UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 1, 2023

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: 001-37844

BIOVENTUS INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**81-0980861**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
4721 Emperor Boulevard, Suite 100 **Durham, North Carolina** **(Address of Principal Executive Offices)**	**27703** **(Zip Code)**

(919) 474-6700
(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
Class A Common Stock, $0.001 par value per share	BVS	The Nasdaq Global Select Market

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging Growth Company	☒

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

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

As of August 2, 2023, there were 62,792,850 shares of Class A common stock outstanding and 15,786,737 shares of Class B common stock outstanding.

BIOVENTUS INC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

As used in this Quarterly Report on Form 10-Q, unless expressly indicated or the context otherwise requires, references to "Bioventus," "we," "us," "our," "the Company," and similar references refer to Bioventus Inc. and its consolidated subsidiaries, including Bioventus LLC (“BV LLC”).

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”), and Section 27A of the Securities Act of 1933, as amended (“Securities Act”), concerning our business, operations and financial performance and condition, as well as our plans, objectives and expectations for our business operations and financial performance and condition. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements including, without limitation, statements regarding our business strategy, including, without limitation, expectations relating to our acquisitions of Misonix and Bioness, expected expansion of our pipeline and research and development investment, new therapy launches, expected costs related to, and potential future options for, MOTYS, recent dispositions of non-core assets, our operations and expected financial performance and condition, and impacts of the COVID-19 pandemic and inflation. In some cases, you can identify forward-looking statements by terminology such as “aim,” “anticipate,” “assume,” “believe,” “contemplate,” “continue,” “could,” “due,” “estimate,” “expect,” “goal,” “intend,” “may,” “objective,” “plan,” “predict,” “potential,” “positioned,” “seek,” “should,” “target,” “will,” “would” and other similar expressions that are predictions of or indicate future events and future trends, or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words.

Forward-looking statements are based on management’s current expectations, estimates, forecasts and projections about our business and the industry in which we operate, and management’s beliefs and assumptions are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. As a result, any or all of our forward-looking statements in this Quarterly Report on Form 10-Q may turn out to be inaccurate. Furthermore, if the forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all. Important factors that may cause actual results to differ materially from current expectations include, among other things: the risk that previously identified material weaknesses or new material weaknesses could adversely affect our ability to report our results of operations and financial condition accurately and in a timely manner; we might not be able to continue to fund our operations for at least the next twelve months as a going concern; we might not meet certain of our debt covenants under our Credit Agreement and might be required to repay our indebtedness; risks associated with the disposition of our Wound Business and expected impacts on our business; restrictions on operations and other costs associated with our indebtedness; our ability to complete acquisitions or successfully integrate new businesses, products or technologies in a cost-effective and non-disruptive manner; we maintain cash at financial institutions, often in balance that exceed federally insured limits; we are subject to securities class action litigation and may be subject to similar or other litigation in the future, which will require significant management time and attention, result in significant legal expenses and may result in unfavorable outcomes; our ability to maintain our competitive position depends on our ability to attract, retain and motivate our senior management team and highly qualified personnel; we are highly dependent on a limited number of products; our long-term growth depends on our ability to develop, acquire and commercialize new products, line extensions or expanded indications; we may be unable to successfully commercialize newly developed or acquired products or therapies in the United States; demand for our existing portfolio of products and any new products, line extensions or expanded indications depends on the continued and future acceptance of our products by physicians, patients, third-party payers and others in the medical community; the proposed down classification of non-invasive bone growth stimulators, including our Exogen system, by the U.S. Food and Drug Administration (FDA) could increase future competition for bone growth stimulators and otherwise adversely affect the Company’s sales of Exogen; failure to achieve and maintain adequate levels of coverage and/or reimbursement for our products or future products, the procedures using our products, such as our hyaluronic acid (HA) viscosupplements, or future products we may seek to commercialize; pricing pressure and other competitive factors; governments outside the United States might not provide coverage or reimbursement of our products; we compete and may compete in the future against other companies, some of which have longer operating histories, more established products or greater resources than we do; the reclassification of our HA products from medical devices to drugs in the United States by the FDA could negatively impact our ability to market these products and may require that we conduct costly additional clinical studies to support current or future indications for use of those products; our failure to properly manage our anticipated growth and strengthen our brands; risks related to product liability claims; fluctuations in demand for our products; issues relating to the supply of our products, potential supply chain disruptions and the increased cost of parts and components used to manufacture our products due to inflation; our reliance on a limited number of third-party manufacturers to manufacture certain of our products; if our facilities are damaged or become

inoperable, we will be unable to continue to research, develop and manufacture our products; failure to maintain contractual relationships; security breaches, unauthorized disclosure of information, denial of service attacks or the perception that confidential information in our possession is not secure; failure of key information technology and communications systems, process or sites; risks related to international sales and operations; risks related to our debt and future capital needs; failure to comply with extensive governmental regulation relevant to us and our products; we may be subject to enforcement action if we engage in improper claims submission practices and resulting audits or denials of our claims by government agencies could reduce our net sales or profits; the FDA regulatory process is expensive, time-consuming and uncertain, and the failure to obtain and maintain required regulatory clearances and approvals could prevent us from commercializing our products; if clinical studies of our future product candidates do not produce results necessary to support regulatory clearance or approval in the United States or elsewhere, we will be unable to expand the indications for or commercialize these products; legislative or regulatory reforms; our business may continue to experience adverse impacts as a result of the COVID-19 pandemic or similar epidemics; risks related to intellectual property matters; and other important factors described in *Part I. Item 1A. Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2022, as updated by our subsequent Quarterly Report on Form 10-Q for the quarter ended April 1, 2023, and as may be further updated from time to time in our other filings with the SEC. You are urged to consider these factors carefully in evaluating these forward-looking statements. These forward-looking statements speak only as of the date hereof. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Bioventus Inc.
Consolidated Condensed Statements of Operations and Comprehensive Loss
Three and Six Months Ended July 1, 2023 and July 2, 2022
(Amounts in thousands, except share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Net sales	$ 137,069	$ 140,331	$ 256,128	$ 257,621
Cost of sales (including depreciation and amortization of $12,301, $9,684, $26,640 and $18,902 respectively)	47,946	43,677	93,086	85,265
Gross profit	89,123	96,654	163,042	172,356
Selling, general and administrative expense	74,844	89,620	155,702	175,744
Research and development expense	3,398	6,366	7,169	13,294
Restructuring costs	620	1,007	937	1,584
Change in fair value of contingent consideration	240	273	527	542
Depreciation and amortization	2,294	2,696	4,423	5,950
Impairment of assets	—	—	78,615	—
Loss on disposal of a business	977	—	977	—
Operating income (loss)	6,750	(3,308)	(85,308)	(24,758)
Interest expense, net	10,587	2,578	20,281	1,028
Other expense (income)	513	604	(1,075)	241
Other expense	11,100	3,182	19,206	1,269
Loss before income taxes	(4,350)	(6,490)	(104,514)	(26,027)
Income tax expense (benefit), net	381	1,244	235	(3,888)
Net loss from continuing operations	(4,731)	(7,734)	(104,749)	(22,139)
Loss from discontinued operations, net of tax	—	(280)	(74,429)	(681)
Net loss	(4,731)	(8,014)	(179,178)	(22,820)
Loss attributable to noncontrolling interest - continuing operations	1,050	762	21,410	4,291
Loss attributable to noncontrolling interest - discontinued operations	—	—	14,937	—
Net loss attributable to Bioventus Inc.	$ (3,681)	$ (7,252)	$ (142,831)	$ (18,529)
Net loss from continuing operations	$ (4,731)	$ (7,734)	$ (104,749)	$ (22,139)
Other comprehensive income (loss), net of tax				
Change in foreign currency translation adjustments	303	(507)	960	(1,189)
Comprehensive loss	(4,428)	(8,241)	(103,789)	(23,328)
Comprehensive loss attributable to noncontrolling interest - continuing operations	989	868	21,215	4,537
Comprehensive loss attributable to noncontrolling interest - discontinued operations	—	—	14,937	—
Comprehensive loss attributable to Bioventus Inc.	$ (3,439)	$ (7,373)	$ (67,637)	$ (18,791)
Loss per share of Class A common stock from continuing operations, basic and diluted:	$ (0.06)	$ (0.11)	$ (1.34)	$ (0.29)
Loss per share of Class A common stock from discontinued operations, basic and diluted:	—	—	(0.95)	(0.01)
Loss per share of Class A common stock, basic and diluted	$ (0.06)	$ (0.11)	$ (2.29)	$ (0.30)
Weighted-average shares of Class A common stock outstanding, basic and diluted:	62,551,285	61,475,350	62,338,018	60,977,556

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

Bioventus Inc.
Consolidated Condensed Balance Sheets as of July 1, 2023 and December 31, 2022
(Amounts in thousands, except share amounts)
(Unaudited)

	July 1, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 29,389	$ 30,186
Accounts receivable, net	119,636	136,295
Inventory	96,276	84,766
Prepaid and other current assets	15,337	18,551
Current assets attributable to discontinued operations	—	2,777
Total current assets	260,638	272,575
Property and equipment, net	41,862	27,456
Goodwill	7,462	7,462
Intangible assets, net	505,223	639,851
Operating lease assets	15,238	16,690
Investment and other assets	6,539	2,621
Long-term assets attributable to discontinued operations	—	405,994
Total assets	$ 836,962	$ 1,372,649
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 41,364	$ 36,697
Accrued liabilities	121,748	111,570
Current portion of long-term debt	11,320	33,056
Other current liabilities	4,672	3,607
Current liabilities attributable to discontinued operations	—	119,087
Total current liabilities	179,104	304,017
Long-term debt, less current portion	374,568	385,010
Deferred income taxes	—	2,248
Contingent consideration	17,958	17,431
Other long-term liabilities	31,991	22,810
Long-term liabilities attributable to discontinued operations	—	228,911
Total liabilities	603,621	960,427
Commitments and contingencies (Note 11)		
Stockholders' Equity		
Preferred stock, $0.001 par value, 10,000,000 shares authorized, 0 shares issued		
Class A common stock, $0.001 par value, 250,000,000 shares authorized as of July 1, 2023 and December 31, 2022, 62,804,506 and 62,063,014 shares issued and outstanding as of July 1, 2023 and December 31, 2022, respectively	63	62
Class B common stock, $0.001 par value, 50,000,000 shares authorized, 15,786,737 shares issued and outstanding as of July 1, 2023 and December 31, 2022	16	16
Additional paid-in capital	490,598	490,576
Accumulated deficit	(308,137)	(165,306)
Accumulated other comprehensive income (loss)	655	(110)
Total stockholders' equity attributable to Bioventus Inc.	183,195	325,238
Noncontrolling interest	50,146	86,984
Total stockholders' equity	233,341	412,222
Total liabilities and stockholders' equity	$ 836,962	$ 1,372,649

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

Bioventus Inc.
Consolidated Condensed Statements of Changes in Stockholders' Equity
Three and Six Months Ended July 1, 2023 and July 2, 2022
(Amounts in thousands, except share amounts)
(Unaudited)

Three Months Ended July 1, 2023

	Class A Common Stock		Class B Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated other comprehensive (loss) income	Accumulated Deficit	Non-controlling interest	Total Stockholders' equity
Balance at April 1, 2023	62,507,917	$ 63	15,786,737	$ 16	$ 492,475	$ 413	$ (304,456)	$ 51,851	$ 240,362
Issuance of Class A common stock for equity plans	296,589	—	—	—	139	—	—	—	139
Net loss	—	—	—	—	—	—	(3,681)	(1,050)	(4,731)
Change in noncontrolling interest allocation	—	—	—	—	108	—	—	(108)	—
Equity based compensation	—	—	—	—	(2,124)	—	—	(608)	(2,732)
Translation adjustment	—	—	—	—	—	242	—	61	303
Balance at July 1, 2023	62,804,506	$ 63	15,786,737	$ 16	$ 490,598	$ 655	$ (308,137)	$ 50,146	$ 233,341

Three Months Ended July 2, 2022

	Class A Common Stock		Class B Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated other comprehensive (loss) income	Accumulated Deficit	Non-controlling interest	Total Stockholders' equity
Balance at April 2, 2022	61,357,270	$ 62	15,786,737	$ 16	$ 476,661	$ (363)	$ (17,879)	$ 135,311	$ 593,808
Issuance of Class A common stock for equity plans	299,229	2	—	—	2,175	—	—	—	2,177
Net loss	—	—	—	—	—	—	(7,252)	(762)	(8,014)
Change in noncontrolling interest allocation	—	—	—	—	(65)	—	—	65	—
Equity based compensation	—	—	—	—	3,681	—	—	935	4,616
Translation adjustment	—	—	—	—	—	(401)	—	(106)	(507)
Balance at July 2, 2022	61,656,499	$ 64	15,786,737	$ 16	$ 482,452	$ (764)	$ (25,131)	$ 135,443	$ 592,080

Six Months Ended July 1, 2023

	Class A Common Stock		Class B Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated other comprehensive (loss) income	Accumulated Deficit	Non-controlling interest	Total Stockholders' equity
Balance at December 31, 2022	62,063,014	$ 62	15,786,737	$ 16	$ 490,576	$ (110)	$ (165,306)	$ 86,984	$ 412,222
Issuance of Class A common stock for equity plans	741,492	1	—	—	222	—	—	—	223
Net loss	—	—	—	—	—	—	(142,831)	(36,347)	(179,178)
Change in noncontrolling interest allocation	—	—	—	—	385	—	—	(385)	—
Equity based compensation	—	—	—	—	(585)	—	—	(301)	(886)
Translation adjustment	—	—	—	—	—	765	—	195	960
Balance at July 1, 2023	62,804,506	$ 63	15,786,737	$ 16	$ 490,598	$ 655	$ (308,137)	$ 50,146	$ 233,341

Six Months Ended July 2, 2022

	Class A Common Stock		Class B Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated other comprehensive (loss) income	Accumulated Deficit	Non-controlling interest	Total Stockholders' equity
Balance at December 31, 2021	59,548,504	$ 59	15,786,737	$ 16	$ 473,318	$ 179	$ (6,602)	$ 140,686	$ 607,656
Issuance of Class A common stock for equity plans	2,107,995	5	—	—	4,252	—	—		4,257
Deferred taxes on equity rebalancing	—	—	—	—	(1,977)	—	—	—	(1,977)
Net loss	—	—	—	—	—	—	(18,529)	(4,291)	(22,820)
Change in noncontrolling interest allocation	—	—	—	—	2,587	—	—	(2,587)	—
Equity based compensation	—	—	—	—	7,624	—	—	1,881	9,505
Tax withholdings on equity compensation awards	—	—	—	—	(3,352)	—	—	—	(3,352)
Translation adjustment	—	—	—	—	—	(943)	—	(246)	(1,189)
Balance at July 2, 2022	61,656,499	$ 64	15,786,737	$ 16	$ 482,452	$ (764)	$ (25,131)	$ 135,443	$ 592,080

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

Bioventus Inc.
Consolidated Condensed Statements of Cash Flows
Six Months Ended July 1, 2023 and July 2, 2022
(Amounts in thousands)
(Unaudited)

	Six Months Ended	
	July 1, 2023	**July 2, 2022**
Operating activities:		
Net loss	$ (179,178)	$ (22,820)
Less: Loss from discontinued operations, net of tax	(74,429)	(681)
Loss from continuing operations	(104,749)	(22,139)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	31,073	24,863
Provision for expected credit losses	640	2,505
Equity based compensation	(886)	9,505
Change in fair value of contingent consideration	527	542
Change in fair value of interest rate swap	—	(4,196)
Deferred income taxes	(3,540)	(27,698)
Impairment of assets	78,615	—
Loss on disposal of a business	977	—
Unrealized loss on foreign currency fluctuations	601	1,020
Other, net	1,139	408
Changes in operating assets and liabilities:		
Accounts receivable	11,329	(21,157)
Inventories	(13,074)	(2,614)
Accounts payable and accrued expenses	14,765	17,747
Other current and noncurrent assets and liabilities	(1,963)	3,134
Net cash from operating activities - continuing operations	15,454	(18,080)
Net cash from operating activities - discontinued operations	(2,169)	—
Net cash from operating activities	13,285	(18,080)
Investing activities:		
Proceeds from sale of a business	34,897	—
Investment held in trust for the acquisition of CartiHeal	—	(50,000)
Acquisitions, net of cash acquired	—	(231)
Purchase of property and equipment	(4,957)	(4,990)
Investments and acquisition of distribution rights	—	(1,478)
Net cash from investing activities - continuing operations	29,940	(56,699)
Net cash from investing activities - discontinued operations	(11,506)	—
Net cash from investing activities	18,434	(56,699)
Financing activities:		
Proceeds from issuance of Class A and B common stock	223	4,257
Tax withholdings on equity-based compensation	—	(3,352)
Borrowing on revolver	49,000	25,000
Payment on revolver	(42,000)	—
Debt refinancing costs	(3,661)	—
Payments on long-term debt	(38,264)	(9,019)
Other, net	(166)	(26)
Net cash from financing activities	(34,868)	16,860
Effect of exchange rate changes on cash	701	(293)
Net change in cash, cash equivalents and restricted cash	(2,448)	(58,212)
Cash, cash equivalents and restricted cash at the beginning of the period	31,837	99,213
Cash, cash equivalents and restricted cash at the end of the period	$ 29,389	$ 41,001
Supplemental disclosure of noncash investing and financing activities		
Accrued liabilities for intellectual property	$ 709	$ —
Accounts payable for purchase of property, plant and equipment	$ 968	$ 67

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

Bioventus Inc.
Notes to the unaudited consolidated condensed financial statements
(Amounts in thousands, except unit and share amounts)

1. Organization

The Company

Bioventus Inc. (together with its subsidiaries, the "Company") was formed as a Delaware corporation for the purpose of facilitating an initial public offering and other related transactions in order to carry on the business of Bioventus LLC and its subsidiaries ("BV LLC"). Bioventus Inc. functions as a holding company with no direct operations, material assets or liabilities other than the equity interest in BV LLC. BV LLC is a limited liability company formed under the laws of the state of Delaware on November 23, 2011 and operates as a partnership. BV LLC commenced operations in May 2012.

On February 16, 2021, the Company completed its initial public offering ("IPO"), which was conducted through what is commonly referred to as an umbrella partnership C Corporation ("UP-C") structure. The Company has majority interest, sole voting interest and controls the management of BV LLC. As a result, the Company consolidates the financial results of BV LLC and reports a noncontrolling interest representing the interest of BV LLC held by its continuing LLC owner.

The Company is focused on developing and commercializing clinically differentiated, cost efficient and minimally invasive treatments that engage and enhance the body's natural healing processes. The Company is headquartered in Durham, North Carolina and has approximately 950 employees.

Interim periods

The Company reports quarterly interim periods on a 13-week basis within a standard calendar year. Each annual reporting period begins on January 1 and ends on December 31. Each quarter ends on the Saturday closest to calendar quarter-end, with the exception of the fourth quarter, which ends on December 31. The 13-week quarterly periods for fiscal year 2023 end on April 1, July 1 and September 30. Comparable periods for 2022 ended on April 2, July 2 and October 1. The fourth and first quarters may vary in length depending on the calendar year.

