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

FORM 10-Q

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

For the quarterly period ended **June 30, 2022**

OR

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

For the transition period from _____ to _____

Commission file number: 1-13165

ARTIVION, INC.

(Exact name of registrant as specified in its charter)

Delaware	**59-2417093**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1655 Roberts Boulevard, NW, Kennesaw, Georgia	**30144**
(Address of principal executive offices)	(Zip Code)

(770) 419-3355

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	AORT	New York Stock Exchange

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

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

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	x	Accelerated Filer	o
Non-accelerated Filer	o	Smaller Reporting Company	o
		Emerging Growth Company	o

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. o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 29, 2022
Common Stock, $0.01 par value	40,316,054

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Part I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Artivion, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income
In Thousands, Except Per Share Data
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Revenues:				
Products	$ 58,936	$ 56,076	$ 116,478	$ 109,421
Preservation services	21,404	20,072	41,075	37,814
Total revenues	**80,340**	**76,148**	**157,553**	**147,235**
Cost of products and preservation services:				
Products	18,230	16,178	35,638	31,089
Preservation services	9,938	9,457	19,024	17,795
Total cost of products and preservation services	**28,168**	**25,635**	**54,662**	**48,884**
Gross margin	**52,172**	**50,513**	**102,891**	**98,351**
Operating expenses:				
General, administrative, and marketing	38,983	40,830	77,938	79,468
Research and development	8,648	8,360	18,776	16,114
Total operating expenses	**47,631**	**49,190**	**96,714**	**95,582**
Operating income	**4,541**	**1,323**	**6,177**	**2,769**
Interest expense	4,101	4,855	8,049	8,895
Interest income	(30)	(18)	(46)	(42)
Other expense (income), net	3,770	(1,331)	3,903	600
Loss before income taxes	**(3,300)**	**(2,183)**	**(5,729)**	**(6,684)**
Income tax expense (benefit)	959	(5)	1,919	(1,368)
Net loss	**$ (4,259)**	**$ (2,178)**	**$ (7,648)**	**$ (5,316)**
Loss per share:				
Basic	**$ (0.11)**	**$ (0.06)**	**$ (0.19)**	**$ (0.14)**
Diluted	**$ (0.11)**	**$ (0.06)**	**$ (0.19)**	**$ (0.14)**
Weighted-average common shares outstanding:				
Basic	40,031	38,943	39,941	38,841
Diluted	40,031	38,943	39,941	38,841
Net loss	**$ (4,259)**	**$ (2,178)**	**$ (7,648)**	**$ (5,316)**
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(14,796)	2,973	(18,571)	(7,317)
Comprehensive (loss) income	**$ (19,055)**	**$ 795**	**$ (26,219)**	**$ (12,633)**

See accompanying Notes to Condensed Consolidated Financial Statements

Artivion, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
In Thousands

	June 30, 2022	December 31, 2021
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40,382	$ 55,010
Trade receivables, net	57,558	53,019
Other receivables	7,995	5,086
Inventories, net	74,318	76,971
Deferred preservation costs, net	44,785	42,863
Prepaid expenses and other	15,390	14,748
Total current assets	**240,428**	**247,697**
Goodwill	240,939	250,000
Acquired technology, net	154,866	166,994
Operating lease right-of-use assets, net	42,659	45,714
Property and equipment, net	36,268	37,521
Other intangibles, net	32,470	34,502
Deferred income taxes	9,916	2,357
Other assets	7,318	8,267
Total assets	**$ 764,864**	**$ 793,052**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 10,545	$ 10,395
Accrued compensation	9,732	13,163
Accrued expenses	7,842	7,687
Taxes payable	4,709	3,634
Accrued procurement fees	2,130	3,689
Current maturities of operating leases	3,207	3,149
Current portion of long-term debt	1,590	1,630
Other liabilities	1,891	1,606
Total current liabilities	**41,646**	**44,953**
Long-term debt	306,941	307,493
Contingent consideration	44,400	49,400
Non-current maturities of operating leases	42,141	44,869
Non-current finance lease obligation	3,766	4,374
Deferred income taxes	32,609	28,799
Deferred compensation liability	5,154	5,952
Other liabilities	6,698	6,484
Total liabilities	**$ 483,355**	**$ 492,324**
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	—	—
Common stock (issued shares of 41,744 in 2022 and 41,397 in 2021)	417	414
Additional paid-in capital	329,871	322,874
Retained (deficit) earnings	(5,673)	1,975
Accumulated other comprehensive loss	(28,458)	(9,887)
Treasury stock, at cost, 1,487 shares as of June 30, 2022 and December 31, 2021	(14,648)	(14,648)
Total shareholders' equity	**281,509**	**300,728**
Total liabilities and shareholders' equity	**$ 764,864**	**$ 793,052**

