual meeting-related expenses. The increase in travel expenses reflects the lifting of travel restrictions that were in place during the nine months ended September 30, 2021 due to the COVID-19 Pandemic, as well as inflationary pressures experienced during the nine months ended September 30, 2022. Increases in sales commissions reflected our focus on sales of products into areas of Surgical Recovery, resulting in a proportional increase in sales through sales agents. The increase in bad debt expense was primarily the result of the deterioration of credit for certain specific customers. The increase in personnel costs reflects severance expense associated with our former CEO, whose employment terminated in September 2022, net of credits for forfeitures related to share-based compensation arrangements.

These effects were offset by year-over-year decreases in expenses incurred in connection with our annual meeting of shareholders. During the nine months ended September 30, 2022, we incurred $2.3 million in consulting and advisory expenses related to a withhold the vote campaign launched by a shareholder. This compares to $3.9 million of similar expenses incurred during the nine months ended September 30, 2021 related to a proxy contest initiated by the same shareholder.

Selling, general and administrative expense in Corporate & Other was 26.1% and 24.5% of total net sales for the nine months ended September 30, 2022 and 2021, respectively.

Research and Development Expense

Our research and development expenses increased $4.7 million, or 36.5%, to $17.4 million for the nine months ended September 30, 2022, compared to $12.8 million for the nine months ended September 30, 2021. The increase reflects higher personnel costs, driven by increases in headcount to support clinical research efforts, primarily connected to our commercial and late-stage pipelines.

Investigation, Restatement and Related Expense

Investigation, restatement and related expenses for the nine months ended September 30, 2022 increased approximately $0.5 million, or 5.6%, to $8.8 million compared to $8.3 million for the nine months ended September 30, 2021. Year-over-year decreases in litigation fees were offset by the receipt of funds from certain director and officer insurance policies during the nine months ended September 30, 2021.

Amortization of Intangible Assets

Amortization expense decreased $0.1 million or 19.8% from $0.6 million for the nine months ended September 30, 2021 to $0.5 million for the nine months ended September 30, 2022. The decrease was the result of amortization avoided on licenses, supplier relationships, and non-compete agreements, which were fully amortized or impaired during 2021.

Interest Expense, Net

Interest expense, net was $3.6 million for the nine months ended September 30, 2022 compared to $3.8 million for the nine months ended September 30, 2021. The decrease was the result of the amortization of deferred financing costs and original issue discount associated with a delayed draw term loan facility under the Hayfin Loan Agreement (described below under "*Liquidity and Capital Resources*"), which ceased at the conclusion of the commitment period for the delayed draw facility on June 30, 2021. This effect was offset by interest income recognized on an income tax receivable during the nine months ended September 30, 2021, as well as increases in LIBOR during the nine months ended September 30, 2022.

Income Tax Provision Expense

The effective tax rates for the Company were (0.6)% and (2.9)% for the nine months ended September 30, 2022 and 2021, respectively. There were no material discrete items affecting the effective tax rate in either period. Net operating losses incurred during both periods were offset by a valuation allowance.

Wound & Surgical

	Nine Months Ended September 30, (in thousands)			
	2022	2021	$ Change	% Change
Net sales	$ 191,297	$ 172,401	$ 18,896	11.0 %
Cost of sales	31,126	25,646	5,480	21.4 %
Selling, general and administrative expense	108,256	87,392	20,864	23.9 %
Research and development expense	6,068	4,080	1,988	48.7 %
Segment contribution	$ 45,847	$ 55,283	$ (9,436)	(17.1)%

Our Wound & Surgical business recorded $191.3 million of net sales for the nine months ended September 30, 2022, a $18.9 million, or 11.0%, increase compared to the $172.4 million we recorded for the nine months ended September 30, 2021. This increase was the result of our focus on the application of these products into areas of Surgical Recovery, as well as the results of our prior initiatives to expand, realign and train our sales team.

Cost of sales for the nine months ended September 30, 2022 was $31.1 million, a $5.5 million, or 21.4%, increase compared to the $25.6 million recognized for nine months ended September 30, 2021. Cost of sales increased due to negative impacts from production variances, primarily due to lower production levels, as well as increases in sales volume.