Unaudited interim financial information

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Pursuant to these rules and regulations, they do not include all information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments, and the adjustments discussed in *Note 1. Organization*) considered necessary for a fair statement of the Company's financial condition and results of operations have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year. As such, the information included in this report should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2022. The consolidated balance sheet at December 31, 2022 has been derived from the audited consolidated financial statements of the Company, but does not include all the disclosures required by U.S. GAAP.

Correction of immaterial misstatements

During the quarter ended April 1, 2023 and as part of the balance sheet review process, the Company identified misstatements in its calculation of the carrying amount of noncontrolling interest as it applies to the Company's complex UP-C tax and ownership structure as prescribed in the amended and restated limited liability company agreement of BV LLC. Specifically, the Company failed to adjust the carrying amount of its noncontrolling interest to reflect changes in ownership interests relating to BV LLC. As a result, the previously issued consolidated financial statements reflect an understatement of noncontrolling interest and an overstatement of additional paid-in capital.

As a result of further research conducted, the Company discovered an additional error related to historical deferred income tax balances. The Company concluded that it had inappropriately calculated deferred income taxes by using an incorrect book basis in its investment of BV LLC during the Company's IPO, which resulted in an overstatement of deferred tax liabilities, an understatement of noncontrolling interest and an understatement of additional paid-in capital.

The statements affected by these errors include the consolidated balance sheets and consolidated statements of stockholders' and members' equity issued in the Company's Annual Report on Form 10-K for the years ended December 31, 2022 and December 31, 2021. There was no impact to any other financial statements for the periods presented. The Company concluded that these misstatements were not material, individually or in the aggregate, as evaluated under the Securities and Exchange Commission Staff Bulletin No. 99, *Materiality;* No. 108, *Considering the Effects of Prior Year Misstatements in Current Year Financial Statements*; and Financial Accounting Standards Board ASC 250-10, *Accounting Changes and Error Corrections*. However, because of the significance of these items, and to facilitate comparison among periods, the Company has decided to revise its previously issued consolidated financial statements on a prospective basis. The Company will correct its prior period presentation for this error in its future 2023 quarterly financial statements included in its Forms 10-Q and 2023 Annual Report on Form 10-K for the period ended December 31, 2023. The adjustments did not have an impact on revenues, total assets or cash flows.

The following are selected line items from our aforementioned impacted financial statements illustrating the effect of the error corrections thereon:

Consolidated Balance Sheets — December 31, 2022	**As Previously Reported**	**Adjustments**	**As Adjusted**
Deferred income taxes (b)(d)	$ 74,138	$ (71,890)	$ 2,248
Total liabilities	1,032,317	(71,890)	960,427
Additional paid-in capital (a)(b)(c)(d)	481,919	8,657	490,576
Noncontrolling interest (a)(c)	23,751	63,233	86,984
Total stockholders' equity	340,332	71,890	412,222

Consolidated Balance Sheets — December 31, 2021	**As Previously Reported**	**Adjustments**	**As Adjusted**
Deferred income taxes (b)	$ 133,518	$ (73,867)	$ 59,651
Total liabilities	692,073	(73,867)	618,206
Additional paid-in capital (a)(b)	465,272	8,046	473,318
Noncontrolling interest (a)	74,865	65,821	140,686
Total stockholders' equity	533,789	73,867	607,656

The Company's consolidated statements of changes in stockholders' and members equity as of December 31, 2022 and December 31, 2021 have been corrected to reflect the above adjustments. The Company revised the amounts originally reported for the years ended December 31, 2022 and December 31, 2021 for the following items:

(a) Recorded a $65,821 decrease to additional paid-in capital and a corresponding increase to noncontrolling interest. This action effectively rebalanced equity appropriately between the Company and its noncontrolling interests according to their respective BV LLC ownership interests.

(b) Recorded a $73,867 decrease to deferred income tax balances and an increase to additional paid in capital to reflect the correction of an error that occurred during the calculation of deferred taxes at the Company's IPO.

(c) Reflects the entry as discussed in (a) above and additional rebalancing activity of $2,588 relating to the issuance of Class A common stock for equity plans during the year ended December 31, 2022.

(d) Reflects the entry as discussed in (b) and an additional $1,977 increase to deferred income tax balances and a reduction to additional paid in capital to reflect the deferred tax impact during the year ended December 31, 2022.

Going concern

The accompanying unaudited consolidated financial statements have been prepared under the going concern basis of accounting, which presumes that the Company's liquidation is not imminent; however, based on the Company's current financial position and liquidity sources, including current cash balances, and forecasted future cash flows, the Company is at risk of violating certain of its financial covenants under the Credit and Guaranty Agreement, dated December 6, 2019 (as amended on October 29, 2021, July 11, 2022 and March 31, 2023).

If mitigating steps are not taken or are not successful, the Company is at substantial risk of failing its covenants in 2024. A breach of a financial covenant under the Credit and Guaranty Agreement could accelerate repayment of our obligations under the agreement. Refer to *Note 4. Financial instruments* for further discussion concerning the Company's long-term debt obligations.

The Company is actively pursuing plans to mitigate these conditions and events, such as considering various additional cost cutting measures, and exploring additional divestiture opportunities such as the recently completed divestiture of certain assets within the Company's Wound Business (as defined in *Note 3. Acquisitions and divestitures)*; however, there can be no assurances that it is probable these plans will be successfully implemented or that they will successfully mitigate these conditions and events. Therefore, these plans do not alleviate the substantial doubt about the Company's ability to continue as a going concern.

As part of efforts to improve its financial condition, on February 27, 2023, the Company reached an agreement to return the assets and liabilities of CartiHeal (2009) Ltd. ("CartiHeal"), a wholly-owned subsidiary of the Company, to its former securityholders. The deconsolidation of CartiHeal relieved deferred consideration liabilities and milestone obligations related to the acquisition of CartiHeal. Refer to *Note 3. Acquisitions and divestitures* for further information regarding the acquisition and subsequent deconsolidation of CartiHeal. In addition, the Company announced a restructuring plan in December 2022 to align the Company's organizational and management cost structure to improve profitability and cash flow. Refer to *Note 9. Restructuring costs* for further information.

Recent accounting pronouncements

The Company is an accelerated public company filer. Therefore, required effective dates for adopting new or revised accounting standards are generally earlier than when emerging growth companies are required to adopt.

2. Balance sheet information

Accounts receivable, net

Accounts receivable, net are amounts billed and currently due from customers. The Company records the amounts due net of allowance for credit losses. Collection of the consideration that the Company expects to receive typically occurs within 30 to 90 days of billing. The Company applies the practical expedient for contracts with payment terms of one year or less which does not consider the effects of the time value of money. Occasionally, the Company enters into payment agreements with patients that allow payment terms beyond one year. In those cases, the financing component is not deemed significant to the contract.

Accounts receivable, net of allowances, consisted of the following as of:

	July 1, 2023	December 31, 2022
Accounts receivable[(a)]	$ 126,777	$ 143,317
Less: Allowance for credit losses	(7,141)	(7,022)
	$ 119,636	$ 136,295

(a) Other receivables of $350 attributable to CartiHeal was reclassified to current assets attributable to discontinued operations within the December 31, 2022 consolidated balance sheets. Refer to *Note 3. Acquisitions and divestitures* and *Note 14. Discontinued operations* for further details regarding the deconsolidation of CartiHeal.

Due to the short-term nature of the Company's receivables, the estimate of expected credit losses is based on aging of the account receivable balances. The allowance is adjusted on a specific identification basis for certain accounts as well as pooling of accounts with similar characteristics. The Company has a diverse customer base with no single customer representing ten percent or more of sales. The Company has one customer representing approximately 15.2% of the accounts receivable balance as of July 1, 2023. Historically, the Company's reserves have been adequate to cover credit losses.

Changes in credit losses were as follows:

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Beginning balance	$ (7,401)	$ (4,254)	$ (7,022)	$ (3,402)
Benefit (provision) for expected credit losses	439	(1,353)	(640)	(2,505)
Write-offs	768	456	1,054	825
Recoveries	(479)	(141)	(963)	(210)
Disposition	(468)	—	430	—
Ending balance	$ (7,141)	$ (5,292)	$ (7,141)	$ (5,292)

Inventory

Inventory consisted of the following as of:

	July 1, 2023	December 31, 2022
Raw materials and supplies[(a)]	$ 26,438	$ 19,133
Finished goods	72,347	67,484
Gross	98,785	86,617
Excess and obsolete reserves	(2,509)	(1,851)
	$ 96,276	$ 84,766

(a) Raw material inventory of $642 attributable to CartiHeal has been reclassified to current assets attributable to discontinued operations within the December 31, 2022 consolidated balance sheets. Refer to *Note 3. Acquisitions and divestitures* and *Note 14. Discontinued operations* for further details regarding the deconsolidation of CartiHeal.

Prepaid and other current assets

Prepaid and other current assets consisted of the following as of:

	July 1, 2023	December 31, 2022
Prepaid taxes	$ 4,224	$ 4,442
Prepaid and other current assets[(a)]	11,113	14,109
	$ 15,337	$ 18,551

(a) Prepaid and other current assets of $134 attributable to CartiHeal was reclassified to current assets attributable to discontinued operations within the December 31, 2022 balance sheet. Refer to *Note 3. Acquisitions and divestitures* and *Note 14. Discontinued operations* for further details regarding the deconsolidation of CartiHeal.

Intangible assets, net

Intangible assets consisted of the following as of:

	July 1, 2023	December 31, 2022
Intellectual property[(a)(b)]	$ 677,258	$ 790,049
Distribution rights	61,325	61,325
Customer relationships[(b)]	57,950	67,450
IPR&D	5,500	5,500
Developed technology and other	13,998	13,998
Total carrying amount	816,031	938,322
Less accumulated amortization:		
Intellectual property[(a)(b)]	(198,141)	(187,767)
Distribution rights	(46,810)	(44,319)
Customer relationships[(b)]	(57,950)	(58,842)
Developed technology and other	(6,899)	(6,276)
Total accumulated amortization	(309,800)	(297,204)
Intangible assets, net before currency translation	506,231	641,118
Currency translation	(1,008)	(1,267)
	$ 505,223	$ 639,851

(a) Intellectual property and accumulated depreciation attributable to CartiHeal totaling $410,200 and $11,327, respectively, were reclassified to long-term assets attributable to discontinued operations within the December 31, 2022 consolidated balance sheets. Refer to *Note 3. Acquisitions and divestitures* and *Note 14. Discontinued operations* for further details regarding the deconsolidation of CartiHeal.

(b) The Company recorded an impairment loss of $78,615 for the six months ended July 1, 2023 in the U.S. reporting segment of net intellectual property attributable to the TheraSkin and TheraGenesis products, which were sold in May 2023. The loss was recorded in impairment of assets within the consolidated condensed statements of operations and comprehensive loss. Refer to Refer to *Note 3. Acquisitions and divestitures* for further details regarding businesses held for sale.

Estimated amortization expense for intangibles subsequent to reclassifications, impairment and additions for the remainder of 2023 and for the years ended December 31, 2024 through 2027 is expected to be $13,814, $26,590, $23,922, $20,461 and $20,109, respectively.

Goodwill

Goodwill is evaluated for impairment annually or more frequently if events or changes in circumstances indicate that goodwill might be impaired. The Company assesses goodwill impairment by applying a quantitative impairment analysis comparing the carrying value of the Company's reporting units to their respective fair values. A goodwill impairment exists if the carrying value of the reporting unit exceeds its fair value.

The Company has two reporting units and assesses impairment based upon qualitative factors and if necessary, quantitative factors. A reporting unit's fair value is determined using the income approach and discounted cash flow models by utilizing Level 3 inputs and assumptions such as future cash flows, discount rates, long-term growth rates, market value and income tax considerations. Specifically, the value of each reporting unit is determined on a stand-alone basis from the perspective of a market participant and represents the price estimated to be received in a sale of the reporting unit in an orderly transaction between market participants at the measurement date. The Company then reconciles the values of all reporting units to the market capitalization of the Company.

The Company's goodwill resides within the International segment, of which $6,297 related to CartiHeal and was reclassified to long-term assets attributable to discontinued operations within the December 31, 2022 consolidated balance sheets. The amount was recorded in discontinued operations, net of tax on the consolidated condensed statements of operations for the six months ended July 1, 2023 as a result of CartiHeal's deconsolidation. Refer to *Note 3. Acquisitions and divestitures* and *Note 14. Discontinued operations* for further details concerning the deconsolidation of CartiHeal.

On November 8, 2022, due to a significant decline in the Company's Class A common stock price, circumstances became evident that a possible goodwill impairment existed as of the third quarter 2022 balance sheet date. The Company concluded that the carrying value of the U.S. reporting unit exceeded its fair value and recorded a non-cash goodwill impairment charge of $189,197 during the year ended December 31, 2022. There were no impairment losses or indicators of impairment during the six months ended July 1, 2023. There were also no accumulated impairment losses prior to the year ended December 31, 2022.

Accrued liabilities

Accrued liabilities consisted of the following as of:

	July 1, 2023	December 31, 2022
Gross-to-net deductions	$ 68,304	$ 71,227
Bonus and commission	13,368	9,179
Compensation and benefits	9,080	11,428
Accrued interest	6,933	217
Income and other taxes	5,175	2,572
Other liabilities[a]	18,888	16,947
	$ 121,748	$ 111,570

(a) Other liabilities attributable to CartiHeal of $384 were reclassified into current liabilities attributable to discontinued operations within December 31, 2022 consolidated balance sheets. Refer to *Note 3. Acquisitions and divestitures* and *Note 14. Discontinued operations* for further details.

3. Acquisitions and divestitures

Wound Business

On May 22, 2023, the Company closed the sale of certain assets within its Wound Business, including the TheraSkin and TheraGenesis products (collectively, the "Wound Business" or the "Disposal Group"), for potential consideration of $84,897, including $34,897 at closing, $5,000 deferred for 18 months and up to $45,000 in potential earn-out payments ("Earn-out Payments"). The Company incurred $3,880 in transactional fees resulting from the sale of the Wound Business. The deconsolidation of Disposal Group resulted in the recognition of a $977 loss on disposal of a business recorded within the consolidated statements of operations and comprehensive loss for the three and six months ended July 1, 2023.

The Company used the proceeds from the sale of its Wound Business to prepay $30,000 of long-term debt obligations. Refer to *Note 4. Financial Instruments* for further details regarding the Company's outstanding long-term debt obligations.

The Earn-out Payments are based on the achievement of certain revenue thresholds by the purchaser of the Wound Business for sales of the TheraSkin and TheraGenesis products during the 2024, 2025 and 2026 fiscal years. The net revenue thresholds are as follows:

- 2024 Earn-out Payment—$5,000 due if net revenue for the period January 1, 2024 through December 31, 2024 is equal to or greater than $54,300 or zero if net revenue is less than $54,300.
- 2025 Earn-out Payment—$20,000 due if net revenue for the period January 1, 2025 through December 31, 2025 is equal to or greater than $69,700 or $10,000 due if net revenue is greater than or equal to $55,760 but less than $69,700 or zero if net revenue is less than $55,760.
- 2026 Earn-out Payment—$20,000 due if net revenue for the period January 1, 2026 through December 31, 2026 is equal to or greater than $83,700 or $10,000 due if net revenue is greater than or equal to $66,960 but less than $83,700 or zero if net revenue is less than $66,960.

The Company evaluated the Wound Business for impairment prior to its sale and recorded a $78,615 ($63,337 after tax) impairment within the consolidated statements of operations and comprehensive loss during the six months ended July 1, 2023 as a result of this evaluation to reduce the intangible assets of the Disposal Group to reflect their respective fair values less any costs to sell. The fair value of the Disposal Group's intangibles was determined based on the consideration received for the Wound Business.

CartiHeal (2009) Ltd

On July 12, 2022, the Company completed the acquisition of 100% of the remaining shares in CartiHeal, a privately held company headquartered in Israel and the developer of the proprietary Agili-C implant for the treatment of joint surface lesions in traumatic and osteoarthritic joints. The Company previously held an equity interest in CartiHeal's fully diluted shares with a carrying value of $15,768 and $16,771 as of July 12, 2022 and December 31, 2021, respectively. Net equity losses associated with CartiHeal for the three and six months ended July 2, 2022 totaled $280 and $681, respectively, which were included in discontinued operations, net on the consolidated condensed statements of operations and comprehensive loss.

The Company acquired CartiHeal (the "CartiHeal Acquisition") for an aggregate purchase price of approximately $315,000 and an additional $135,000, payable after closing upon the achievement of a certain sales milestone ("Sales Milestone", or "CartiHeal Contingent Consideration"). The Company paid $100,000 of the aggregate purchase price upon closing consisting of a $50,000 deposit held in trust and $50,000 from a financing arrangement (Refer to *Note 4. Financial instruments* for further information regarding financing arrangements). The Company also paid approximately $8,622 of CartiHeal's transaction-related fees and expenses and deferred $215,000 ("Deferred Amount") of the aggregate purchase price otherwise due at closing.

The Deferred Amount was to be paid in five tranches commencing in 2023 and ending no later than 2027 as follows:

- $50,000 due upon the earliest to occur — the publication in a peer-reviewed orthopedic journal of an article that presents the results of the pivotal clinical trial ("First Paper Milestone") or July 1, 2023;
- $50,000 due upon the earliest to occur — the implantation of Agili-C devices in 100 patients in the United States or September 1, 2023;
- $25,000 due upon the earliest to occur — the publication in a peer-reviewed orthopedic journal of an article that presents any new or additional clinical data subsequent to the First Paper Milestone with respect to Agili-C ("Second Paper Milestone") or January 1, 2025;
- $25,000 due upon the earliest to occur — the publication in a peer-reviewed orthopedic journal of an article that presents any new or additional clinical data subsequent to the First and Second Paper Milestone with respect to Agili-C or January 1, 2026; and
- $65,000 due upon the earliest to occur — obtaining a U.S. Category 1 Current Procedural Terminology ("CPT") code from Centers for Medicare and Medicaid Services ("CMS") for Agili-C or January 1, 2027.

Pursuant to the CartiHeal Amendment (as defined below), the Company owed interest on each tranche of the Deferred Amount at a rate of 8.0% annually, until such tranche is paid. The Sales Milestone was payable upon the achievement of $75,000 in trailing twelve month sales pursuant to the CartiHeal Amendment.

The Company had entered into an Option and Equity Purchase Agreement with CartiHeal ("Option Agreement") in January 2020 and a subsequent amendment in June 2022 ("CartiHeal Amendment"). The Option Agreement provided the Company with an exclusive option to acquire 100% of CartiHeal's shares ("Call Option"), and provided CartiHeal with a put option that would require the Company to purchase 100% of CartiHeal's shares under certain conditions. In August 2021, CartiHeal achieved pivotal clinical trial success, as defined in the Option Agreement, for the Agili-C implant. In order to preserve the Company's Call Option, in accordance with the Option Agreement and upon approval of the Company's Board of Directors ("BOD"), the Company deposited $50,000 into escrow in August 2021.