See accompanying Notes to Condensed Consolidated Financial Statements

Artivion, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
In Thousands
(Unaudited)

	Six Months Ended June 30,	
	2022	**2021**
Net cash flows from operating activities:		
Net loss	$ (7,648)	$ (5,316)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	11,497	11,999
Non-cash compensation	6,100	4,595
Non-cash lease expense	3,803	3,575
Write-down of inventories and deferred preservation costs	2,177	2,988
Change in fair value of contingent consideration	(5,000)	4,270
Deferred income taxes	(1,611)	(4,269)
Other	940	2,174
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(205)	(2,076)
Inventories and deferred preservation costs	(3,653)	(11,712)
Receivables	(9,635)	(5,454)
Accounts payable, accrued expenses, and other liabilities	(5,677)	(1,166)
Net cash flows used in operating activities	**(8,912)**	**(392)**
Net cash flows from investing activities:		
Capital expenditures	(4,055)	(7,249)
Other	(939)	205
Net cash flows used in investing activities	**(4,994)**	**(7,044)**
Net cash flows from financing activities:		
Proceeds from exercise of stock options and issuance of common stock	2,318	2,321
Payment of debt issuance costs	—	(2,219)
Redemption and repurchase of stock to cover tax withholdings	(1,739)	(1,831)
Repayment of term loan	(1,370)	(1,405)
Other	(241)	(603)
Net cash flows used in financing activities	**(1,032)**	**(3,737)**
Effect of exchange rate changes on cash and cash equivalents	310	242
Decrease in cash and cash equivalents	**(14,628)**	**(10,931)**
Cash and cash equivalents beginning of period	55,010	61,958
Cash and cash equivalents end of period	**$ 40,382**	**$ 51,027**

See accompanying Notes to Condensed Consolidated Financial Statements

Artivion, Inc. and Subsidiaries
Condensed Consolidated Statements of Shareholders' Equity
In Thousands
(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance at March 31, 2022	**41,688**	**$ 417**	**$ 326,799**	**$ (1,414)**	**$ (13,662)**	**(1,487)**	**$(14,648)**	**$ 297,492**
Net loss	—	—	—	(4,259)	—	—	—	(4,259)
Other comprehensive loss	—	—	—	—	(14,796)	—	—	(14,796)
Equity compensation	57	—	3,081	—	—	—	—	3,081
Redemption and repurchase of stock to cover tax withholdings	(1)	—	(9)	—	—	—	—	(9)
Balance at June 30, 2022	**41,744**	**$ 417**	**$ 329,871**	**$ (5,673)**	**$ (28,458)**	**(1,487)**	**$(14,648)**	**$ 281,509**

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance at December 31, 2021	**41,397**	**$ 414**	**$ 322,874**	**$ 1,975**	**$ (9,887)**	**(1,487)**	**$(14,648)**	**$ 300,728**
Net loss	—	—	—	(7,648)	—	—	—	(7,648)
Other comprehensive loss	—	—	—	—	(18,571)	—	—	(18,571)
Equity compensation	262	2	6,419	—	—	—	—	6,421
Exercise of options	140	2	1,678	—	—	—	—	1,680
Employee stock purchase plan	37	—	638	—	—	—	—	638
Redemption and repurchase of stock to cover tax withholdings	(92)	(1)	(1,738)	—	—	—	—	(1,739)
Balance at June 30, 2022	**41,744**	**$ 417**	**$ 329,871**	**$ (5,673)**	**$ (28,458)**	**(1,487)**	**$(14,648)**	**$ 281,509**