Selling, general and administrative expense was $108.3 million for the nine months ended September 30, 2022, a $20.9 million, or 23.9%, increase over the nine months ended September 30, 2021, during which we incurred $87.4 million of expenses. The increase was driven by travel expenses, sales commissions, and bad debt expense. Travel expenses increased due to the lifting of restrictions that were in place during the nine months ended September 30, 2021 due to the COVID-19 Pandemic, as well as inflationary pressures experienced during the nine months ended September 30, 2022. Increases in sales commissions reflected our focus on sales of products into areas of Surgical Recovery, resulting in a proportional increase in sales through sales agents. The increase in bad debt expense was primarily the result of the deterioration of credit for certain specific customers.

Research and development expense was $6.1 million for the nine months ended September 30, 2022, compared to $4.1 million for the nine months ended September 30, 2021, an increase of $2.0 million, or 48.7%. The increase was primarily the result of expenses related to AMNIOEFFECT and AXIOFILL, both of which launched during the nine months ended September 30, 2022.

Regenerative Medicine

	Nine Months Ended September 30, (in thousands)			
	2022	2021	$ Change	% Change
Net sales	$ —	$ 16,584	$ (16,584)	nm
Cost of sales	—	3,652	(3,652)	nm
Selling, general and administrative expense	—	11,127	(11,127)	nm
Research and development expense	11,361	8,690	2,671	30.7 %
Segment contribution	$ (11,361)	$ (6,885)	$ (4,476)	65.0 %

Effective May 31, 2021, we ceased marketing certain of our products which are regulated under Section 351 in the United States. After that point in time, we began focusing sales and marketing efforts toward the advancement of our Wound & Surgical products in the United States.

Research and development expense was $11.4 million for the nine months ended September 30, 2022, compared to $8.7 million for the nine months ended September 30, 2021, an increase of $2.7 million, or 30.7%. The increase was primarily the result of increases in headcount and the incurrence of clinical trial expenses to support our clinical research efforts.

Non-GAAP Financial Measures

In addition to our GAAP results, we provide certain Non-GAAP measures including Earnings Before Interest, Taxes, Depreciation and Amortization ("***EBITDA***"), and Adjusted EBITDA. We believe that the presentation of these measures provides important supplemental information to management and investors regarding our performance. These measurements are not a substitute for GAAP measurements, and the manner in which we calculate such metrics may not be identical to the manner in which other companies calculate and present similar metrics. Company management uses these Non-GAAP measurements as aids in monitoring our ongoing financial performance from quarter-to-quarter and year-to-year on a regular basis and for benchmarking against comparable companies.

EBITDA and Adjusted EBITDA

EBITDA is intended to provide a measure of the Company's operating performance as it eliminates the effects of financing and capital expenditures. EBITDA consists of GAAP net loss excluding:

(i) depreciation, (ii) amortization of intangibles, (iii) interest expense, net, and (iv) income tax provision.

Adjusted EBITDA is intended to provide an enduring, normalized view of EBITDA and our broader business operations that we expect to experience on an ongoing basis by removing certain non-cash items and items which may be irregular, one-time, or non-recurring from EBITDA. This also includes share-based compensation, which is predominantly settled in shares. This enables us to identify underlying trends in our business that could otherwise be masked by such items.

Adjusted EBITDA consists of GAAP net loss excluding:

(i) depreciation, (ii) amortization of intangibles, (iii) interest expense, (iv) income tax provision, (v) costs incurred in connection with the Audit Committee Investigation and Restatement, and (vi) share-based compensation.

Management also assesses EBITDA margin and Adjusted EBITDA margin to provide an additional layer of context to the Company's profitability; indicating our ability to convert our sales into sustainable operating results. EBITDA margin is calculated as EBITDA divided by GAAP net sales. Similarly, Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by GAAP net sales.

A reconciliation of GAAP net loss to EBITDA and Adjusted EBITDA appears in the table below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	$ (8,426)	$ (2,339)	$ (29,783)	$ (12,500)
Net margin	*(12.4)%*	*(3.7)%*	*(15.4)%*	*(6.5)%*
Non-GAAP Adjustments:				
Depreciation expense	831	923	2,549	3,390
Amortization of intangible assets	175	193	519	647
Interest expense, net	1,270	963	3,566	3,806
Income tax provision	53	301	178	355
EBITDA	(6,097)	41	(22,971)	(4,302)
EBITDA margin	*(9.0)%*	*0.1 %*	*(11.9)%*	*(2.2)%*
Additional Non-GAAP Adjustments				
Costs incurred in connection with Audit Committee Investigation and Restatement	3,001	3,170	8,771	8,304
Share-based compensation	2,372	3,811	10,798	11,115
Adjusted EBITDA	$ (724)	$ 7,022	$ (3,402)	$ 15,117
Adjusted EBITDA margin	*(1.1)%*	*11.1 %*	*(1.8)%*	*7.9 %*