The First Paper Milestone under the Option Agreement occurred on February 13, 2023, which obligated the Company to make the first $50,000 payment, plus applicable interest, under the Option Agreement. On February 27, 2023, the Company entered into a settlement agreement (the "Settlement Agreement") with Elron Ventures Ltd. ("Elron" and together with the Company, the "Parties") as representative of CartiHeal's selling securityholders under the Option Agreement (collectively, the "Former Securityholders"). Pursuant to the Settlement Agreement, Elron, on behalf of the Former Securityholders, agreed to forbear from initiating any legal action or proceedings relating to non-payment of any obligations arising under the Option Agreement during a period of 30 calendar days (the "Interim Period") in exchange for (i) a one-time non-refundable amount of $10,000 and (ii) a one-time non-refundable payment of $150 to Elron to be used in accordance with the expense fund provisions of the Option Agreement. The Interim Period expired on March 29, 2023 and the Company did not exercise its right to extend the Interim Period. In addition, the Parties mutually released any further claims under the Option Agreement and related transaction documents, including without limitation a release by the Former Securityholders of any rights to enforce the provisions of the Option Agreement or make further monetary claims against the Company and/or its respective affiliates and representatives.

The Company transferred 100% of its shares in CartiHeal to a trustee (the "Trustee") for the benefit of the Former Securityholders pursuant to the Settlement Agreement. The Company had no ownership interest and no voting rights during the Interim Period. Accordingly, the Company concluded that upon execution of the Settlement Agreement, the Company ceased to control CartiHeal for accounting purposes, and therefore, deconsolidated CartiHeal effective February 27, 2023. CartiHeal was part of the Company's international reporting segment. The Company treated the deconsolidation of CartiHeal as a discontinued operation. The loss upon disposal was $60,639 and was recorded within discontinued operations, net within the consolidated condensed statements of operations and comprehensive loss. The loss on disposal is comprised of the book value of CartiHeal's net assets at the time of disposal, goodwill attributable to CartiHeal and the previously discussed non-refundable payments made to Elron. The Company allowed the Interim Period to expire on March 29, 2023 as the Company was not able to find a financing solution to fund the payment obligations under the Option and Equity Purchase Agreement on terms the Company believed to be favorable to it and its shareholders.

The fair value of consideration for the CartiHeal Acquisition was comprised of the following:

Cash consideration	$	100,000
Transaction related costs		8,622
Subtotal of cash at closing		108,622
Deferred Amount		183,400
Sales Milestone		61,901
Fair value of previously held equity interest[(a)]		39,477
Total consideration	$	393,400

(a) Remeasurement of the Company's equity method investment in CartiHeal, net of equity losses as a result of the purchase. The remeasurement included a gain of $23,709 calculated as the difference between the fair value and the carrying value of the Company's investment in CartiHeal at the acquisition date and was recognized in other income during the third quarter of 2022 on the consolidated condensed statements of operations and comprehensive loss. The fair value was based upon: (i) the consideration transferred to members owning 89.97% of CartiHeal's fully diluted shares; (ii) calculating the value of CartiHeal's fully diluted shares based upon the transferred consideration; and (iii) applying the calculated value to the Company's 10.03% ownership in CartiHeal's fully diluted shares at the acquisition date.

The Company accounted for the CartiHeal Acquisition using the acquisition method of accounting whereby the total purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on respective fair values. The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date:

Fair value of consideration	$	393,400
Assets acquired and liabilities assumed:		
Cash and cash equivalents and restricted cash		3,781
Inventory		642
Prepaid and other current assets		552
Property and equipment		259
Intangibles		410,200
Investment and other assets		727
Accounts payable		(18)
Accrued liabilities		(459)
Other current liabilities		(171)
Deferred income taxes		(79,863)
Other liabilities		(2,544)
Net assets acquired		333,106
Resulting goodwill	$	60,294

Nearly 100% of the goodwill represents estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized and is attributable to expected revenue growth in new markets. The goodwill was not deductible for tax purposes and $55,295 and $4,999 was allocated to the U.S. and International reporting units, respectively.

CartiHeal's intangibles consisted of the following:

	Useful Life		Fair Value
Intellectual Property - US Segment	20 years	$	351,500
Intellectual Property - International Segment	8 years		58,700
		$	410,200

The estimated fair value of the acquired CartiHeal intangibles was determined using an income approach, a valuation technique that estimates the fair value of an asset based on market participant expectations of the cash flows that an asset would generate over its remaining useful life. The determination of the useful lives was based upon consideration of market participant assumptions and transaction specific factors.

4. Financial instruments

Long-term debt consisted of the following as of:

		July 1, 2023		December 31, 2022
Amended Term Loan due October 2026 (9.56% at July 1, 2023)	$	382,448	$	420,712
Revolver due October 2025 (9.58% at July 1, 2023)		7,000		—
Less:				
Current portion of long-term debt		(11,320)		(33,056)
Unamortized debt issuance cost		(1,079)		(1,338)
Unamortized discount		(2,481)		(1,308)
	$	374,568	$	385,010

On December 6, 2019, the Company entered into a Credit and Guaranty Agreement (the "2019 Credit Agreement") that was comprised of a $200,000 term loan ("Original Term Loan") and a $50,000 revolving facility (the "Revolver"). The Company amended the 2019 Credit Agreement on October 29, 2021 in connection with the Misonix Acquisition in which the Company prepaid $80,000 on the Original Term Loan. The 2019 Credit Agreement, as amended, subsequent to the prepayment, was comprised of a $360,750 term loan ("Term Loan") and the Revolver.

On July 11, 2022, the Company further amended the 2019 Credit Agreement, as amended on October 29, 2021 (the "First Amended 2019 Credit Agreement"), in conjunction with the CartiHeal Acquisition. Pursuant to the First Amended 2019 Credit Agreement, an $80,000 term loan facility (the "July 2022 Term Loan" and, together with the Term Loan, the "Term Loan Facilities") was extended to the Company to be used for: (i) the financing of the CartiHeal Acquisition; (ii) the payment of related fees and expenses; (iii) repayment of the draws made on the Revolver; and (iv) working capital needs and general corporate purposes of the Company, including without limitation for permitted acquisitions.

The Company was not in compliance with certain financial covenants as of December 31, 2022. As a result, on March 31, 2023 (the "Closing Date"), the Company entered into another amendment to the 2019 Credit Agreement (collectively, with the October 2021 and July 2022 amendments, the "Amended 2019 Credit Agreement") to, among other things, modify certain financial covenants, waive the noncompliance at December 31, 2022, and to modify interest rates applicable to borrowings under the 2019 Credit Agreement.

The Amended 2019 Credit Agreement contains customary affirmative and negative covenants, including those related to financial reporting and notification, restrictions on the declaration or payment of certain distributions on or in respect of Bioventus LLC's equity interests, restrictions on acquisitions, investments and certain other payments, limitations on the incurrence of new indebtedness, limitations on transfers, sales and other dispositions of assets of Bioventus LLC and its subsidiaries, as well as limitations on making changes to the business and organizational documents of Bioventus LLC and its subsidiaries. Financial covenant requirements include a maximum debt leverage ratio and an interest coverage ratio. In addition, during the period commencing on the Closing Date and ending upon the satisfaction of certain conditions occurring not prior to the delivery of financial statements of the Company for the fiscal quarter ending June 30, 2024, the Company will be subject to certain additional requirements and covenants, including a requirement to maintain Liquidity (as defined in the Amended 2019 Credit Agreement) of not less than $10,000 as of the end of each calendar month during such period. The Term Loan Facilities will mature on October 29, 2026. The Revolver will mature on October 29, 2025.

The Amended 2019 Credit Agreement had deferred financing costs of $3,661, of which $1,617 were recorded in selling, general and administrative expense within the consolidated condensed statements of operations and comprehensive loss and $2,044 were capitalized on the consolidated condensed balance sheets. There was no loss on debt refinancing and modification as a result of the March 2023 amendment.

As of July 1, 2023, $378,888 was outstanding on the Term Loan Facilities, net of original issue discount of $2,481 and deferred financing costs of $1,079. As previously discussed in *Note 3. Acquisitions and divestitures*, the Company made a prepayment of $30,000 on its Term Loan Facilities with the proceeds from the Wound Business divestiture during the second quarter of 2023. Capitalized deferred fees are amortized to interest expense on a straight-line basis over the term of the Term Loan Facilities, which approximates the effective interest method. Interest expense includes deferred cost amortization of $915, $204, $1,138 and $407 for the three months ended July 1, 2023 and July 2, 2022 and the six months ended July 1, 2023 and July 2, 2022, respectively. The Company had $7,000 and no outstanding borrowings on its Revolver as of July 1, 2023 and December 31, 2022, respectively.

The estimated fair value of the Term Loan Facilities was $377,668 as of July 1, 2023. The fair value of these obligations was determined based on the midpoint of the Bloomberg Valuation. This is classified as a Level 2 instruments within the fair value hierarchy.

The Company historically entered into interest rate swap agreements to limit its exposure to changes in the variable interest rate on its long-term debt. The Company had one non-designated interest rate swap agreement that was terminated on October 28, 2022. The Company received $7,738 upon the swap's termination. The swap was carried at fair value on the balance sheet with changes in fair value recorded as interest income or expense within the consolidated condensed statements of operations and comprehensive loss. Net interest income of $272 and $4,196 was recorded related to the change in fair value of the interest rate swap for the three and six months ended July 2, 2022.

5. Fair value measurements

The process for determining fair value has not changed from that described in the Annual Report on Form 10-K for the year ended December 31, 2022.

There were no assets measured at fair value on a recurring basis and there were no liabilities valued at fair value using Level 1 inputs. The following table provides information for assets and liabilities measured at fair value on a recurring basis using Level 2 and Level 3 inputs:

	July 1, 2023		December 31, 2022	
	Total	Level 3	Total	Level 3
Liabilities:				
Deferred Amount - Current[(a)]	$ —	$ —	$ 117,615	$ 117,615
Deferred Amount - Long Term[(a)]	—	—	79,269	79,269
CartiHeal contingent consideration- Sales Milestone[(a)]	—	—	67,251	67,251
Bioness contingent consideration	17,958	17,958	17,431	17,431
Total liabilities:	$ 17,958	$ 17,958	$ 281,566	$ 281,566

(a) The Deferred Amount and contingent consideration attributable to CartiHeal have been reclassified to discontinued operations within the December 31, 2022 balance sheet. CartiHeal was fully deconsolidated during the first quarter of 2023. Refer to *Note 3. Acquisitions and divestitures* and *Note 14. Discontinued operations* for further details regarding the deconsolidation of CartiHeal.

Deferred Amount

The Deferred Amount that resulted from the CartiHeal Acquisition was calculated based on the total amount payable on each due date for the five payment tranches including applicable interest. As previously discussed, the Company reached a settlement Agreement with the Former Securityholders. Pursuant to the Settlement Agreement, the Company was relieved of the obligations under the Deferred Amount. Refer to *Note 3. Acquisitions and divestitures* and *Note 14. Discontinued operations* for further details regarding the deconsolidation of CartiHeal.

Contingent consideration

The Company initially values contingent consideration related to business combinations using a probability-weighted calculation of potential payment scenarios discounted at rates reflective of the risks associated with the expected future cash flows for certain milestones. For other milestones, the Company used a variation of the income approach where revenue was simulated in a risk-neutral framework using Geometric Brownian Motion, a stock price behavior model.

Key assumptions used to estimate the fair value of contingent consideration include projected financial information, market data and the probability and timing of achieving the specific targets. After the initial valuation, the Company generally uses its best estimate to measure contingent consideration at each subsequent reporting period using unobservable Level 3 inputs. As previously discussed, the Company reached a settlement agreement with the Former Securityholders and was relieved of the CartiHeal Contingent Consideration obligations. Refer to *Note 3. Acquisitions and divestitures and Note 14. Discontinued operations* for further details regarding the deconsolidation of CartiHeal.

Unobservable inputs

A summary of unobservable Level 3 inputs utilized for the above liabilities are as follows:

	Valuation Technique	Unobservable inputs	Range
Bioness contingent consideration	Discounted cash flow	Payment discount rate	6.4% - 6.8%
		Payment period	2024 - 2025

Significant changes in these assumptions could result in a significantly higher or lower fair value. The contingent consideration reported in the table above resulted from the acquisition of Bioness on March 30, 2021. Contingent consideration is adjusted quarterly based upon the passage of time or the anticipated success or failure of achieving certain milestones. Changes in contingent consideration related to Bioness for the three months ended July 1, 2023 and July 2, 2022 and the six months ended July 1, 2023 and July 2, 2022 totaled $240, $273, $527 and $542, respectively, and were recorded as the change in fair value of contingent consideration within the consolidated condensed statements of operations and comprehensive loss. Changes in contingent consideration related to the CartiHeal Acquisition totaled $1,710 for the six months ended July 1, 2023 and is reported within discontinued operations, net within the consolidated condensed statements of operations and comprehensive loss. Pursuant to the Settlement Agreement, the Company was relieved of CartiHeal related obligations. The Company deconsolidated the remaining $68,961 contingent consideration liability as a result. Refer to *Note 3. Acquisitions and divestitures* for further details regarding the deconsolidation of CartiHeal.

6. Equity-based compensation

2021 Plan

The Company operates an equity-based compensation plan (the "2021 Plan"), which allows for the issuance of stock options (incentive and nonqualified), restricted stock, dividend equivalents, restricted stock units ("RSUs"), other stock-based awards, and cash awards (the "2021 Plan Awards"). As of July 1, 2023, 14,781,895 shares of Class A common stock were authorized to be awarded under the 2021 Plan and 5,912,880 shares were available for 2021 Plan Awards.

2023 Plan

The Company also operates the 2023 Retention Equity Award Plan (the "2023 Plan" and, together with the 2021 Plan, the "Plans"), the purpose of which is to retain and motivate critical personnel over the short-term by providing them additional incentives in the form of RSUs (the "Retention Awards" and together with the "2021 Plan Awards," the "Awards"). As of July 1, 2023, 600,000 shares of Class A common stock were authorized to be awarded under the 2023 Plan and 32,700 shares were available for Retention Awards.

Activity under the Plans

Expense

Equity-based compensation, net for Awards granted under the Plans for the three and six months ended July 1, 2023 totaled $2,797 and $1,079, respectively, in expense reduction as a result of expense reversals due to executive leadership transitions. Equity compensation expense for Awards granted under the Plans for three and six months ended July 2, 2022, totaled $4,522 and $9,253, respectively. Expenses and expense reductions are primarily included in selling, general and administrative expense with a nominal amount in research and development expense within the consolidated condensed statements of operations and comprehensive loss based upon the department of the employee. There were no income tax benefits related to equity-based compensation expense for the three and six months ended July 1, 2023. Income tax benefits related to equity-based compensation expense for three and six months ended July 2, 2022 totaled $1,065 and $2,290, respectively.

Restricted Stock Units

During the three and six months ended July 1, 2023, the Company granted time-based RSUs which vest at various dates through May 8, 2027. RSU compensation expense is recognized over the vesting period, which is typically between 1 and 4 years. Unamortized compensation expense related to the RSUs totaled $9,010 at July 1, 2023, and is expected to be recognized over a weighted average period of approximately 2.39 years. A summary of the RSU award activity for the six months ended July 1, 2023 is as follows (number of units in thousands):

	Number of units	Weighted-average grant-date fair value per unit
Unvested at December 31, 2022	1,189	$ 11.96
Granted	1,750	2.04
Vested	(375)	11.24
Forfeited or canceled	(315)	10.46
Unvested at July 1, 2023	2,249	$ 4.57

Stock Options

During the three and six months ended July 1, 2023, the Company granted time-based stock options which vest over 1 to 4 years following the date of grant and expire within 10 years. The fair value of time-based stock options is determined using the Black-Scholes valuation model, with such value recognized as expense over the service period, which is typically 1 to 4 years, net of actual forfeitures. A summary of the Company's assumptions used in determining the fair value of the stock options granted during the six months ended July 1, 2023 is shown in the following table.

Risk-free interest rate	3.49% - 3.9%
Expected dividend yield	— %
Expected stock price volatility	35.2% - 36.4%
Expected life of stock options (years)	5.50 - 6.25

The weighted-average grant date fair value of options granted during the six months ended July 1, 2023 was $0.49 per share. The expected term of the options granted is estimated using the simplified method. Expected volatility is based on the historical volatility of the Company's peers' common stock. The risk-free interest rate is determined based upon a constant U.S. Treasury security rate with a contractual life that approximates the expected term of the option. Unamortized compensation expense related to the options totaled $8,485 at July 1, 2023, and is expected to be recognized over a weighted average period of approximately 6.97 years.

A summary of stock option activity is as follows for the six months ended July 1, 2023 (number of options in thousands):

	Number of options	Weighted-average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Outstanding at December 31, 2022	8,910	$ 11.65		
Granted	1,173	1.19		
Forfeited or canceled	(2,670)	12.36		
Outstanding at July 1, 2023	7,413	9.74	7.40 years	$ 1,875
Exercisable and vested at July 1, 2023	4,750	$ 10.89	6.49 years	$ 13

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying options and the market price of the Company's Class A common stock for options that had exercise prices lower than $2.89 per share, the closing price of the Company's Class A common stock on June 30, 2023.

Employee Stock Purchase Plan

The Company operates a non-qualified Employee Stock Purchase Plan ("ESPP"), which provides for the issuance of shares of the Company's Class A common stock to eligible employees of the Company that elect to participate in the plan and purchase shares of Class A common stock through payroll deductions at a discounted price. As of July 1, 2023, the aggregate number of shares reserved for issuance under the ESPP was 1,036,979. A total of 144,851 and 366,927 shares were issued and $65 and $193 of expense was recognized during the three and six months ended July 1, 2023. A total of 53,826 and 102,819 shares were issued and $94 and $252 of expense was recognized during the three and six months ended July 2, 2022.

7. Stockholders' equity

Initial Public Offering

On February 16, 2021, the Company closed an IPO of 9,200,000 shares of Class A common stock at a public offering price of $13.00 per share, which includes 1,200,000 shares issued pursuant to the underwriters' over-allotment option. In connection with the IPO, the Company completed the following transactions ("Transactions").

- Amended and restated the limited liability company agreement of BV LLC ("BV LLC Agreement"), to, among other things, (i) provide for a new single class of common membership interests in BV LLC ("LLC Interests"); (ii) exchange all of the existing membership interests in BV LLC ("Original BV LLC Owners") for new LLC Interests; and (iii) appoint Bioventus Inc. as the sole managing member of BV LLC.
- Amended and restated the Bioventus Inc. certificate of incorporation to, among other things, (i) provide for an increase in the authorized shares of Class A common stock; (ii) provide for Class B common stock with voting rights but no economic interest, which shares were issued to the Original BV LLC Owners on a one-for-one basis with the number of LLC Interests they owned; and (iii) provide for undesignated preferred stock.