See accompanying Notes to Condensed Consolidated Financial Statements

Artivion, Inc. and Subsidiaries
Condensed Consolidated Statements of Shareholders' Equity (continued)
In Thousands
(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance at March 31, 2021	**40,585**	**$ 406**	**$ 301,449**	**$ 13,671**	**$ (3,547)**	**(1,487)**	**$(14,648)**	**$ 297,331**
Net loss	—	—	—	(2,178)	—	—	—	(2,178)
Other comprehensive income	—	—	—	—	2,973	—	—	2,973
Equity compensation	37	—	2,267	—	—	—	—	2,267
Exercise of options	121	1	1,459	—	—	—	—	1,460
Redemption and repurchase of stock to cover tax withholdings	(1)	—	(18)	—	—	—	—	(18)
Balance at June 30, 2021	**40,742**	**$ 407**	**$ 305,157**	**$ 11,493**	**$ (574)**	**(1,487)**	**$(14,648)**	**$ 301,835**

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance at December 31, 2020	**40,394**	**$ 404**	**$ 316,192**	**$ 20,022**	**$ 6,743**	**(1,487)**	**$(14,648)**	**$ 328,713**
Net loss	—	—	—	(5,316)	—	—	—	(5,316)
Other comprehensive loss	—	—	—	—	(7,317)	—	—	(7,317)
Impact of adoption of ASU 2020-06	—	—	(16,426)	(3,213)	—	—	—	(19,639)
Equity compensation	244	2	4,902	—	—	—	—	4,904
Exercise of options	140	1	1,730	—	—	—	—	1,731
Employee stock purchase plan	37	1	589	—	—	—	—	590
Redemption and repurchase of stock to cover tax withholdings	(73)	(1)	(1,830)	—	—	—	—	(1,831)
Balance at June 30, 2021	**40,742**	**$ 407**	**$ 305,157**	**$ 11,493**	**$ (574)**	**(1,487)**	**$(14,648)**	**$ 301,835**

Artivion, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation and Summary of Significant Accounting Policies

Overview

The accompanying Condensed Consolidated Financial Statements include the accounts of Artivion, Inc. and its subsidiaries ("Artivion," the "Company," "we," or "us"). All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying Condensed Consolidated Balance Sheet as of December 31, 2021 has been derived from audited financial statements. The accompanying unaudited Condensed Consolidated Financial Statements as of, and for the three and six months ended, June 30, 2022 and 2021 have been prepared in accordance with (i) accounting principles generally accepted in the US for interim financial information and (ii) the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the US Securities and Exchange Commission (the "SEC"). Accordingly, such statements do not include all the information and disclosures that are required by accounting principles generally accepted in the US for a complete presentation of financial statements. In the opinion of management, all adjustments (including those of a normal, recurring nature) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes included in Artivion's Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC on February 22, 2022.

Significant Accounting Policies

A summary of our significant accounting policies is included in Note 1 of the "Notes to Consolidated Financial Statements" contained in our Form 10-K for the year ended December 31, 2021. Management believes that the consistent application of these policies enables us to provide users of the financial statements with useful and reliable information about our operating results and financial condition. The Condensed Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the US, which require us to make estimates and assumptions. We did not experience any significant changes during the three and six months ended June 30, 2022 in any of our Significant Accounting Policies from those contained in our Form 10-K for the year ended December 31, 2021.

New Accounting Standards

Recently Adopted

In August 2020 the Financial Accounting Standards Board (the "FASB") issued Accounting Standard Update ("ASU") Update No. 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)* ("ASU 2020-06"). The update simplifies the accounting for convertible instruments by eliminating two accounting models (i.e., the cash conversion model and beneficial conversion feature model) and reducing the number of embedded conversion features that could be recognized separately from the host contract. ASU 2020-06 also enhances transparency and improves disclosures for convertible instruments and earnings per share guidance. On January 1, 2021 we adopted ASU 2020-06 using the modified retrospective approach. See Note 8 for further discussion of convertible debt.