Discussion of Cash Flows

Operating Activities

Net cash used in operating activities during the nine months ended September 30, 2022 was $12.3 million, compared to $1.3 million of cash provided for the nine months ended September 30, 2021. The change was primarily the result of year-over-year increases in selling, general and administrative expenses and research and development expenses. In addition, during the nine months ended September 30, 2021, we received income tax refunds of $9.2 million.

In addition, during the nine months ended September 30, 2022, we made our initial milestone payment pursuant to a collaboration agreement with Nordic Bioscience Clinical Development A/S for $2.0 million. Refer to the "*Contractual Obligations*" section below for further details.

Finally, payments of accrued compensation increased for the nine months ended September 30, 2022 due to a restructuring of our internal commission arrangements during 2021.

These effects were offset by year-over-year decreases in payments related to legal accruals and recoveries from director and officer insurance policies during the nine months ended September 30, 2021.

Investing Activities

Net cash used for investing activities during the nine months ended September 30, 2022 was $1.0 million, compared to $3.1 million for the nine months ended September 30, 2021. This decrease reflects a $2.0 million year-over-year decrease in capital expenditures.

Financing Activities

Net cash used in financing activities was $0.6 million during the nine months ended September 30, 2022 compared to $3.4 million during the nine months ended September 30, 2021. The decrease was the result of a $3.6 million decrease in cash paid for tax withholdings upon the vesting of restricted stock awards during the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. This was offset by a $0.8 million decrease in cash proceeds from the exercise of stock options, year-over-year.

Liquidity and Capital Resources

Our business requires capital for our operating activities, including costs associated with the sale of product through direct and indirect sales channels, the conduct of research and development activities, compliance costs, and legal and consulting fees in connection with ongoing litigation and other matters.

As of September 30, 2022, we had $73.2 million of cash and cash equivalents, total current assets of $136.0 million and total current liabilities of $45.9 million, reflecting a current ratio of 3.0.

We are currently paying our obligations in the ordinary course of business.

We anticipate cash requirements related to the following items within one year of the date of the filing of this Quarterly Report:

- expenditures required to conduct clinical trials to advance our BLAs and other potential R&D investments;
- expenditures required to achieve necessary regulatory approval and establish operations in new markets deemed strategically important toward the enhancement of our global footprint;
- investments in manufacturing capacity to advance and expand our existing product portfolio;
- indemnification payments to certain former members of our management team; and
- severance payments related to certain former members of management.

We have analyzed our ability to address these commitments and potential liabilities for the 12 months extending from the date of the filing of this Quarterly Report. After completing this analysis, which included a review of expectations of revenue, margins, and expenses, we believe that our existing cash and cash from operations will be sufficient to meet our obligations as they come due.

Term Loan

The Hayfin Loan Agreement was funded on July 2, 2020 and provided us with a senior secured term loan of $50 million (the "***Term Loan***"). The Term Loan matures on June 30, 2025 (the "***Maturity Date***"). On February 28, 2022 (the "***Amendment Date***"), we executed an Amendment to the Hayfin Loan Agreement.

No principal payments are due on the Term Loan until the Maturity Date.

Interest is payable on the Term Loan for principal outstanding quarterly through the Maturity Date. Interest on any borrowings under the Term Loan is equal to LIBOR (subject to a floor of 1.5%) plus a margin of 6.75%. If LIBOR is unavailable, the loan will carry interest at the greatest of the Prime Rate, the Federal Funds Rate plus 0.5% per annum, and 2.5% plus the 6.75% margin.

An additional 3.0% margin would be applied to the interest rate upon the occurrence of an Event of Default as defined in the Hayfin Loan Agreement, as amended (the "***Amended Hayfin Loan Agreement***"). As of September 30, 2022, the Term Loan carried an interest rate of 10.4%.

The Amended Hayfin Loan Agreement contains financial covenants requiring the Company, on a consolidated basis, to maintain the following:

- Minimum Consolidated Total Net Sales (as defined in the Amended Hayfin Loan Agreement) of varying amounts, required to be calculated on a quarterly basis, and
- Minimum Liquidity (as defined in the Amended Hayfin Loan Agreement) of $20 million, an at-all-times financial covenant, tested monthly.