- Acquired, by merger, ten entities that were Original BV LLC Owners ("Former LLC Owners"), for which the Company issued 31,838,589 shares of Class A common stock as merger consideration ("IPO Mergers"). The only assets held by the Former LLC Owners were 31,838,589 LLC Interests and a corresponding number of shares of Class B common stock. Upon consummation of the IPO Mergers, the 31,838,589 shares of Class B common stock were canceled, and the Company recognized the 31,838,589 LLC Interests at carrying value, as the IPO Mergers are considered to be a recapitalization transaction.

Amendment and restatement of certificate of incorporation

On February 16, 2021, the Company amended and restated its certificate of incorporation to, among other things, provide for: (i) the authorization of 250,000,000 shares of Class A common stock with a par value of $0.001 per share; (ii) the authorization of 50,000,000 shares of Class B common stock with a par value of $0.001 per share; (iii) the authorization of 10,000,000 shares of undesignated preferred stock that may be issued from time to time by the BOD in one or more series; and (iv) the establishment of a classified BOD, divided into three classes, each of whose members will serve for staggered three-year terms.

Holders of Class A and Class B common stock are entitled to one vote per share and, except as otherwise required, will vote together as a single class on all matters on which stockholders generally are entitled to vote. Holders of Class B common stock are not entitled to receive dividends and will not be entitled to receive any distributions upon the liquidation, dissolution or winding up of the Company. Shares of Class B common stock may only be issued to the extent necessary to maintain the one-to-one ratio between the number of LLC Interests and the number of shares of Class B common stock held by the Smith & Nephew, Inc. (the "Continuing LLC Owner"). Shares of Class B common stock are transferable only together with an equal number of LLC Interests. Shares of Class B common stock will be canceled on a one-for-one basis upon the redemption or exchange of any outstanding LLC Interests.

The Company must, at all times, maintain a one-to-one ratio between the number of outstanding shares of Class A common stock and the number of LLC Interests owned by the Company.

BV LLC recapitalization

The BV LLC Agreement provides that holders of LLC Interests may, from time to time, require the Company to redeem all or a portion of their LLC Interests for newly-issued shares of Class A common stock on a one-for-one basis. The Company may elect to settle any such redemption in shares of Class A common stock or in cash.

The amendment also requires that the Company, at all times, maintain (i) a one-to-one ratio between the number of outstanding shares of Class A common stock and the number of LLC Interests owned by the Company and (ii) a one-to-one ratio between the number of shares of Class B common stock owned by the Continuing LLC Owner and the number of LLC Interests owned by the Continuing LLC Owner.

Noncontrolling interest

In connection with any redemption, the Company will receive a corresponding number of LLC Interests, increasing its ownership interest in BV LLC. Future redemptions of LLC Interests will result in a change in ownership and reduce the amount recorded as noncontrolling interest and increase additional paid-in capital. There were no redemptions during the six months ended July 1, 2023 or during the year ended December 31, 2022. The following table summarizes the ownership interest in BV LLC as of July 1, 2023 and December 31, 2022 (number of units in thousands):

	July 1, 2023		December 31, 2022	
	LLC Interests	Ownership %	LLC Interests	Ownership %
Number of LLC Interests owned				
Bioventus Inc.	62,805	79.9 %	62,063	79.7 %
Continuing LLC Owner	15,787	20.1 %	15,787	20.3 %
Total	78,592	100.0 %	77,850	100.0 %

8. Earnings per share

The following table sets forth the computation of basic and diluted loss per share of Class A common stock for the periods presented (amounts in thousands, except share and per share data):

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Numerator:				
Net (loss) income from continuing operations, net of tax	$ (4,731)	$ (7,734)	$ (104,749)	$ (22,139)
Net loss attributable to noncontrolling interests — continuing operations	1,050	762	21,410	4,291
Net loss attributable to Bioventus Inc. Class A common stockholders — continuing operations	$ (3,681)	$ (6,972)	$ (83,339)	$ (17,848)
Numerator:				
Net (loss) income from discontinued operations, net of tax	$ —	$ (280)	$ (74,429)	$ (681)
Net loss attributable to noncontrolling interests — discontinued operations	—	—	14,937	—
Net loss attributable to Bioventus Inc. Class A common stockholders — discontinued operations	$ —	$ (280)	$ (59,492)	$ (681)
Denominator:				
Weighted-average shares of Class A common stock outstanding - basic and diluted	62,551,285	61,475,350	62,338,018	60,977,556
Net loss per share of Class A common stock from continuing operations, basic and diluted	$ (0.06)	$ (0.11)	$ (1.34)	$ (0.29)
Net loss per share of Class A common stock from discontinued operations, basic and diluted	—	—	(0.95)	(0.01)
Net loss per share of Class A common stock, basic and diluted	$ (0.06)	$ (0.11)	$ (2.29)	$ (0.30)

Shares of Class B common stock do not share in the losses of the Company and are therefore not participating securities. As such, separate presentation of basic and diluted losses per share of Class B common stock under the two-class method has not been presented.

The following number of weighted-average potentially dilutive shares as of July 1, 2023 and July 2, 2022 were excluded from the calculation of diluted loss per share because the effect of including such potentially dilutive shares would have been antidilutive upon conversion:

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
LLC Interests held by Continuing LLC Owner[(a)]	15,786,737	15,786,737	15,786,737	15,786,737
Stock options	6,730,685	10,020,106	7,623,865	9,396,023
RSUs	766,427	1,137,936	974,238	769,809
Total	23,283,849	26,944,779	24,384,840	25,952,569

(a) Class A Shares reserved for future issuance upon redemption or exchange of LLC Interests by the Continuing LLC Owner.

9. Restructuring costs

Restructuring costs are not allocated to the Company's reportable segments as they are not part of the segment performance measures regularly reviewed by management. These charges are included in restructuring costs in the consolidated statements of operations and comprehensive loss. Liabilities associated from restructuring costs are recorded in accrued liabilities on the consolidated balance sheets.

The Company announced a restructuring plan in December 2022 (the "2022 Restructuring Plan") that is intended to align the Company's organizational and management cost structure to improve profitability and cash flow. The Company expects to incur $5,000 to $6,000 of pre-tax costs under the 2022 Restructuring Plan primarily consisting of employee severance and additional expenses for third-party and other related costs. Pre-tax charges recognized during the three and six months ended July 1, 2023 and the year ended December 31, 2022 totaled $628, $890 and $4,581, respectively.

The Company adopted restructuring plans for businesses acquired to reduce headcount, reorganize management structure and consolidate certain facilities during the second half of 2021 (the "2021 Acquisition Restructuring Plan") and during the first quarter of 2022 (the "2022 Acquisition Restructuring Plan"). The Company's planned total pre-tax charges for the 2021 Acquisition Restructuring Plan and 2022 Acquisition Restructuring Plan are $3,500 and $2,300, respectively. There was nominal activity related to the 2021 Acquisition Restructuring Plan during the six months ended July 1, 2023 and $223, $600 $719 and $2,487 recognized during the three and six months ended July 2, 2022, and the years ended December 31, 2022 and 2021, respectively. The 2021 Acquisition Restructuring Plan is essentially completed. Costs incurred attributable to the 2022 Acquisition Restructuring Plan totaled $84 for the six months ended July 1, 2023, respectively, and $784, $984 and $1,479 during the three and six months ended July 2, 2022, and the year ended December 31, 2022, respectively.

The Company's restructuring charges and payments for plans related to businesses recently acquired comprised of the following:

	Employee severance and temporary labor costs	Other charges	Total
Balance at December 31, 2022	$ 3,760	$ —	$ 3,760
Expenses incurred	745	192	937
Payments made	(2,893)	(192)	(3,085)
Balance at July 1, 2023	$ 1,612	$ —	$ 1,612

10. Income taxes

The tax provision for interim periods is determined using an estimate of the Company's annual effective tax rate, adjusted for discrete items, if any, that arise during the period. Each quarter, the Company updates its estimate of its annual effective tax rate, and if the estimated annual effective tax rate changes, the Company makes a cumulative adjustment in such period. The quarterly tax provision, and estimate of the Company's annual effective tax rate, are subject to variation due to several factors, including variability in pre-tax income (or loss), the mix of jurisdictions to which such income relates, changes in how the Company conducts business, and tax law developments.

For the three months ended July 1, 2023 and July 2, 2022 and the six months ended July 1, 2023 and July 2, 2022 , the Company's effective tax rate was 8.8%, 18.4%, 0.2% and 14.6% respectively. The changes for the three and six months ended July 1, 2023 compared to the prior year comparable periods was primarily due to an increase in the valuation allowance applied to the Company's net deferred tax assets.

Tax Receivable Agreement

The Company expects to obtain an increase in the share of the tax basis of the assets of BV LLC when LLC Interests are redeemed or exchanged by the Continuing LLC Owner and other qualifying transactions. This increase in tax basis may have the effect of reducing the amounts that the Company would otherwise pay in the future to various tax authorities. The increase in tax basis may also decrease gains (or increase losses) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

On February 16, 2021, the Company entered into a tax receivable agreement ("TRA") with the Continuing LLC Owner that provides for the payment by the Company to the Continuing LLC Owner of 85% of the amount of tax benefits, if any, that the Company actually realizes as a result of (i) increases in the tax basis of assets of BV LLC resulting from any redemptions or exchanges of LLC Interests or any prior sales of interests in BV LLC; and (ii) certain other tax benefits related to our making payments under the TRA.

The Company maintains a full valuation allowance against deferred tax assets related to the tax attributes generated as a result of redemptions of LLC Interests or exchanges described above until it is determined that the benefits are more-likely-than-not to be realized. Subsequent to the consummation of the IPO Mergers, the Continuing LLC Owner has not exchanged LLC Interests for shares of Class A common stock.

11. Commitments and contingencies

Leases

The Company leases its office facilities as well as other property, vehicles and equipment under operating leases. The Company also leases certain office equipment under nominal finance leases. The remaining lease terms range from 1 month to 10 years.

The components of lease cost were as follows:

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Operating lease cost	$ 1,010	$ 1,180	$ 2,079	$ 2,306
Short-term lease cost[a]	229	145	435	328
Financing lease cost:				
Amortization of finance lease assets	393	9	628	18
Interest on lease liabilities	229	1	366	2
Total lease cost	$ 1,861	$ 1,335	$ 3,508	$ 2,654

[a] Includes variable lease cost and sublease income, which are immaterial.

Supplemental cash flow information and non-cash activity related to leases were as follows:

	Six Months Ended	
	July 1, 2023	July 2, 2022
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	$ 2,227	$ 2,418
Operating cash flows from financing leases	$ 337	$ 2
Financing cash flows from finance leases	$ 175	$ 26
Right-of-use assets obtained in exchange for lease obligations:		
Operating lease obligations	$ 254	$ 3,590
Financing lease obligations[a]	$ 15,567	$ —

[a] Financing lease obligations entered into during the six months ended July 1, 2023 resulted from the Company's agreement to lease a facility to expand its manufacturing operations and relocate from its current leased facilities in Memphis, Tennessee. The lease was entered into during November 2021 with occupancy starting in 2023. The lease term is 10 years and payments are as follows for the remainder of 2023—$1,551, 2024—$1,582, 2025—$1,614, 2026—$1,646, 2027—$1,679 and thereafter—$8,600. Imputed interest on the payments total $5,289.

Supplemental balance sheet and other information related to leases were as follows:

	July 1, 2023	December 31, 2022
Operating lease assets[a]	$ 15,238	$ 16,690
Operating lease liabilities- current[b]	$ 3,957	$ 3,552
Operating lease liabilities- noncurrent[b]	12,489	14,355
Total operating lease liabilities	$ 16,446	$ 17,907
Property, plant and equipment - net (finance leases)	$ 15,066	$ 128
Finance lease liabilities - current	$ 715	$ 55
Finance lease liabilities - noncurrent	10,772	76
Total financing lease liabilities	$ 11,487	$ 131
Weighted average remaining lease term (years) for leases		
Operating leases	4.4	4.8
Finance leases	9.8	2.4
Weighted average discount rate for leases		
Operating leases	4.6 %	4.8 %
Finance leases	8.1 %	3.3 %

[a] Operating lease assets totaling $618 attributable to CartiHeal was reclassified to long-term assets attributable to discontinued operations within the December 31, 2022 consolidated balance sheets. Refer to *Note 3. Acquisitions and divestitures* and *Note 14. Discontinued operations* for further details regarding the deconsolidation of CartiHeal.

[b] Operating lease liabilities-current totaling $176 and operating lease liabilities-noncurrent of $442 were reclassified into current liabilities attributable to discontinued operations and long-term liabilities attributable to discontinued operations, respectively, within the December 31, 2022 consolidated balance sheets. Refer to *Note 3. Acquisitions and divestitures* and *Note 14. Discontinued operations* for further details regarding the deconsolidation of CartiHeal.

Governmental and legal contingencies

In the normal course of business, the Company periodically becomes involved in various claims and lawsuits, and governmental proceedings and investigations that are incidental to its business. The Company accrues a liability when a loss is considered probable and the amount can be reasonably estimated. When a material loss contingency is reasonably possible but not probable, the Company does not record a liability, but instead discloses the nature and amount of the claim, and an estimate of the possible loss or range of loss, if such an estimate can be made. Legal fees are expensed as incurred. With respect to governmental proceedings and investigations, like other companies in the industry, the Company is subject to extensive regulation by national, state and local governmental agencies in the United States and in other jurisdictions in which the Company and its affiliates operate. As a result, interaction with governmental agencies is ongoing. The Company’s standard practice is to cooperate with regulators and investigators in responding to inquiries.

The Company is presently unable to predict the duration, scope, or result of these matters. As such, the Company is presently unable to develop a reasonable estimate of a possible loss or range of losses, if any, related to these matters. While the Company intends to defend these matters vigorously, the outcome of such litigation or any other litigation is necessarily uncertain, is not within the Company’s complete control and might not be known for extended periods of time. In the opinion of management, the outcome of any existing claims and legal or regulatory proceedings, other than the specific matters described below, if decided adversely, is not expected to have a material adverse effect on the Company's business, financial condition, results of operations, or cash flows.

Bioventus shareholder litigation

On January 12, 2023, the Company and certain of its current and former directors and officers were named as defendants in a putative class action lawsuit filed in the Middle District of North Carolina, Ciarciello v. Bioventus, Inc., No. 1:23– CV – 00032-CCE-JEP (M.D.N.C. 2023). The complaint asserts violations of Sections 10(b) and 20(a) of the Exchange Act and of Sections 11 and 15 of the Securities Act and generally alleges that the Company failed to disclose certain information regarding rebate practices, its business and financial prospects, and the sufficiency of internal controls regarding financial reporting. The complaint seeks damages in an unspecified amount. On April 12, 2023, the Court appointed Wayne County Employees' Retirement System as lead plaintiff. The lead plaintiff's amended consolidated complaint was filed with the Court on June 12, 2023. On July 17, 2023, the defendants filed a motion to dismiss the complaint raising a number of legal and factual deficiencies with the amended and consolidated complaint. In response to the Company's motion to dismiss, the lead plaintiff filed a second amended complaint on July 31, 2023. The Company is currently evaluating the allegations in the amended complaint and intends to file a new motion to dismiss, which under the court's scheduling order is due on August 14, 2023. The Company believes the claims alleged in the litigation lack merit and intends to defend itself vigorously. The outcome of the litigation is not presently determinable, and any loss is neither probable nor reasonably estimable.

Bioness patent litigation

On June 15, 2022, the Company, through its subsidiary Bioness, filed a lawsuit in the United States District Court for the Eastern District of Virginia against Aretech, LLC ("Aretech") alleging infringement by Aretech of various patents related the Bioness' Vector Gait and Safety Support System®. On August 8, 2022, Aretech filed an answer to the lawsuit denying infringement and asserting various affirmative defenses and counterclaims to the Bioness complaint. Bioness filed a motion to dismiss the defendant's counterclaims on September 28, 2022. In response to Bioness' motion to dismiss the counterclaims, on October 19, 2022, Aretech filed an amended answer and counterclaims. On November 16, 2022, Bioness filed a partial motion to dismiss certain of the amended counterclaims. On January 23, 2023, the court granted-in-part Bioness' motion dismissing Aretech's antitrust and inventorship-related counterclaims, but allowed certain of Aretech's counterclaims to proceed. On March 23, 2023, the parties entered into a settlement and license agreement that resolved all claims in the litigation. The agreement also provides cross licenses to the parties for certain of their respective patents relevant to the claims asserted in the litigation.

Misonix stockholder

On September 15, 2021, a purported stockholder of Misonix filed an action in the United States District Court for the Eastern District of New York, captioned Stein v. Misonix, Inc., et al., Case No. 2:21-cv-05127 (E.D.N.Y.) (the "Stein Complaint"). The Stein Complaint named Misonix and members of its board of directors as defendants. The Stein Complaint was dismissed on April 6, 2022. On September 16, 2021, a purported stockholder of Misonix filed an action in the United States District Court for the Southern District of New York, captioned Ciccotelli v. Misonix, Inc. et al., Case No. 1:21-cv-07773 (S.D.N.Y.) (the "Ciccotelli Complaint") against Misonix, members of its board of directors, the Company, and its subsidiaries, Merger Sub I and Merger Sub II, as defendants. Plaintiff voluntarily dismissed the Ciccotelli Complaint on November 10, 2021. On October 12, 2021, another purported stockholder of Misonix filed an action in the United States District Court for the Eastern District of New York, captioned Rubin v. Misonix, Inc. et al., Case No. 1:21-cv-05672 (S.D.N.Y.) (the "Rubin Complaint") and on October 15, 2021, another purported stockholder of Misonix filed an action in the United States District Court for the Southern District of New York, captioned Taylor v. Misonix, Inc. et al., Case No. 1:21-cv-08513 (S.D.N.Y.) (the "Taylor Complaint"). The Rubin Complaint and the Taylor Complaint name Misonix and members of its board of directors as defendants. Plaintiffs voluntarily dismissed the Rubin and Taylor Complaints on January 21, 2022 and February 18, 2022, respectively.

The complaints asserted claims under Section 14(a) and Section 20(a) of the Exchange Act and SEC Rule 14a-9, challenging the adequacy of disclosures in the proxy statement/prospectus filed with the SEC on September 8, 2021 or the Definitive Proxy Statement filed with the SEC on September 24, 2021, regarding Misonix and/or Bioventus' projections and J.P. Morgan's financial analysis. The complaints had sought, among other relief, (i) injunctive relief preventing the parties from proceeding with the merger; (ii) rescission in the event that the merger is consummated; and (iii) an award of costs, including attorneys' and experts' fees.

Misonix former distributor

On March 23, 2017, Misonix's former distributor in China, Cicel (Beijing) Science & Technology Co., Ltd., filed a lawsuit against Misonix and certain of its officers and directors in the United States District Court for the Eastern District of New York. The complaint alleged that Misonix improperly terminated its contract with the former distributor. The complaint sought various remedies, including compensatory and punitive damages, specific performance and preliminary and post judgment injunctive relief, and asserted various causes of action, including breach of contract, unfair competition, tortious interference with contract, fraudulent inducement, and conversion. On October 7, 2017, the court granted Misonix's motion to dismiss each of the tort claims asserted against Misonix, and also granted the individual defendants' motion to dismiss all claims asserted against them. On January 23, 2020, the court granted Cicel's motion to amend its complaint, to include claims for alleged defamation and theft of trade secrets in addition to the breach of contract claim. Discovery in the matter ended on August 5, 2021. On January 20, 2022, the court granted Misonix's summary judgment motion on Cicel's breach of contract and defamation claims. Cicel's motion for reconsideration of the court's summary judgment ruling in Misonix's favor was dismissed by the Court on April 29, 2022. On July 18, 2022, Cicel voluntarily dismissed the remaining claim for trade secret theft and later filed an appeal to the United States Court of Appeals for the Second Circuit. The Company believes that it has various legal and factual defenses to these claims and intends to vigorously defend the appeal of the lower court's summary judgment rulings in its favor.

Bioness shareholder

Prior to closing the Bioness Acquisition, Bioness had been named as a defendant in a lawsuit, for which the Company is indemnified under the indemnification provisions contained in the Bioness Merger Agreement. The case relates to an action brought in February 2021 in the Delaware State Court of Chancery by a former minority shareholder and director of Bioness, seeking a temporary restraining order contesting the acquisition of Bioness. While the complaint to block the Bioness acquisition was dismissed by the court, a separate action was brought against the Company under the indemnification provisions of the Bioness Certificate of Incorporation to recover attorney fees and other expenses totaling approximately $3,000 incurred by the director and shareholder in connection with the matter.

On August 19, 2021, the court issued a ruling granting, in part, plaintiff's motion for summary judgment, awarding plaintiff attorney's fees and related expenses incurred in connection with performance of the plaintiff's directorial duties, and denying fees and expenses incurred in a non-director capacity. In its ruling, the court's order also directed the parties to agree upon a process that will govern the payment of and challenges to plaintiff's payment requests and required Bioness to pay 50% of the demanded amount into escrow if more than 50% of the total invoiced amount was in dispute. Pursuant to the court's order, Bioness paid approximately $1,300 into escrow. On November 1, 2022, at a hearing before Delaware State Court of Chancery, the court ruled in favor of the former Bioness director awarding attorney's fees in connection with the underlying pre-merger litigation and the advancement action in the amounts claimed, less approximately $50. On December 23, 2022, Bioness and the plaintiff entered into a settlement agreement resolving the matter for the aggregate sum of $2,500 payable to the plaintiff. The settlement was satisfied by releasing the $1,300 previously paid by Bioness and held in escrow and by an additional payment of $1,200. Pursuant to the indemnification obligations under the Bioness Merger Agreement, this subsequent payment was made on behalf of Bioness on December 28. 2022, by the selling majority shareholder under that agreement. The Company subsequently recovered the $1,300 paid into escrow from the selling Bioness shareholders pursuant an indemnification request under the Bioness Merger Agreement. An order dismissing the case was entered by the court on January 27, 2023.

On February 8, 2022, the above referenced minority shareholder of Bioness filed another action in the Delaware State Court of Chancery in connection with the Company's acquisition of Bioness. This action names the former Bioness directors, the Alfred E. Mann Trust (Trust), which was the former majority shareholder of Bioness, the trustees of the Trust and Bioventus as defendants. The complaint alleges, among other things, that the individual directors, the Trust, and the trustees breached their fiduciary duty to the plaintiff in connection with their consideration and approval of the Company's transaction. The complaint also alleges that the Company aided and abetted the other defendants in breaching their fiduciary duties to the plaintiff and that the Company breached the Merger Agreement by failing to pay the plaintiff its pro rata share of the merger consideration. The Company believes that it is indemnified under the indemnification provisions contained in the Bioness Merger Agreement for these claims. On July 20, 2022, the Company filed a motion to dismiss all claims made against it on various grounds, as did all the other named defendants in the suit. A hearing on Bioness' and other the defendant's motions was held before the Court of Chancery on January 19, 2023. The Company believes that there are various legal and factual defenses to the claims plaintiff made against us and intend to defend ourselves vigorously. On April 27, 2023, the Court issued an order which, among other things, dismissed Bioventus from the case.

Other matters

On November 10, 2021, the Company entered into an asset purchase agreement for an HA product and made an upfront payment of $853. An additional payment of $853 was made in 2022 upon the transfer of certain seller customer data. If the Company is able to obtain a Medical Device Regulation Certification for the product, $1,707 (the "Milestone Payment") will be paid to the seller within five days. The Company is also required to pay royalties if certifications are achieved before December 31, 2024. Royalties will be payable through 2026 of 5.0% on the first $569 in sales and 2.5% thereafter. On March 8, 2023, the parties amended the agreement under which the Milestone Payment was reduced to $1,418, of which $709 is payable on January 31, 2024, and the remainder is due upon receipt of the Medical Device Regulation Certification for the product provided that it is obtained prior to December 31, 2024. As a result, the Company recorded an intellectual property intangible asset totaling $709 for initial payment.

On August 23, 2019, the Company was assigned a third-party license on a product currently in development and the Company is subject to a 3% royalty on certain commercial sales, or a nominal minimum amount per quarter.

On May 29, 2019, the Company and the Musculoskeletal Transplant Foundation, Inc. d/b/a MTF Biologics (MTF), entered into a collaboration and development agreement to develop one or more products for orthopedic application to be commercialized by the Company and supplied by MTF (the Development Agreement). The first phase has been completed, but during the second quarter of 2022, the Company elected to discontinue the development of MOTYS, the initial product candidate under development. On October 21, 2022, the Company provided notice to MTF of termination of the Development Agreement and the related cGTP Commercial Supply Agreement with MTF for MOTYS, effective December 20, 2022.

On December 9, 2016, the Company entered into an amended and restated license agreement for the exclusive U.S. distribution and commercialization rights of a single injection osteoarthritis (OA) product with the supplier of the Company's single injection OA product for the non-U.S. market. The agreement requires the Company to meet annual minimum purchase requirements and pay royalties on net sales. Royalties related to this agreement during the three months ended July 1, 2023 and July 2, 2022 and six months ended July 1, 2023 and July 2, 2022 totaled $4,119, $4,083, $6,440 and $7,415, respectively. These royalties are included in cost of sales within the consolidated condensed statements of operations and comprehensive loss.

As part of a supply agreement entered on February 9, 2016 for the Company's three injection OA product, the Company is subject to annual minimum purchase requirements for 10 years. After the initial 10 years, the agreement will automatically renew for an additional 5 years unless terminated by the Company or the seller in accordance with the agreement.

As part of a supply agreement for the Company's five injection OA product that was amended and restated on December 22, 2020, the Company is subject to annual minimum purchase requirements for 8 years.

The Company has an exclusive license agreement for bioactive bone graft putty. The Company is required to pay a royalty on all commercial sales revenue from the licensed products with a minimum annual royalty payment through 2023, the date the agreement will expire, upon the expiration of the patent held by the licensor. These royalties are included in cost of sales on the consolidated condensed statements of operations and comprehensive loss.

From time to time, the Company causes letters of credit ("LOCs") to be issued to provide credit support for guarantees, contractual commitments and insurance policies. The fair values of the LOCs reflect the amount of the underlying obligation and are subject to fees payable to the issuers, competitively determined in the marketplace. As of July 1, 2023 and December 31, 2022, the Company had one LOC outstanding for a nominal amount.

The Company currently maintains insurance for risks associated with the operation of its business, provision of professional services and ownership of property. These policies provide coverage for a variety of potential losses, including loss or damage to property, bodily injury, general commercial liability, professional errors and omissions and medical malpractice. The Company is self-insured for health insurance covering most of its employees located in the United States. The Company maintains stop-loss insurance on a "claims made" basis for expenses in excess of $200 per member per year.

12. Revenue recognition

Our policies for recognizing sales have not changed from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. The Company attributes net sales to external customers to the U.S. and to all foreign countries based on the legal entity from which the sale originated. The following table presents the Company's net sales disaggregated by major products (Vertical) within each segment as follows:

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
U.S.				
Pain Treatments	$ 55,617	$ 58,055	$ 96,612	$ 105,929
Restorative Therapies	31,844	35,433	64,332	64,379
Surgical Solutions	33,386	32,822	63,881	60,083
Total U.S. net sales	120,847	126,310	224,825	230,391
International				
Pain Treatments	6,024	5,859	11,355	10,038
Restorative Therapies	4,774	4,469	10,388	9,883
Surgical Solutions	5,424	3,693	9,560	7,309
Total International net sales	16,222	14,021	31,303	27,230
Total net sales	$ 137,069	$ 140,331	$ 256,128	$ 257,621

13. Segments

The Company's two reportable segments are U.S. and International. The Company's products are primarily sold to orthopedists, musculoskeletal and sports medicine physicians, podiatrists, neurosurgeons and orthopedic spine surgeons, as well as to their patients. The Company does not disclose segment information by asset as the Chief Operating Decision Maker does not review or use it to allocate resources or to assess the operating results and financial performance. Segment adjusted EBITDA is the segment profitability metric reported to the Company's Chief Operating Decision Maker for purposes of decisions about allocation of resources to, and assessing performance of, each reportable segment.

The following table presents segment adjusted EBITDA reconciled to loss before income taxes:

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Segment adjusted EBITDA				
U.S.	$ 24,712	$ 19,489	$ 39,424	$ 24,328
International	3,446	2,840	5,685	5,173
Interest expense, net	(10,587)	(2,578)	(20,281)	(1,028)
Depreciation and amortization	(14,600)	(12,384)	(31,073)	(24,863)
Acquisition and related costs	(1,448)	(5,994)	(2,623)	(13,972)
Restructuring and succession charges	(620)	(1,695)	(937)	(2,272)
Equity compensation	2,732	(4,616)	886	(9,505)
Financial restructuring costs	(1,257)	—	(6,587)	—
Impairment of assets	—	—	(78,615)	—
Loss on disposal of a business	(977)	—	(977)	—
Other items	(5,751)	(1,552)	(9,416)	(3,888)
Loss before income taxes	$ (4,350)	$ (6,490)	$ (104,514)	$ (26,027)

14. Discontinued operations

On February 27, the Company reached a Settlement Agreement with the Former Securityholders of CartiHeal that resulted in the transfer of 100% of Company's shares in CartiHeal to a Trustee. Refer to *Note 3. Acquisitions and divestitures* for further details concerning the CartiHeal Settlement Agreement and its deconsolidation from the Company's financial statements. CartiHeal had no sales for the three months ended July 1, 2023 and year ended December 31, 2022.

The following table summarizes CartiHeal's major classes of assets and liabilities as reported on the consolidated condensed balance sheets as of December 31, 2022 as the balances were fully deconsolidated as of July 1, 2023:

	December 31, 2022
Carrying amounts of major classes of assets included as part of discontinued operations	
Cash	$ 1,628
Restricted cash	23
Other receivables	350
Inventory	642
Prepaid and other current assets	134
Property and equipment, net	191
Goodwill	6,297
Intangible assets, net	398,873
Operating lease assets	618
Other assets	15
Total assets	$ 408,771
Carrying amounts of major liabilities included as part of discontinued operations	
Accounts payable	$ 852
Accrued liabilities	384
Current portion of deferred consideration	117,615
Other current liabilities	236
Deferred income taxes	79,863
Deferred consideration	79,269
Contingent consideration	67,251
Other long-term liabilities	2,528
Total liabilities	$ 347,998

The following table summarizes the major income and expense line items of these discontinued operations, as reported in the consolidated statements of operations for the three and six months ended July 1, 2023 and July 2, 2022:

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Selling, general and administrative expense	—	—	$ 1,728	$ —
Research and development expense	—	—	396	—
Change in fair value of contingent consideration[(a)]	—	—	1,710	—
Depreciation and amortization[(a)]	—	—	4,264	—
Operating loss from discontinued operations	—	—	(8,098)	—
Interest expense, net	—	—	4,889	—
Other expense[(b)]	—	280	61,442	681
Other expense	—	280	66,331	681
Loss before income taxes	—	(280)	(74,429)	(681)
Income tax benefit, net	—	—	—	—
Net loss	—	(280)	(74,429)	(681)
Loss attributable to noncontrolling interest	—	—	14,937	—
Net loss attributable to Bioventus Inc.	$ —	$ (280)	$ (59,492)	$ (681)

(a) Depreciation and amortization and the change in fair value of contingent consideration represents the significant operating non-cash items of discontinued operations.

(b) Other expense includes the $60,639 loss on deconsolidation, of which $10,150 was attributable to non-refundable payments.

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

The following discussion and analysis of Bioventus Inc.'s (sometimes referred to as "we," "us," "our," "Bioventus" or "the Company") financial condition and results of operations should be read in conjunction with the "Special Note Regarding Forward-Looking Statements" and our unaudited consolidated condensed financial statements and related notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q, as well as our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the Securities and Exchange Commission ("SEC") on March 31, 2023 ("2022 10-K").

Executive Summary

We are a global medical device company focused on developing and commercializing clinically differentiated, cost efficient and minimally invasive treatments that engage and enhance the body's natural healing process. We operate our business through two reportable segments, U.S. and International, and our portfolio of products is grouped into three verticals:

- Pain Treatments is comprised of non-surgical joint pain injection therapies as well as peripheral nerve stimulation ("PNS") products to help the patient get back to their normal activities.
- Surgical Solutions is comprised of bone graft substitutes ("BGS") to fuse and grow bones, improve results following spinal and other orthopedic surgeries as well as minimally invasive ultrasonic medical devices used for precise bone sculpting, removing tumors and tissue debridement, in various surgeries.
- Restorative Therapies is comprised of a bone healing system and devices designed to help patients regain leg or hand function due to stroke, multiple sclerosis or other central nervous system disorders.

As further discussed below, there are conditions and events that raise substantial doubt about the Company's ability to continue as a going concern. In light of this, the Company is actively pursuing plans to mitigate these conditions and events; however, there can be no assurances that it is probable these plans will be successfully implemented or that they will successfully mitigate these conditions and events.

For additional information, see the below *Going Concern* section under *Liquidity and Capital Resources*.

The following table sets forth total net sales, net loss and Adjusted EBITDA for the periods presented:

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Net sales	$ 137,069	$ 140,331	$ 256,128	$ 257,621
Net loss from continuing operations	$ (4,731)	$ (7,734)	$ (104,749)	$ (22,139)
Adjusted EBITDA[1]	$ 28,158	$ 22,329	$ 45,109	$ 29,501
Loss per Class A common stock, basic and diluted:				
Continuing operations	$ (0.06)	$ (0.11)	$ (1.34)	$ (0.29)
Discontinued operations	—	—	(0.95)	(0.01)
Loss per Class A common stock, basic and diluted	$ (0.06)	$ (0.11)	$ (2.29)	$ (0.30)

(1) See below under results of operations-Adjusted EBITDA for a reconciliation of net loss to Adjusted EBITDA.

Significant transactions

Wound Business

On May 22, 2023, we closed the sale of certain assets within our Wound Business, including the TheraSkin and TheraGenesis products (collectively, the "Wound Business" or the "Disposal Group"), for potential consideration of $84.9 million, including $34.9 million at closing, $5.0 million deferred for 18 months and up to $45.0 million in potential earn-out payments ("Earn-out Payments"). We incurred $3.9 million in transactional fees resulting from the sale of the Wound Business. The deconsolidation of Disposal Group resulted in the recognition of a $1.0 million loss on disposal of a business recorded within the consolidated statements of operations and comprehensive loss for the three and six months ended July 1, 2023.

The proceeds were used to prepay $30.0 million of long-term debt principal obligations. The Earn-out Payments are based on the achievement of certain revenue thresholds by the purchaser of the Wound Business for sales of the TheraSkin and TheraGenesis products during the 2024, 2025 and 2026 fiscal years. The net revenue thresholds are as follows:

- 2024 Earn-out Payment—$5.0 million due if net revenue for the period January 1, 2024 through December 31, 2024 is equal to or greater than $54.3 million or zero if net revenue is less than $54.3 million;
- 2025 Earn-out Payment—$20.0 million due if net revenue for the period January 1, 2025 through December 31, 2025 is equal to or greater than $69.7 million or $10.0 million due if net revenue is greater than or equal to $55.8 million but less than $69.7 million or zero if net revenue is less than $55.8 million.
- 2026 Earn-out Payment—$20.0 million due if net revenue for the period January 1, 2026 through December 31, 2026 is equal to or greater than $83.7 million or $10.0 million due if net revenue is greater than or equal to $67.0 million but less than $83.7 million or zero if net revenue is less than $67.0 million.

We evaluated the Wound Business for impairment prior to its sale and recorded a $78.6 million ($63.3 million after tax) impairment within the consolidated statements of operations and comprehensive loss during the six months ended July 1, 2023 as a result of this evaluation to reduce the intangible assets of the Disposal Group to reflect their respective fair values, less any costs to sell. The fair value of the Disposal Group's intangibles were determined based on the consideration received for the Wound Business.

CartiHeal

On July 12, 2022, we acquired 100% of CartiHeal (2009) Ltd. ("CartiHeal"), a privately held company headquartered in Israel and the developer of the proprietary Agili-C implant for the treatment of joint surface lesions in traumatic and osteoarthritic joints. We purchased CartiHeal ("CartiHeal Acquisition") for an aggregate purchase price of approximately $315.0 million and an additional $135.0 million, becoming payable after closing upon the achievement of a certain sales milestone ("Sales Milestone Consideration"). We paid $100.0 million of the aggregate purchase price upon closing, consisting of a $50.0 million escrow deposit and $50.0 million from a financing arrangement. We also paid approximately $8.6 million of CartiHeal's transaction-related fees and expenses and deferred $215.0 million ("Deferred Amount") of the aggregate purchase price otherwise due at closing until the earlier of the achievement of certain milestones or the occurrence of certain installment payment dates. We recognized a gain of $23.7 million due to the change in fair value of our equity method investment in CartiHeal as a result of the purchase during the third quarter of 2022. The gain was recognized in other income within the consolidated statement of operations and comprehensive loss.

We previously entered into an Option and Equity Purchase Agreement with CartiHeal ("Option Agreement") in July 2020. The Option Agreement provided us with an exclusive option to acquire 100% of CartiHeal's shares ("Call Option"), and provided CartiHeal with a put option that would require us to purchase 100% of CartiHeal's shares under certain conditions. In August 2021, CartiHeal achieved pivotal clinical trial success, as defined in the Option Agreement, for the Agili-C implant. In order to preserve our Call Option, in accordance with the Option Agreement and upon approval of the Board of Directors ("BOD"), we deposited $50.0 million into escrow in August 2021 for the potential acquisition of CartiHeal.