As of September 30, 2022, we are in compliance with applicable all financial covenants under the Amended Hayfin Loan Agreement.

The Amended Hayfin Loan Agreement specifies that any prepayment of the Term Loan, voluntary or mandatory, as defined in the agreement, would subject us to a prepayment premium applicable as of the date of the prepayment, as follows:

- On or before July 2, 2023: 2% of the principal balance repaid.
- After July 2, 2023 but on or before July 2, 2024: 1% of the principal balance repaid.

- After July 2, 2024: no premium.

The Amended Hayfin Loan Agreement also includes certain negative covenants and events of default customary for facilities of this type, and upon the occurrence of such events of default, subject to customary cure rights, all outstanding loans under the Amended Hayfin Loan Agreement may be accelerated or the lenders' commitments terminated. Mandatory prepayments are also required in the event of a change in control, incurring other indebtedness, certain proceeds from disposal of assets and insured casualty event (as defined in the Amended Hayfin Loan Agreement). Annually, beginning with the fiscal year ending December 31, 2021, we are required to prepay the outstanding loans based on the percentage of our Excess Cash Flow (as defined in the Amended Hayfin Loan Agreement), if such is generated. To date, we have not been required to make any prepayments under this provision.

Series B Preferred Stock

We have 100,000 shares of Series B Preferred Stock outstanding as of September 30, 2022.

The Series B Preferred Stock pays a 6.0% cumulative dividend per annum. Dividends are declared at the sole discretion of our board of directors. Dividends, if declared, are paid in cash at the end of each quarter based on dividend amounts that accumulate beginning on the last payment date through the day prior to the end of each quarter. In lieu of paying a dividend in cash, we may elect to accrue the dividend owed to shareholders. Dividend balances accumulate at the prevailing dividend rate for each dividend period for which they are outstanding.

Each share of Series B Preferred Stock, including any accrued and unpaid dividends, is convertible into our common stock at any time at the option of the holder at a conversion price of $3.85 per common share, or 259.74 common shares for each share of Series B Preferred Stock prior to any accrued and unpaid dividends. The Series B Preferred Stock, including any accrued and unpaid dividends, automatically converts into common stock at any time after July 2, 2023, provided that the common stock has traded at $7.70 or higher (i) for 20 out of 30 consecutive trading days and (ii) on such date of conversion.

If we undergo a change of control, we will have the option to repurchase some or all of the then-outstanding shares of Series B Preferred Stock for cash in an amount equal to the liquidation preference and any accumulated and unpaid dividends, subject to the rights of the holders of the Series B Preferred Stock in connection with such change in control. If we do not exercise such repurchase right, holders of the Series B Preferred Stock will have the option to (1) require us to repurchase any or all of our then-outstanding shares of Series B Preferred Stock for cash in an amount equal to the liquidation preference or (2) convert the Series B Preferred Stock, including accrued and unpaid dividends into common stock and receive its pro rata consideration thereunder.

We have not declared or paid any cash dividends on our Series B Convertible Preferred Stock since issuance. Dividends accumulated but not paid as of September 30, 2022 were $12.1 million.

Share Repurchases

We did not repurchase any shares of our common stock, during the three months ended September 30, 2022. The timing and amount of future repurchases, if any, will depend upon our stock price, economic and market conditions, regulatory requirements, and other corporate considerations. We may initiate, suspend or discontinue purchases at any time.

Contractual Obligations

Nordic Agreement

In June 2022, we entered into a collaboration agreement (the "***Nordic Agreement***") with Nordic Bioscience Clinical Development A/S ("***NBCD***") to provide full operational support for our upcoming KOA clinical trial program, which we expect to begin later this year. As part of the agreement, NBCD will perform site selection and monitoring, manage patient recruitment and enrollment, data management, statistical analysis and reporting activities for the duration of the trial. Under the terms of the Nordic Agreement, we are obligated to pay $13.3 million upon the achievement of specified milestones over the course of the clinical trial. The milestones are based upon various factors including, but not limited to, site selection and enrollment, patient enrollment, patient completion, and certain other activities related to clinical trial activities. The milestone payments are revised semi-annually based on fluctuations in the consumer price index. We have the ability to terminate the Nordic Agreement with 30 days written notice to NBCD. At such time, we would be required to pay for services performed through the date of termination and any non-cancelable obligations.