In April 2022, we exercised our Call Option to acquire all of the remaining shares of CartiHeal, excluding shares we already owned. Our decision to exercise the Call Option followed the FDA's March 29, 2022 premarket approval of CartiHeal's Agili-C implant. On June 17, 2022, the Company entered into an amendment to the Option Agreement with CartiHeal ("CartiHeal Amendment") and Elron Ventures Limited, in its capacity as the shareholder representative, that provided for deferred payment of the consideration for CartiHeal to be paid in multiple tranches, one of which was $50.0 million due upon the earliest to occur — the publication in a peer-reviewed orthopedic journal of an article that presents the results of the pivotal clinical trial ("First Paper Milestone") or July 1, 2023.

Pursuant to the CartiHeal Amendment, we agreed to pay interest on each tranche of the Deferred Amount at a rate of 8.0% annually, until such tranche is paid.

The First Paper Milestone under the Option Agreement occurred on February 13, 2023, triggering our obligation to make the first $50.0 million payment, plus applicable interest, under the Option Agreement.

On February 27, 2023, we entered into a settlement agreement (the "Settlement Agreement") with Elron Ventures Ltd. ("Elron" and together with the Company, the "Parties") as representative of CartiHeal's selling securityholders under the Option Agreement collectively, the "Former Securityholders"). Pursuant to the Settlement Agreement, Elron, on behalf of the Former Securityholders, agreed to forbear from initiating any legal action or proceedings relating to non-payment of any obligations arising under the Option Agreement during a period of 30 calendar days (the "Interim Period") in exchange for (i) a one-time non-refundable amount of $10.0 million and (ii) a one-time non-refundable payment of $0.2 million to Elron to be used in accordance with the expense fund provisions of the Option Agreement. The Interim Period expired on March 29, 2023 and we did not exercise our right to extend the Interim Period. In addition, the Parties mutually released any further claims under the Option Agreement and related transaction documents, including without limitation a release by the Former Securityholders of any rights to enforce the provisions of the Option Agreement or make further monetary claims against us and/or our respective affiliates and representatives.

Upon execution of the Settlement Agreement, we transferred 100% of our shares in CartiHeal to a trustee (the "Trustee") for the benefit of the Former Securityholders. We had no ownership interest and no voting rights during the Interim Period. We have concluded that upon execution of the Settlement Agreement, the Company ceased to control CartiHeal for accounting purposes, and therefore, have deconsolidated CartiHeal (the "Deconsolidation", or "Disposal") effective February 27, 2023. We treated the Disposal as a discontinued operation. The loss upon disposal totaled $60.6 million and was recorded within loss from discontinued operations, net.

Amended 2019 Credit Agreement

On July 11, 2022, we amended our Credit and Guaranty Agreement, dated as of December 6, 2019 (as amended on October 29, 2021 and July 11, 2022, the "Amended 2019 Credit Agreement") in conjunction with the CartiHeal Acquisition to, among other things, provide for an $80.0 million term loan facility ("Term Loan Facility"). On March 31, 2023, we further amended our Amended 2019 Credit Agreement to, among other things, modify certain financial covenant provisions, waive the noncompliance at December 31, 2022 and increase the applicable interest rate. Refer to Liquidity and Capital Resources—Credit Facilities for further information.

B.O.N.E.S. Trial

We submitted a premarket approval ("PMA") supplement to the FDA in December 2020 seeking approval of an expanded indication for EXOGEN, specifically, for the adjunctive treatment of acute and delayed metatarsal fractures to reduce the risk of non-union. This PMA supplement was based on and supported by clinical data in metatarsal fractures from the ongoing B.O.N.E.S. study. In April 2021, we received a letter from the FDA identifying certain deficiencies in the PMA supplement that must be addressed before the FDA can complete its review of the PMA supplement. The deficiencies include concerns about the data and endpoints from the B.O.N.E.S. study, and requests for re-analyses of certain data and provision of other information to support the findings. In December 2021, we completed the follow-up of all patients in the scaphoid B.O.N.E.S. study. In October 2022, we elected to withdraw our PMA submission on metatarsal fractures. Presently, we are in the process of finalizing our PMA supplement for the scaphoid indication. In the scaphoid study analysis plan, the applicable feedback received from the FDA in the prior metatarsal submission was applied prospectively and as such we believe this second filing will address the FDA's concerns on the study design. Assuming positive outcome with the FDA of the scaphoid review, we would consider resubmitting the metatarsal data at a later date. We can, however, give no assurance that the scaphoid review will be accepted by the FDA or, if accepted, that we will be able to resolve the deficiencies in the PMA supplements identified by the FDA in a timely manner, or at all. Consequently, the FDA's decision on the PMA supplements might be delayed beyond the time originally anticipated. Moreover, if our responses do not satisfy the FDA's concerns, the FDA might not approve our PMA supplements seeking to expand the indications for use of EXOGEN in scaphoid and metatarsal fractures as proposed.

MOTYS Update

During the second quarter of 2022, prior to obtaining the results from our Phase 2 trial, we elected to discontinue the development of MOTYS, to focus our resources on other priorities, including the integration of our 2021 and 2022 acquisitions and our expanded R&D and product development portfolio we inherited with these acquisitions. We incurred $0.3 million and $1.2 million, respectively, during the three and six months ended July 1, 2023 related to MOTYS. We expect to incur up to $0.5 million in remaining expenditures.

Consolidated Appropriations Act

In July 2022, in connection with the Consolidated Appropriations Act, 2021 ("CAA"), the Centers for Medicare and Medicaid Services ("CMS") began utilizing new pricing information the Company reported to it pursuant to the newly adopted reporting obligations to adjust the Medicare payment to healthcare providers using our Durolane and Gelsyn-3 products.

Results of Operations

For a description of the components of our results of operations, refer to *Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* in our 2022 10-K.

The following table sets forth components of our condensed consolidated condensed statements of operations as a percentage of net sales for the periods presented:

	Three Months Ended		Six Months Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales (including depreciation and amortization)	35.0 %	31.1 %	36.3 %	33.1 %
Gross profit	65.0 %	68.9 %	63.7 %	66.9 %
Selling, general and administrative expense	54.6 %	64.0 %	60.8 %	68.2 %
Research and development expense	2.4 %	4.5 %	2.8 %	5.2 %
Restructuring costs	0.5 %	0.7 %	0.4 %	0.6 %
Change in fair value of contingent consideration	0.2 %	0.2 %	0.2 %	0.2 %
Depreciation and amortization	1.7 %	1.9 %	1.7 %	2.3 %
Impairment of assets	— %	— %	30.7 %	— %
Loss on disposal of a business	0.7 %	— %	0.4 %	— %
Operating income (loss)	4.9 %	(2.4 %)	(33.3 %)	(9.6 %)

The following table presents a reconciliation of net loss to Adjusted EBITDA for the periods presented:

	Three Months Ended		Six Months Ended	
(in thousands)	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
Net loss from continuing operations	**$ (4,731)**	**$ (7,734)**	**$ (104,749)**	**$ (22,139)**
Interest expense, net	10,587	2,578	20,281	1,028
Income tax expense (benefit), net	381	1,244	235	(3,888)
Depreciation and amortization[(a)]	14,600	12,384	31,073	24,863
Acquisition and related costs[(b)]	1,448	5,994	2,623	13,972
Restructuring and succession charges[(c)]	620	1,695	937	2,272
Equity compensation[(d)]	(2,732)	4,616	(886)	9,505
Financial restructuring costs[(e)]	1,257	—	6,587	—
Impairment of assets[(f)]	—	—	78,615	—
Loss on disposal of a business[(g)]	977	—	977	—
Other items[(h)]	5,751	1,552	9,416	3,888
Adjusted EBITDA	**$ 28,158**	**$ 22,329**	**$ 45,109**	**$ 29,501**

(a) Includes for the three months ended July 1, 2023 and July 2, 2022 and six months ended July 1, 2023 and July 2, 2022, respectively, depreciation and amortization of $12,301, $9,684, $26,640 and $18,902 in cost of sales and $2,299, $2,700, $4,433 and $5,961 in operating expenses presented in the consolidated condensed statements of operations and comprehensive loss.

(b) Includes acquisition and integration costs related to completed acquisitions, amortization of inventory step-up associated with acquired entities, and changes in fair value of contingent consideration.

(c) Costs incurred were the result of adopting restructuring plans to reduce headcount, reorganize management structure, and to consolidate certain facilities.

(d) Includes compensation expense resulting from awards granted under our equity-based compensation plans. The three and six months ended July 1, 2023 includes the reversal of equity compensation expenses totaling $3.8 million related to the transition of our executive leadership.

(e) Financial Restructuring costs which include advisory fees and debt amendment related costs.

(f) Represents a non-cash impairment charge for intangible assets attributable to our Wound Business due to our decision to divest the business.

(g) Represents the loss on the disposal of the Wound Business.

(h) Other items primarily includes charges associated with strategic transactions, such as potential acquisitions or divestitures, incremental one-time consulting costs related to the recertification of certain products to comply with the new and extensive EU MDR requirements, and costs attributable to MOTYS. During the second quarter of 2022, prior to obtaining the results from our Phase 2 trial, we elected to discontinue the development of MOTYS, to focus our resources on other priorities, including the integration of our acquisitions and our expanded R&D and product development portfolio we inherited with these acquisitions. We incurred $0.3 million and $1.2 million, respectively, during the three and six months ended July 1, 2023 related to MOTYS. We expect to incur up to $0.5 million in remaining expenditures. Other items for three and six months ended July 1, 2023 also includes severance costs totaling $2.3 million related to the transition of executive leadership.

Non-GAAP Financial Measures - Adjusted EBITDA

We present Adjusted EBITDA, a non-GAAP financial measure, because we believe it is a useful indicator that management uses as a measure of operating performance as well as for planning purposes, including the preparation of our annual operating budget and financial projections. We believe that Adjusted EBITDA is useful to our investors because it is frequently used by securities analysts, investors and other interested parties in their evaluation of the operating performance of companies in industries similar to ours. We define Adjusted EBITDA as net loss from continuing operations before depreciation and amortization, provision of income taxes and interest expense, net, adjusted for the impact of certain cash, non-cash and other items that we do not consider in our evaluation of ongoing operating performance. These items include acquisition and related costs, impairments on goodwill, impairments of assets, restructuring and succession charges, equity compensation expense, financial restructuring costs, loss on disposal of a business and other items. Adjusted EBITDA by segment is comprised of net sales and costs directly attributable to a segment, as well as an allocation of corporate overhead costs primarily based on a ratio of net sales by segment to total consolidated net sales.

Non-GAAP financial measures have limitations as an analytical tool and should not be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with U.S. GAAP. These measures might exclude certain normal recurring expenses. Therefore, these measures might not provide a complete understanding of the Company's performance and should be reviewed in conjunction with the U.S. GAAP financial measures. Additionally, other companies might define their non-GAAP financial measures differently than we do. Investors are encouraged to review the reconciliation of the non-GAAP measure provided in this Quarterly Report on Form10-Q, including in the table above, to its most directly comparable U.S. GAAP measure.

Net sales

(in thousands, except for percentage)	Three Months Ended July 1, 2023	Three Months Ended July 2, 2022	Change $	Change %
U.S.				
Pain Treatments	$ 55,617	$ 58,055	$ (2,438)	(4.2 %)
Restorative Therapies	31,844	35,433	(3,589)	(10.1 %)
Surgical Solutions	33,386	32,822	564	1.7 %
Total U.S. net sales	120,847	126,310	(5,463)	(4.3 %)
International				
Pain Treatments	6,024	5,859	165	2.8 %
Restorative Therapies	4,774	4,469	305	6.8 %
Surgical Solutions	5,424	3,693	1,731	46.9 %
Total International net sales	16,222	14,021	2,201	15.7 %
Total net sales	$ 137,069	$ 140,331	$ (3,262)	(2.3 %)

U.S.

Net sales decreased $5.5 million, or 4.3%, changes by vertical were: (i) Pain Treatments—$2.4 million decrease due to the decline in our selling price, resulting from the impact of lower reported average selling price (“ASP”), leading to lower reimbursement levels, partially offset with an increase in sales volume; (ii) Restorative Therapies—$3.6 million net sales decrease primarily due to the divestiture of the Wound Business, partially offset with net volume growth; and (iii) Surgical Solutions—$0.6 million net sales increase primarily due to volume growth.

International

Net sales increased $2.2 million, or 15.7%, primarily due to an increase in sales volume within our Surgical Solutions vertical.

	Six Months Ended		Change	
(in thousands, except for percentage)	July 1, 2023	July 2, 2022	$	%
U.S.				
Pain Treatments	$ 96,612	$ 105,929	$ (9,317)	(8.8 %)
Restorative Therapies	64,332	64,379	(47)	(0.1 %)
Surgical Solutions	63,881	60,083	3,798	6.3 %
Total U.S. net sales	224,825	230,391	(5,566)	(2.4 %)
International				
Pain Treatments	11,355	10,038	1,317	13.1 %
Restorative Therapies	10,388	9,883	505	5.1 %
Surgical Solutions	9,560	7,309	2,251	30.8 %
Total International net sales	31,303	27,230	4,073	15.0 %
Total net sales	$ 256,128	$ 257,621	$ (1,493)	(0.6 %)

U.S.

Net sales decreased $5.6 million, or 2.4%, compared to the prior year period. Changes by vertical were: (i) Pain Treatments—$9.3 million decrease due to the decline in our selling price, resulting from the impact of lower reported ASP thereby generating lower reimbursement levels, partially offset with an increase in sales volume; (ii) Restorative Therapies—the nominal change is the result of net volume growth offset with the divestiture of our Wound Business; and (iii) Surgical Solutions—$3.8 million net sales increase due to volume growth.

International

Net sales increased $4.1 million, or 15.0%, due to sales volume growth across all verticals.

Gross profit and gross margin

	Three Months Ended		Change	
(in thousands, except for percentage)	July 1, 2023	July 2, 2022	$	%
U.S.	$ 79,549	$ 87,331	$ (7,782)	(8.9 %)
International	9,574	9,323	251	2.7 %
Total	$ 89,123	$ 96,654	$ (7,531)	(7.8 %)

	Three Months Ended		
	July 1, 2023	July 2, 2022	Change
U.S.	65.8 %	69.1 %	(3.3 %)
International	59.0 %	66.5 %	(7.5 %)
Total	65.0 %	68.9 %	(3.9 %)

U.S.

Gross profit decreased $7.8 million or 8.9%, due to lower ASP within our Pain Treatments vertical and increased amortization, partially offset with an increase in sales within Surgical Solutions. Gross margin decreased due to lower selling prices and product mix.

International

Gross profit increased $0.3 million, or 2.7%, primarily due to the increase in net sales. Gross margin decreased due to product mix.

(in thousands, except for percentage)	Six Months Ended July 1, 2023	Six Months Ended July 2, 2022	Change $	Change %
U.S.	$ 145,055	$ 154,947	$ (9,892)	(6.4 %)
International	17,987	17,409	578	3.3 %
Total	$ 163,042	$ 172,356	$ (9,314)	(5.4 %)

	Six Months Ended July 1, 2023	Six Months Ended July 2, 2022	Change
U.S.	64.5 %	67.3 %	(2.8 %)
International	57.5 %	63.9 %	(6.5 %)
Total	63.7 %	66.9 %	(3.1 %)

U.S.

Gross profit decreased $9.9 million, or 6.4%, primarily due to the decrease in selling price within the Pain Treatments vertical and an increase in amortization in cost of sales. Gross margin decreased primarily due to product mix and decrease in selling prices. This decline was partially offset with a 2.5% margin impact from the amortization of acquisition related assets in 2022 compared with 2023.

International

Gross profit increased $0.6 million, or 3.3%, primarily due to the increase in net sales. Gross margin decreased due to product mix.

Selling, general and administrative expense

(in thousands, except for percentage)	Three Months Ended July 1, 2023	Three Months Ended July 2, 2022	Change $	Change %
Selling, general and administrative expense	$ 74,844	$ 89,620	$ (14,776)	(16.5 %)

Selling, general and administrative expenses decreased $14.8 million, or 16.5%, primarily due to a decrease in equity-based compensation of $7.0 million resulting from employee turnover and the decline in stock price and cost saving initiatives, including: (i) a decrease of $2.6 million in other administrative and marketing-related costs; (ii) a decrease in travel related expenses of $2.0 million; (iii) a decline of $1.8 million in bad debt due to increased collections and efficiencies from integration efforts; and (iv) a decrease in compensation related expenses of $1.0 million.

(in thousands, except for percentage)	Six Months Ended July 1, 2023	Six Months Ended July 2, 2022	Change $	Change %
Selling, general and administrative expense	$ 155,702	$ 175,744	$ (20,042)	(11.4 %)

Selling, general and administrative expenses decreased $20.0 million, or 11.4%, primarily due to a decrease in equity-based compensation of $9.7 million resulting from employee turnover and the decline in stock price and cost saving initiatives, including: (i) a decline in compensation related expenses of $5.6 million; (ii) a decrease of $4.4 million in other administrative and marketing related costs; (iii) a decrease in travel related expenses of $3.0 million; (iv) a decline of $1.9 million in bad debt due to increased collections and efficiencies from integration efforts; and (v) a decrease of $1.0 million in corporate and employee health insurance. These decreases were partially offset with an increase in consulting expenses of $4.7 million and an increase in audit and legal fees of $1.3 million.

Research and development expenses

(in thousands, except for percentage)	Three Months Ended July 1, 2023	Three Months Ended July 2, 2022	Change $	Change %
Research and development expense	$ 3,398	$ 6,366	$ (2,968)	(46.6 %)

Research and development expense decreased by $3.0 million, or 46.6%, due to: (i) a $1.8 million decline in consulting costs; (ii) a decrease of $0.4 million in supplies expense due to cost reduction efforts; and (iii) a decline of $0.4 million in equity-based compensation resulting from employee turnover and the decline in stock price.

(in thousands, except for percentage)	Six Months Ended July 1, 2023	Six Months Ended July 2, 2022	Change $	Change %
Research and development expense	$ 7,169	$ 13,294	$ (6,125)	(46.1 %)

Research and development expense decreased by $6.1 million, or 46.1%, primarily due to: (i) a decrease of $3.1 million in consulting costs; (ii) a decline in $1.1 million in compensation related expenses due to restructuring and cost reduction efforts; (iii) a decline of $0.8 million in supplies expense due to cost reduction efforts; and (iv) a decrease in equity-based compensation of $0.7 million due to employee turnover and our declining stock price.

Restructuring costs

(in thousands, except for percentage)	Three Months Ended July 1, 2023	Three Months Ended July 2, 2022	Change $	Change %
Restructuring costs	$ 620	$ 1,007	$ (387)	(38.4 %)

(in thousands, except for percentage)	Six Months Ended July 1, 2023	Six Months Ended July 2, 2022	Change $	Change %
Restructuring costs	$ 937	$ 1,584	$ (647)	(40.8 %)

Restructuring costs for the three and six months ended July 1, 2023 included costs incurred as a result of an initiative to align the Company's organizational and management cost structure to improve profitability and cash flow through headcount reduction and cutting third-party related costs. Restructuring costs for the three and six months ended July 2, 2022 were incurred as a result of restructuring plans for recently acquired businesses to reduce headcount and to reorganize management structure for acquired businesses.

Change in fair value of contingent consideration

(in thousands, except for percentage)	Three Months Ended July 1, 2023	Three Months Ended July 2, 2022	Change $	Change %
Change in fair value of contingent consideration	$ 240	$ 273	$ (33)	(12.1 %)

(in thousands, except for percentage)	Six Months Ended July 1, 2023	Six Months Ended July 2, 2022	Change $	Change %
Change in fair value of contingent consideration	$ 527	$ 542	$ (15)	(2.8 %)

The fair value of contingent consideration during the three and six months ended July 1, 2023 remained consistent with the prior year comparable period. The activity for both periods relates to contingent consideration associated with the acquisition of Bioness in March 2021.

Depreciation and amortization

(in thousands, except for percentage)	Three Months Ended July 1, 2023	Three Months Ended July 2, 2022	Change $	Change %
Depreciation and amortization	$ 2,294	$ 2,696	$ (402)	(14.9 %)

(in thousands, except for percentage)	Six Months Ended July 1, 2023	Six Months Ended July 2, 2022	Change $	Change %
Depreciation and amortization	$ 4,423	$ 5,950	$ (1,527)	(25.7 %)

Depreciation and amortization decreased during the three and six months ended July 1, 2023 compared with the prior year periods. The decrease was primarily due to: (i) certain customer relationship assets, which became fully amortized and lower amortization expense in 2023 as certain intangibles were impaired resulting from the evaluation of the Wound Business, which was sold during the second quarter of 2023.

Impairment of assets

Our decision to divest the Wound Business required us to evaluate whether certain of its assets were impaired. We recorded a $78.6 million non-cash impairment charge as a result of this evaluation to reduce the intangible assets to their fair values less costs to sell. The fair value of intangibles of the Wound Business was determined based on the consideration offered for the Wound Business.

Loss on disposal of a business

The loss on disposal of a business during the three and six months ended July 1, 2023 resulted from working capital adjustments relating to the sale of our Wound Business.

Other expense (income)

	Three Months Ended		Change	
(in thousands, except for percentage)	July 1, 2023	July 2, 2022	$	%
Interest expense, net	$ 10,587	$ 2,578	$ 8,009	NM
Other expense (income)	$ 513	$ 604	$ (91)	(15.1 %)

(NM = Not Meaningful)

Interest expense, net increased $8.0 million due to: (i) an increase in interest of $4.6 million due to higher interest rates; (ii) an increase of $2.3 million due to higher margin rates; and (iii) an increase of $0.7 million on the additional debt used to partially fund the CartiHeal Acquisition. These changes were partially offset by $0.3 million of interest income from the change in the fair value of our interest rate swap. Other expense remained consistent with the prior year comparable period.

	Six Months Ended		Change	
(in thousands, except for percentage)	July 1, 2023	July 2, 2022	$	%
Interest expense, net	$ 20,281	$ 1,028	$ 19,253	NM
Other expense (income)	$ (1,075)	$ 241	$ (1,316)	NM

Interest expense, net increased $19.3 million due to: (i) an increase in interest of $9.5 million from higher interest rates; (ii) the $4.2 million in interest income resulting from the change in the fair value of our interest rate swap in 2022, which was discontinued during the fourth quarter of 2022; (iii) an increase of $3.6 million due to higher margin rates associated with a high leverage ratio; (iv) an increase of $1.2 million on additional debt used to partially fund the acquisition of CartiHeal and (v) an increase of $0.6 million for interest on our revolving credit borrowings. Other expense (income) increased $1.3 million due to the receipt of $1.5 million from the settlement of a legal claim.

Income tax expense (benefit), net

	Three Months Ended		Change	
(in thousands, except for percentage)	July 1, 2023	July 2, 2022	$	%
Income tax expense, net	$ 381	$ 1,244	$ (863)	(69.4 %)
Effective tax rate	8.8 %	18.4 %		(9.6) %

	Six Months Ended		Change	
(in thousands, except for percentage)	July 1, 2023	July 2, 2022	$	%
Income tax expense (benefit), net	$ 235	$ (3,888)	$ 4,123	(106.0 %)
Effective tax rate	0.2 %	14.6 %		(14.4) %

Changes for the three and six months ended July 1, 2023 compared to the prior year comparable periods were primarily due to an increase in the valuation allowance applied to our net deferred tax assets.

Noncontrolling interest

(in thousands, except for percentage)	Three Months Ended July 1, 2023	Three Months Ended July 2, 2022	Change $	Change %
Continuing LLC Owner	$ 1,050	$ 545	$ 505	92.7 %
Other noncontrolling interest	—	217	(217)	(100.0 %)
Total	$ 1,050	$ 762	$ 288	

(in thousands, except for percentage)	Six Months Ended July 1, 2023	Six Months Ended July 2, 2022	Change $	Change %
Continuing LLC Owner	$ 36,347	$ 3,956	$ 32,391	NM
Other noncontrolling interest	—	335	(335)	(100.0 %)
Total	$ 36,347	$ 4,291	$ 32,056	

Subsequent to the IPO and related transactions, we are the sole managing member of BV LLC in which we own 79.9%. We have a majority economic interest, the sole voting interest in, and control the management of BV LLC. As a result, we consolidate the financial results of BV LLC and report a noncontrolling interest representing the 20.1% that is owned by the Continuing LLC Owner. Noncontrolling interest activity during the six months ended July 1, 2023 was the result of the large losses recorded.

Segment Adjusted EBITDA

Adjusted EBITDA for each of our reportable segments is as follows:

(in thousands, except for percentage)	Three Months Ended July 1, 2023	Three Months Ended July 2, 2022	Change $	Change %
U.S.	$ 24,712	$ 19,489	$ 5,223	26.8 %
International	$ 3,446	$ 2,840	$ 606	21.3 %

U.S.

Adjusted EBITDA increased $5.2 million, or 26.8%, primarily due to cost saving initiatives, including a decrease in administrative, compensation and travel related expenses, partially offset with a decline in gross profit.

International

Adjusted EBITDA increased $0.6 million, or 21.3%, primarily due to cost saving initiatives and the increase in gross profit.

(in thousands, except for percentage)	Six Months Ended July 1, 2023	Six Months Ended July 2, 2022	Change $	Change %
U.S.	$ 39,424	$ 24,328	$ 15,096	62.1 %
International	$ 5,685	$ 5,173	$ 512	9.9 %

U.S.

Adjusted EBITDA increased $15.1 million, or 62.1%, primarily due cost saving initiatives, including a decrease in compensation related charges and declines in administrative and travel expenses as previously discussed partially offset with lower gross profit.

International

Adjusted EBITDA increased $0.5 million, or 9.9%, primarily due to cost saving initiatives and the increase in gross profit.

Liquidity and Capital Resources

Sources of liquidity

Our principal liquidity needs have historically been for acquisitions, working capital, research and development, clinical trials, and capital expenditures. We expect these needs to continue as we carry out our operations, develop and commercialize our existing product candidates and any new products candidates and possibly further our expansion into international markets.

We have implemented previously announced restructuring initiatives to enhance our current financial position and sources of liquidity. These restructuring efforts are expected to result in $9.0 million to $10.0 million in cost savings on an annualized basis upon completion. Refer to *Item 1. Financial Information—Notes to the unaudited consolidated condensed financial statements—Note 9. Restructuring costs* for further details regarding these cost cutting efforts.

As previously discussed, on May 22, 2023, we closed the sale of our Wound Business for consideration of $84.9 million, including $34.9 million at closing, $5.0 million deferred for 18 months and up to $45.0 million in potential earn-out payments. The proceeds were used to prepay $30.0 million of long-term debt principal obligations.

We anticipate that to the extent that we require additional liquidity, we will obtain funding through additional equity financings or the incurrence of other indebtedness or a combination of these potential sources of liquidity. We may explore additional divestiture opportunities for non-core assets to improve our liquidity position, as we recently did with the Wound Business. In addition, we may raise additional funds to finance future cash needs through receivables or royalty financings or corporate collaboration and licensing arrangements. If we raise additional funds by issuing equity securities or convertible debt, our stockholders will experience dilution. The covenants under the Amended 2019 Credit Agreement limit our ability to obtain additional debt financing. Debt financing, if allowed under the Amended 2019 Credit Agreement and if available, would result in increased payment obligations and might involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, or making capital expenditures. If we raise additional funds through collaboration and licensing arrangements with third-parties, it might be necessary to relinquish valuable rights to our products, future revenue streams or product candidates, or to grant licenses on terms that might not be favorable to us. We cannot be certain that additional funding will be available on acceptable terms, or at all. Any failure to raise capital in the future might have a negative impact on our financial condition and our ability to pursue our business strategies.

Going Concern

The accompanying unaudited consolidated financial statements have been prepared under the going concern basis of accounting, which presumes that the Company's liquidation is not imminent; however, based on the Company's current financial position and liquidity sources, including current cash balances, and forecasted future cash flows, the Company is at risk of violating certain of its financial covenants under the Amended 2019 Credit Agreement.

The Company is actively pursuing plans to mitigate these conditions and events, such as considering various additional cost cutting measures, and exploring additional divestiture opportunities such as the recently completed divestiture of its Wound Business; however, there can be no assurances that it is probable these plans will be successfully implemented or that they will successfully mitigate these conditions and events. Therefore, these plans do not alleviate the substantial doubt about the Company's ability to continue as a going concern.

For example, as a part of efforts to improve our financial condition, on February 27, 2023, we reached an agreement to return the assets and liabilities of CartiHeal (2009) Ltd. ("CartiHeal"), a wholly-owned subsidiary of the Company, to its former securityholders. The deconsolidation of CartiHeal relieved deferred consideration liabilities and milestone obligations related to the acquisition of CartiHeal. See Strategic Transactions – CartiHeal above as well as *Item 1. Financial Information—Notes to the unaudited consolidated condensed financial statements—Note 3. Acquisitions and divestitures* for further information regarding the acquisition and subsequent deconsolidation of CartiHeal. In addition, we announced a restructuring plan in December 2022 to align our organizational and management cost structure to improve profitability and cash flow. Refer to *Item 1. Financial Information—Notes to the unaudited consolidated condensed financial statements—Note 9. Restructuring costs* for further information.

If mitigating steps are not taken or are not successful, we are at substantial risk of failing to comply with the financial covenants in the Amended 2019 Credit Agreement in 2024. A breach of a financial covenant under the Amended 2019 Credit Agreement could accelerate repayment of our obligations under the agreement. Refer to *Item 1. Financial Information—Notes to the unaudited consolidated condensed financial statements—Note 4. Financial instruments* for further discussion concerning the Company's long-term debt obligations.

Cash requirements

There have been no material changes to our future cash requirements as disclosed in *Part II. Item 7* of our 2022 10-K.

We enter into contracts in the normal course of business with various third-parties for development, collaboration and other services for operating purposes. These contracts generally provide for termination upon notice. Payments due upon cancellation generally consist only of payments for services provided or expenses incurred, including non-cancellable obligations of our service providers, up to the date of cancellation. Certain agreements include contingent events that upon occurrence would require payment. For information regarding commitments and contingencies, refer to *Item 1. Financial Information—Notes to the unaudited consolidated condensed financial statements—Note 11. Commitments and contingencies*.

Tax Receivable Agreement

The BV LLC Agreement provides for the payment of certain distributions to the Continuing LLC Owner in amounts sufficient to cover the income taxes imposed with respect to the allocation of taxable income from BV LLC as well as obligations within the tax receivable agreement ("TRA") with the Continuing LLC Owner. Under the TRA, we are required to make cash payments to the Continuing LLC Owner equal to 85% of the tax benefits, if any, that we actually realize (or in certain circumstances are deemed to realize), as a result of (1) increases in the tax basis of assets of BV LLC resulting from (a) any future redemptions or exchanges of LLC Interests, and (b) certain distributions (or deemed distributions) by BV LLC and (2) certain other tax benefits arising from payments under the TRA. We expect the amount of the cash payments required to be made under the TRA will be significant. The actual amount and timing of any payments under the TRA will vary depending upon a number of factors, including the timing of redemptions or exchanges by the Continuing LLC Owner, the amount of gain recognized by the Continuing LLC Owner, the amount and timing of the taxable income we generate in the future, and the federal tax rates then applicable. Any payments made by us to the Continuing LLC Owner under the TRA will generally reduce the amount of overall cash flow that might have otherwise been available to us. To the extent that we are unable to make payments under the TRA for any reason, such payments generally will be deferred and will accrue interest until paid; provided, however, that nonpayment for a specified period may constitute a material breach of a material obligation under the TRA and therefore accelerate payments due under the TRA.

Indebtedness

We were not in compliance with certain financial covenants in the Amended 2019 Credit Agreement as of December 31, 2022. As a result, on March 31, 2023 (the "Closing Date"), we entered into another amendment to the Amended 2019 Credit Agreement to, among other things, modify certain financial covenants, waive the noncompliance at December 31, 2022, and to modify interest rates applicable to borrowings under the 2019 Credit Agreement.

The Amended 2019 Credit Agreement, as most recently amended, contains customary affirmative and negative covenants, including those related to financial reporting and notification, restrictions on the declaration or payment of certain distributions on or in respect of our equity interests, restrictions on acquisitions, investments and certain other payments, limitations on the incurrence of new indebtedness, limitations on transfers, sales and other dispositions of our assets, as well as limitations on making changes to the business and organizational documents. Financial covenant requirements include a maximum debt leverage ratio and an interest coverage ratio. In addition, during the period commencing on the Closing Date and ending upon the satisfaction of certain conditions occurring not prior to the delivery of our financial statements for the fiscal quarter ending June 30, 2024, we will be subject to certain additional requirements and covenants, including a requirement to maintain Liquidity (as defined in the Amended 2019 Credit Agreement) of not less than $10,000 as of the end of each calendar month during such period. The Term Loan Facilities will mature on October 29, 2026. The Revolver will mature on October 29, 2025.

During January and February 2023, the Company borrowed $49.0 million on its Revolver for working capital needs. However, on the Closing Date of the March 2023 amendment to the Amended 2019 Credit Agreement, as part of the closing conditions, the Company repaid $20.0 million of these borrowings during the first quarter of 2023. An additional $22.0 million was repaid during the second quarter of 2023. Additionally, the Company paid $1.3 million in closing fees, and will be required to pay an additional $0.6 million by December 31, 2023 unless the Total Net Leverage Ratio as at September 30, 2023 is below 5.25 to 1.00.

Refer to *Item 1. Financial Information—Notes unaudited consolidated condensed financial statements—Note 1. Organization* for further details on the Company's covenant compliance and *Note 4. Financial instruments* for further details on the Company's indebtedness.

Other

For information regarding Commitments and Contingencies, refer to *Item 1. Financial Information—Notes to the unaudited consolidated condensed financial statements—Note 11. Commitments and Contingencies—Note 3. Acquisitions and divestitures* of this Quarterly Report on Form 10-Q.

Information regarding cash flows

Cash, cash equivalents and restricted cash as of July 1, 2023 totaled $29.4 million, compared to $30.2 million as of December 31, 2022. The decrease in cash was primarily due to the following:

	Six Months Ended		Change	
(in thousands, except for percentage)	July 1, 2023	July 2, 2022	$	%
Cash flows from continuing operations:				
Net cash from operating activities	$ 15,454	$ (18,080)	$ 33,534	(185.5 %)
Net cash from investing activities	29,940	(56,699)	86,639	(152.8 %)
Net cash from financing activities	(34,868)	16,860	(51,728)	NM
Net cash from discontinued operations	(13,675)	—	(13,675)	NM
Effect of exchange rate changes on cash	701	(293)	994	NM
Net change in cash, cash equivalents and restricted cash	$ (2,448)	$ (58,212)	$ 55,764	(95.8 %)

NM = Not Meaningful

Operating Activities

Net cash in operating activities from continuing operations increased $33.5 million, primarily due to lower employee compensation and a net increase in collections. These inflows were partially offset with an increase in inventory purchases and higher interest payments.

Investing Activities

Net cash resulting from investing activities increased $86.6 million, primarily due to (i) the $34.9 million receipt of cash resulting from the sale of the Wound Business; (ii) an investing cash outflow of $50.0 million for the investment in CartiHeal during 2022; and (iii) $1.5 million less in other investments and distribution rights in 2023.

Financing Activities

Cash flows from financing activities decreased $51.7 million, primarily due to (i) an increase of $29.2 million in debt principal payments; (ii) net revolver credit borrowings of $7.0 million compared to $25.0 million in 2022; (iii) deferred financing payments of $3.7 million attributable to debt refinancing in 2023; and (iv) $4.0 million less proceeds from the issuance of stock. Financing cash outflows in 2023 were partially offset with no tax withholdings on equity based compensation compared to $3.4 million of payments in 2022.

Discontinued Operations

Net cash flows from discontinued operations were primarily the result of $10.2 million in fees used to settle the CartiHeal disposition and $1.4 million in cash held by the CartiHeal entity at the time of disposal.

Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations

There have been no material changes to our contractual obligations as disclosed in our 2022 10-K except for financing leases. Finance lease obligations entered into during the six months ended July 1, 2023 resulted from an agreement to lease a facility to expand our manufacturing operations and relocate from our current leased facilities in Memphis, Tennessee. The lease was entered into during November 2021 with occupancy staring in 2023. The lease term is 10 years and payments are as follows for the remainder of 2023—$1.6 million, 2024—$1.6 million, 2025—$1.6 million, 2026—$1.6 million, 2027—$1.7 million and thereafter—$8.6 million.

Critical Accounting Estimates

Our discussion of operating results is based upon the unaudited consolidated condensed financial statements and accompanying notes, which have been prepared in accordance with U.S. GAAP. The preparation of these statements requires us 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 financial statements and the reported amount of revenues and expenses during the reporting period. Our estimates are based on our historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Changes in the facts or circumstances underlying these estimates could result in material changes and actual results could differ from these estimates. Our critical accounting estimates are detailed in Item 7 of our 2022 10-K and we have no material changes from such disclosures.

Recently Issued Accounting Pronouncements

There were no recently issued accounting pronouncements that are expected to materially impact our financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There have been no material changes to our market risks as disclosed in our 2022 10-K.

Item 4. Controls and Procedures.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the supervision and participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, because of ongoing material weaknesses in the Company's internal control over financial reporting that are not fully remediated as described below, the Company's disclosure controls and procedures were not effective as of July 1, 2023.

Material Weaknesses in Internal Control over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected and corrected on a timely basis.

Changes in Control Environment

In 2022, the Company did not conduct an effective risk assessment to identify and assess changes in its business processes and internal control environment related to newly acquired companies and multiple information technology ("IT") system implementations that occurred in 2022. Further, there was a lack of adequate personnel resources in accounting, IT and other support functions to support simultaneous system implementations and business process integrations for acquired companies, implement appropriate controls for acquired companies and to maintain focus on compliance with internal controls for legacy Bioventus processes.