We have paid $2.0 million under the Nordic Agreement as of September 30, 2022 relating to milestones which have been achieved through that date.

Other Obligations

Other than the obligations discussed above, there were no significant changes to our contractual obligations during the nine months ended September 30, 2022 from those disclosed in the section Item 7, "*Management's Discussion and Analysis of Financial Condition and Results from Operations*", in our 2021 Form 10-K.

Critical Accounting Estimates

In preparing financial statements, we follow accounting principles generally accepted in the United States, which require us to make certain estimates and apply judgments that affect our financial position and results of operations. We regularly review our accounting policies and financial information disclosures. A summary of critical accounting estimates in preparing the financial statements was provided in our 2021 Form 10-K. During the quarter covered by this report, there were no material changes to the accounting policies and assumptions previously disclosed.

Recent Accounting Pronouncements

For the effect of recent accounting pronouncements, see Note 2 to the unaudited condensed consolidated financial statements contained herein.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Based on our lack of market risk sensitive instruments outstanding at September 30, 2022, we have determined that there was no material market risk exposure to our consolidated financial position, results of operations or cash flows as of such date.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective at a reasonable assurance level in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the fiscal quarter ended September 30, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The Company and its subsidiaries are parties to numerous claims and lawsuits arising in the ordinary course of its business activities, some of which involve claims for substantial amounts. The ultimate outcome of these suits cannot be ascertained at this time. The description of our securities class action contained in Note 13, "Commitments and Contingencies," to the unaudited condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report, is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors included in its 2021 Form 10-K.

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

(a) None.

(b) None.

(c) The following table sets forth information regarding the purchases of the Company's equity securities made by or on behalf of the Company or any affiliated purchaser (as defined in Exchange Act Rule 10b-18) during the three month period ended September 30, 2022:

	Total number of shares purchased	Average price paid per share	Total number of shares purchased under publicly announced plan	Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs
July 1 - July 31, 2022	—	$ —	—	$ —
August 1 - August 31, 2022	—	—	—	$ —
September 1 - September 30, 2022	—	—	—	$ —
Total for the quarter	—	$ —	—	

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit Number	Description
10.1*	Interim Executive Employment Agreement, by and between MiMedx Group, Inc. and K. Todd Newton, dated September 14, 2022 (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on September 16, 2022).
10.2*	Restricted Stock Unit Agreement, by and between MiMedx Group, Inc. and K. Todd Newton, dated September 15, 2022 (incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on September 16, 2022).
10.3*	Separation Agreement and General Release, by and between MiMedx Group, Inc. and Timothy R. Wright, dated September 15, 2022 (incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K filed on September 16, 2022).
31.1 #	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 #	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 #	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 #	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS #	XBRL Instance Document
101.SCH #	XBRL Taxonomy Extension Schema Document
101.CAL #	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF #	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB #	XBRL Taxonomy Extension Label Linkbase Document
101.PRE #	XBRL Taxonomy Extension Presentation Linkbase Document

* Previously filed and incorporated herein by reference

\# Filed or furnished herewith

SIGNATURES

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

November 2, 2022

MIMEDX GROUP, INC.

By: /s/ Peter M. Carlson
Peter M. Carlson
Chief Financial Officer and Principal Financial Officer

Exhibit 31.1

CERTIFICATION OF INTERIM CHIEF EXECUTIVE OFFICER
PURSUANT TO RULES 13a-14(A) AND 15d-14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934

I, K. Todd Newton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, of MiMedx Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2022

/s/ K. Todd Newton
K. Todd Newton
Interim Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULES 13a-14(A) AND 15d-14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934

I, Peter M. Carlson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, of MiMedx Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2022

/s/ Peter M. Carlson
Peter M. Carlson
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned K. Todd Newton, the Interim Chief Executive Officer of MiMedx Group, Inc. (the "Company"), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2022 (the "Report"). Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned hereby certifies, to his knowledge, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2022

/s/ K. Todd Newton
K. Todd Newton
Interim Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned Peter M. Carlson, the Chief Financial Officer of MiMedx Group, Inc. (the "Company"), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2022 (the "Report"). Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned hereby certifies, to his knowledge, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2022

/s/ Peter M. Carlson
Peter M. Carlson
Chief Financial Officer