In addition, during 2022, the Company saw an unprecedented level of turnover in roles that drive execution of internal control activities. This turnover, paired with business changes, including those related to acquisitions, resulted in a disruption to the effective completion of control activities across a number of business processes. Further, management identified a gap in control design related to sufficient tracking of control performance to ensure controls operated effectively.

In considering these breakdowns in the control environment, Bioventus determined the associated Committee of Sponsoring Organizations of the Treadway Commission ("COSO") principles requiring further control and action by management to be:

(a) Control environment - Establishes structure, authority, and responsibility (COSO Principle 3);

(b) Risk assessment – Identifies and analyzes significant change (COSO Principle 9); and

(c) Monitoring – Conducts ongoing and /or separate evaluations (COSO Principle 16).

These ongoing control deficiencies have resulted in certain immaterial restatements of the Company's financial statements as discussed in our Quarterly Reports on Form 10-Q for the periods ended April 1, 2023 and July 1, 2023. When considered in the aggregate, they continue to create a reasonable possibility that a material misstatement to the consolidated financial statements will not be prevented or detected on a timely basis. Therefore, management concluded that the deficiencies continue to represent a material weakness in our internal control over financial reporting, and that disclosure controls and procedures were not effective as July 1, 2023.

Remediation Measures

(a) We identified staffing gaps based on employee turnover and integration challenges. Throughout 2022, we hired personnel and temporary resources to backfill positions vacated due to employee turnover and added additional headcount in accounting, finance and IT to expand capacity.

(b) In the fourth quarter of 2022, we engaged third-party consultants to perform an Accounting Transformation & Integration Assessment ("Project Action"). The Project Action team identified priority initiatives to enhance processes and systems to address inadequate processes, including order to cash, procure to pay and related master data processes. Further, Project Action benchmarked resources for the accounting function.

(c) As part of Project Action, we are developing mid- to long-term plans to further scale accounting, finance and IT for growth and public company requirements and continue to assess the level of resources that we need. We have implemented certain retention programs to retain key resources.

(d) We prioritized key projects and ensured organizational capacity, with only essential IT projects occurring during the year.

(e) We are reinforcing execution rigor and have established recurring metrics regarding internal controls in processes, and are tracking current performance compared with target performance to provide additional visibility to management and the Audit Committee. We have begun further utilizing our systems to automate the tracking of internal control completion.

(f) We implemented regular internal control certifications by control owners for all key controls.

(g) We are driving additional accountability for control owners by tying a portion of their performance objectives to successful completion of internal controls.

(h) We will increase training on internal controls, public company requirements and rigor through additional training requirements for new and existing control owners and tracking compliance to those training requirements.

(i) We will update and/or develop standard operating procedures to further document process and control performance for use in day-to-day execution and when training new employees.

(j) Further, we plan to implement a new internal control policy that further defines expectations for internal control performance and communication of changes to financially relevant processes. This policy will require management and internal audit approval before process changes or system implementations go-live.

Rebates Accrual Material Weakness

As previously reported, we identified a material weakness related to the Company's internal controls over financial reporting that were not performed at a sufficient level of precision to ensure that the third quarter 2022 rebates accrual was complete and accurate. The process undertaken to estimate the expected reduction in revenue from rebates was consistent with the Company's historical practice. However, subsequent to the initial calculation of the third quarter 2022 rebates accrual, an unexpectedly large invoice was received and there were not processes in place to ensure it was reviewed timely in order to update the accrual.

The Company reassessed open rebates accruals and the approach for calculating the rebate accruals based on this invoice. The Company revised its estimation methodology resulting in a decrease of revenue of $8.4 million. This adjustment was recorded subsequent to the earnings release but prior to the filing of the Company's Quarterly Report on Form 10-Q for the third quarter of 2022. Further, this change in revenue projection related to the rebates accrual adjustment for 2022 and cascading effect on future revenue projections materially impacted the Company's evaluation of its ability to meet debt covenants in its Amended 2019 Credit Agreement, resulting in liquidity and going concern disclosures in the Company's Quarterly Report on Form 10-Q for the third quarter of 2022.

Remediation Measures

We have designed and implemented new processes and enhanced controls to address the underlying causes of the material weakness related to the rebates accrual, including:

- Reassessing open rebates accruals and changing the estimation method for calculating the rebates accruals, including enhancing the precision of the controls;

- Implementing enhanced controls and status tracking to ensure that rebates invoices from third-party payers are received and reviewed timely; and
- Increasing rigor of documenting key conversations with payers.

The Company implemented enhanced procedures to ensure the completeness and accuracy of key reports and information used in the rebates accrual and further enhanced the precision of supporting documentation for control performance.

We believe the actions described with respect to our control environment and rebates accrual processes will be sufficient to remediate the identified material weaknesses and strengthen our internal control over financial reporting. However, the new and enhanced controls have not all been fully implemented and/or have not operated for a sufficient amount of time to conclude that our material weaknesses have been fully remediated. We are continuing to implement and monitor the effectiveness of our controls and will make any further changes management determines appropriate.

Notwithstanding the identified material weaknesses above, the Chief Executive Officer and Chief Financial Officer believe that the financial statements and related financial information included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our balance sheets, statements of operations and comprehensive (loss) income, statement of changes in stockholders' equity and statements of cash flows as of and for the periods presented.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the second quarter of 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting except for changes to controls resulting from the material weaknesses described above.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

On January 12, 2023, the Company and certain of its current and former directors and officers were named as defendants in a putative class action lawsuit filed in the Middle District of North Carolina, Ciarciello v. Bioventus, Inc., No. 1:23– CV – 00032-CCE-JEP (M.D.N.C. 2023). The complaint asserts violations of Sections 10(b) and 20(a) of the Exchange Act and of Sections 11 and 15 of the Securities Act and generally alleges that the Company failed to disclose certain information regarding rebate practices, its business and financial prospects, and the sufficiency of internal controls regarding financial reporting. The complaint seeks damages in an unspecified amount. On April 12, 2023, the Court appointed Wayne County Employees' Retirement System as lead plaintiff. The lead plaintiff's amended consolidated complaint was filed with the Court on June 12, 2023. On July 17, 2023, the defendants filed a motion to dismiss the complaint raising a number of legal and factual deficiencies with the amended and consolidated complaint. In response to the Company's motion to dismiss, the lead plaintiff filed a second amended complaint on July 31, 2023. The Company is currently evaluating the allegations in the amended complaint and intends to file a new motion to dismiss, which under the court's scheduling order is due on August 14, 2023. The Company believes the claims alleged in the litigation lack merit and intends to defend itself vigorously. The outcome of the litigation is not presently determinable, and any loss is neither probable nor reasonable estimable.

On June 15, 2022, the Company, through its subsidiary Bioness, filed a lawsuit in the United States District Court for the Eastern District of Virginia against Aretech, LLC ("Aretech") alleging infringement by Aretech of various patents related to our Vector Gait and Safety Support System®. On August 8, 2022, Aretech filed an answer to the lawsuit denying infringement and asserting various affirmative defenses and counterclaims to the Bioness complaint. Bioness filed a motion to dismiss the defendant's counterclaims on September 28, 2022. In response to Bioness' motion to dismiss the counterclaims, on October 19, 2022, Aretech filed an amended answer and counterclaims. On November 16, 2022, Bioness filed a partial motion to dismiss certain of the amended counterclaims. On January 23, 2023, the court granted-in-part Bioness's motion dismissing Aretech's antitrust and inventorship-related counterclaims, but allowed certain of Aretech's counterclaims to proceed. On March 23, 2023, the parties entered into a settlement and license agreement that resolved all claims in the litigation. The agreement also provides cross licenses to the parties for certain of their respective patents relevant to the claims asserted in the litigation.

On March 23, 2017, Misonix's former distributor in China, Cicel (Beijing) Science & Technology Co., Ltd., filed a lawsuit against Misonix and certain of its officers and directors in the United States District Court for the Eastern District of New York. The complaint alleged that Misonix improperly terminated its contract with the former distributor. The complaint sought various remedies, including compensatory and punitive damages, specific performance and preliminary and post judgment injunctive relief, and asserted various causes of action, including breach of contract, unfair competition, tortious interference with contract, fraudulent inducement, and conversion. On October 7, 2017, the court granted Misonix's motion to dismiss each of the tort claims asserted against Misonix, and also granted the individual defendants' motion to dismiss all claims asserted against them. On January 23, 2020, the court granted Cicel's motion to amend its complaint, to include claims for alleged defamation and theft of trade secrets in addition to the breach of contract claim. Discovery in the matter ended on August 5, 2021. On January 20, 2022, the court granted Misonix's summary judgment motion on Cicel's breach of contract and defamation claims. Cicel's motion for reconsideration of the court's summary judgment ruling in Misonix's favor was dismissed by the court on April 29, 2022. On July 18, 2022, Cicel voluntarily dismissed the remaining claim for trade secret theft and later filed an appeal in the United States Court of Appeals for the Second Circuit. We believe that we have various legal and factual defenses to these claims and intend to vigorously defend the appeal of the lower court's summary judgement rulings in our favor.

Prior to the closing of our acquisition of Bioness, Bioness had been named as a defendant in a lawsuit, for which we are indemnified under the indemnification provisions contained in the Bioness Merger Agreement. The case relates to an action brought in February 2021 in the Delaware State Court of Chancery by a former minority shareholder and director of Bioness, seeking a temporary restraining order contesting our acquisition of Bioness. While the complaint to block the Bioness acquisition was dismissed by the court, a separate action was brought against the Company under the indemnification provisions of the Bioness Certificate of Incorporation to recover approximately $3.0 million in attorney fees and other expenses incurred by the director and shareholder in connection with the matter.

On August 19, 2021, the court issued a ruling granting, in part, plaintiff's motion for summary judgment, awarding plaintiff attorney's fees and related expenses incurred in connection with performance of the plaintiff's directorial duties, and denying fees and expenses incurred in a non-director capacity. In its ruling, the court's order also directed the parties to agree upon a process that will govern the payment of and challenges to plaintiff's payment requests and required Bioness to pay 50% of the demanded amount into escrow if more than 50% of the total invoiced amount was in dispute. Pursuant to the court's order, Bioness paid approximately $1.3 million into escrow. On November 1, 2022, at a hearing before Delaware State Court of Chancery, the court ruled in favor of the former Bioness director awarding attorney's fees in connection with the underlying pre-merger litigation and the advancement action in the amounts claimed, less approximately $0.1 million. On December 23, 2022, Bioness and the plaintiff entered into a settlement agreement resolving the matter for the aggregate sum of $2.5 million payable to the plaintiff. The settlement was satisfied by releasing the $1.3 million previously paid by Bioness and held in escrow and by an additional payment of $1.2 million. Pursuant to the indemnification obligations under the Bioness Merger Agreement, this subsequent payment was made on behalf of Bioness on December 28. 2022, by the selling majority shareholder under that agreement. The Company subsequently recovered the $1.3 million paid into escrow from the selling Bioness shareholders pursuant an indemnification request under the Bioness Merger Agreement. An order dismissing the case was entered by the court on January 27, 2023.

On February 8, 2022, the above referenced minority shareholder of Bioness filed another action in the Delaware State Court of Chancery in connection with our acquisition of Bioness. This action names the former Bioness directors, the Alfred E. Mann Trust (Trust), which was the former majority shareholder of Bioness, the trustees of the Trust and Bioventus as defendants. The complaint alleges, among other things, that the individual directors, the Trust, and the trustees breached their fiduciary duty to the plaintiff in connection with their consideration and approval of our transaction. The complaint also alleges that we aided and abetted the other defendants in breaching their fiduciary duties to the plaintiff and that we breached the Merger Agreement by failing to pay the plaintiff its pro rata share of the merger consideration. We believe that we are indemnified under the indemnification provisions contained in the Bioness Merger Agreement for these claims. On July 20, 2022, we filed a motion to dismiss all claims made against us on various grounds, as did all the other named defendants in the suit. A hearing on the Bioness and other defendant's motions was held before the Court of Chancery on January 19, 2023. We believe that there are various legal and factual defenses to the claims plaintiff made against us and intend to defend ourselves vigorously. On April 27, 2023, the Court issued an order which, among other things, dismissed Bioventus from the case.

On September 15, 2021, a purported stockholder of Misonix filed an action in the United States District Court for the Eastern District of New York, captioned Stein v. Misonix, Inc., et al., Case No. 2:21-cv-05127 (E.D.N.Y.) (the Stein Complaint). The Stein Complaint named Misonix and members of its board of directors as defendants. The Stein Complaint was dismissed on April 6, 2022. On September 16, 2021, a purported stockholder of Misonix filed an action in the United States District Court for the Southern District of New York, captioned Ciccotelli v. Misonix, Inc. et al., Case No. 1:21-cv-07773 (S.D.N.Y.) (the Ciccotelli Complaint) against Misonix, members of its board of directors, the Company, and its subsidiaries, Merger Sub I and Merger Sub II, as defendants. Plaintiff voluntarily dismissed the Ciccotelli Complaint on November 10, 2021. On October 12, 2021, another purported stockholder of Misonix filed an action in the United States District Court for the Eastern District of New York, captioned Rubin v. Misonix, Inc. et al., Case No. 1:21-cv-05672 (S.D.N.Y.) (the Rubin Complaint) and on October 15, 2021, another purported stockholder of Misonix filed an action in the United States District Court for the Southern District of New York, captioned Taylor v. Misonix, Inc. et al., Case No. 1:21-cv-08513 (S.D.N.Y.) (the Taylor Complaint). The Rubin Complaint and the Taylor Complaint name Misonix and members of its board of directors as defendants. Plaintiffs voluntarily dismissed the Rubin and Taylor Complaints on January 21, 2022 and February 18, 2022, respectively.

Each of the complaints relating to the Misonix Acquisition asserted claims under Section 14(a) and Section 20(a) of the Exchange Act and SEC Rule 14a-9, challenging the adequacy of disclosures in the proxy statement/prospectus filed with the SEC on September 8, 2021 or the Definitive Proxy Statement filed with the SEC on September 24, 2021, regarding Misonix and/or Bioventus' projections and J.P. Morgan's financial analysis. The complaints sought, among other relief, (i) injunctive relief preventing the parties from proceeding with the merger; (ii) rescission in the event that the merger is consummated; and (iii) an award of costs, including attorneys' and experts' fees.

On April 28, 2023, Bioventus LLC was named as a defendant in a lawsuit filed in the Durham, North Carolina, Superior Court, Donald Auman v. Bioventus LLC. The complaint alleges that the plaintiff suffered a methicillin-resistant staphylococcus aureus (MRSA) infection in his left leg after using the coupling gel supplied by the Company for use with its Exogen bone healing device. The complaint also alleges that the Exogen gel used by the plaintiff was the subject of the Company's recall in December 2020, at which time the Company initiated a voluntary recall of certain lots of the gel supplied by a third-party manufacturer due to concerns that they may have had microbial contamination. The Company is evaluating the allegations in the complaint and intends to defend itself vigorously.

Please refer to *Part I. Item 1—Financial Information— Notes to the unaudited consolidated condensed financial statements—Note 11. Commitments and Contingencies* of this Quarterly Report on Form 10-Q for information pertaining to legal proceedings. In addition, we are party to legal proceedings incidental to our business. While our management currently believes the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on our consolidated condensed financial statements, litigation is subject to inherent uncertainties. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on our financial condition and results of operations.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors and other cautionary statements described under the heading Risk Factors included in our 2022 10-K as updated by our subsequent Quarterly Report on Form 10-Q for the quarter ended April 1, 2023, which could materially affect our businesses, financial condition, or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, or future results. There have been no material changes in our risk factors from those described in our 2022 10-K and Quarterly Report on Form 10-Q for the period ended Apri1 1, 2023.

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

Recent Sales of Unregistered Securities

There were no sales of unregistered securities during the three months ended July 1, 2023.

Item 3. Defaults Upon Senior Securities.

Not Applicable.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

Insider Trading Arrangements

On June 20, 2023, our Chief Financial Officer (Mark L. Singleton), Senior Vice President and General Counsel (Anthony D'Adamio) and Senior Vice President and Chief Compliance Officer (Katrina Church) each made an election to sell shares of Company Class A common stock to cover withholding taxes that may become due pursuant to the vesting of Retention Awards granted to such officers effective that same day. The elections are designed to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act.

Item 6. Exhibits.

Exhibit No.	Description	Form	File No.	Exhibit	Filing Date	Filed / Furnished Herewith
2.1	Asset Purchase Agreement, dated May 10, 2023, by and among Misonix, LLC, Solsys Medical, LLC, Bioventus LLC and LifeNet Health	8-K	001-37844	2.1	5/16/2023	
10.1^	Separation Agreement and Release between Kenneth Reali and Bioventus Inc., dated April 4, 2023	8-K	001-37844	10.1	4/5/2023	
10.2^	Employment Agreement between Anthony P. Bihl III and Bioventus Inc., dated as of April 5, 2023	8-K/A	001-37844	10.1	4/11/2023	
10.3^	Bioventus Inc. 2023 Retention Equity Award Plan	8-K	001-37844	10.1	6/9/2023	
10.4^	Form of Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Agreement	8-K	001-37844	10.2	6/9/2023	
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended					*
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended					*
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					**
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					***
101.SCH	Inline XBRL Taxonomy Extension Schema Document					***
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					***
101.DEF	Inline XBRL Extension Definition Linkbase Document					***
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					***

Exhibit No.	Description	Form	File No.	Exhibit	Filing Date	Filed / Furnished Herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					***
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					*

* Filed herewith
** Furnished herewith
*** Submitted electronically herewith
^ Indicates management contract or compensatory plan

SIGNATURE

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 duly authorized.

BIOVENTUS INC.

August 8, 2023	/s/ Mark L. Singleton
Date	Mark L. Singleton Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATIONS

I, Anthony P. Bihl III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Bioventus 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.

/s/ Anthony P. Bihl III

Name: Anthony P. Bihl III

Title: Interim Chief Executive Officer and Director (Principal Executive Officer)

Date: August 8, 2023

Exhibit 31.2

CERTIFICATIONS

I, Mark L. Singleton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Bioventus 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.

/s/ Mark L. Singleton

Name: Mark L. Singleton

Title: Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: August 8, 2023

Exhibit 32

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

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, in connection with the Quarterly Report on Form 10-Q of Bioventus Inc. (the Company) for the quarter ended July 1, 2023, as filed with the Securities and Exchange Commission on the date hereof (the Report), each of Anthony P. Bihl III, Interim Chief Executive Officer and Director of the Company and Mark L. Singleton, Senior Vice President and Chief Financial Officer of the Company, hereby certifies, that, to such officer's knowledge:

(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.

/s/ Anthony P. Bihl III

Name: Anthony P. Bihl III
Title: Interim Chief Executive Officer and Director (Principal Executive Officer)

/s/ Mark L. Singleton

Name: Mark L. Singleton
Title: Senior Vice President and Chief Financial Officer (Principal Financial Officer)

Date: August 8, 2023