Not Yet Effective

In March 2020 the FASB issued ASU 2020-04, *Reference Rate Reform Topic 848* ("ASC 848"). The amendments in this ASU were put forth in response to the market transition from the LIBOR and other interbank offered rates to alternative reference rates. Accounting principles generally accepted in the United States of America require entities to evaluate whether a contract modification, such as the replacement or change of a reference rate, results in the establishment of a new contract or continuation of an existing contract. ASC 848 allows an entity to elect not to apply certain modification accounting requirements to contracts affected by reference rate reform. The standard provides this temporary election through December 31, 2022 and cannot be applied to contract modifications that occur after December 31, 2022. We are in the process of evaluating the effect that the adoption of this standard will have on our financial position and results of operations.

2. Financial Instruments

The following is a summary of our financial instruments measured at fair value on a recurring basis (in thousands):

June 30, 2022	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 10,025	$ —	$ —	$ 10,025
Total assets	**$ 10,025**	**$ —**	**$ —**	**$ 10,025**
Long-term liabilities:				
Contingent consideration	—	—	(44,400)	(44,400)
Total liabilities	**$ —**	**$ —**	**$ (44,400)**	**$ (44,400)**

December 31, 2021	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 10,015	$ —	$ —	$ 10,015
Total assets	**$ 10,015**	**$ —**	**$ —**	**$ 10,015**
Long-term liabilities:				
Contingent consideration	—	—	(49,400)	(49,400)
Total liabilities	**$ —**	**$ —**	**$ (49,400)**	**$ (49,400)**

We used prices quoted from our investment advisors to determine the Level 1 valuation of our investments in money market funds.

On September 2, 2020 we entered into a Securities Purchase Agreement to acquire 100% of the outstanding equity interests of Ascyrus Medical LLC ("Ascyrus"). Ascyrus developed the AMDS, the world's first aortic arch remodeling device for use in the treatment of acute Type A aortic dissections. As part of the acquisition, we may be required to pay additional consideration in cash of up to $100.0 million to the former shareholders of Ascyrus upon the achievement of certain milestones and the sales-based additional earn-out.

The contingent consideration represents the estimated fair value of future potential payments. The fair value of the contingent consideration liability was estimated by discounting to present value the contingent payments expected to be made based on a probability-weighted scenario approach. We applied a discount rate based on our unsecured credit spread and the term commensurate risk-free rate to the additional consideration to be paid, and then applied a risk-based estimate of the probability of achieving each scenario to calculate the fair value of the contingent consideration. This fair value measurement was based on unobservable inputs, including management estimates and assumptions about the future achievement of milestones and future estimate of revenues, and is, therefore, classified as Level 3 within the fair value hierarchy. We used a discount rate of approximately 12% and estimated future achievement of milestone dates between 2025 and 2026 to calculate the fair value of contingent consideration as of June 30, 2022. We will remeasure this liability at each reporting date and will record changes in the fair value of the contingent consideration in General, administrative, and marketing expenses on the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income. Increases or decreases in the fair value of the contingent consideration liability can result from changes in passage of time, discount rates, the timing and amount of our revenue estimates, and the timing and expectation of regulatory approvals.

We performed an assessment of the fair value of the contingent consideration and recorded income of $3.2 million and $5.0 million for the three and six months ended June 30, 2022, respectively, and expense of $3.3 million and $4.3 million for the three and six months ended June 30, 2021, respectively, in General, administrative, and marketing expenses on the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income, as a result of this assessment.

The fair value of the contingent consideration component of the Ascyrus acquisition was updated using Level 3 inputs. Changes in fair value of Level 3 assets and liabilities are listed in the tables below (in thousands):

	Contingent Consideration
Balance as of December 31, 2021	$ (49,400)
Change in valuation	5,000
Balance as of June 30, 2022	**$ (44,400)**

3. Cash Equivalents

The following is a summary of cash equivalents (in thousands):

June 30, 2022	Cost Basis	Unrealized Holding Gains	Estimated Market Value
Cash equivalents:			
Money market funds	$ 10,025	$ —	$ 10,025
Total assets	**$ 10,025**	**$ —**	**$ 10,025**

December 31, 2021	Cost Basis	Unrealized Holding Gains	Estimated Market Value
Cash equivalents:			
Money market funds	$ 10,015	$ —	$ 10,015
Total assets	**$ 10,015**	**$ —**	**$ 10,015**

There were no gross realized gains or losses on cash equivalents for the three and six months ended June 30, 2022 and 2021.

4. Inventories, net and Deferred Preservation Costs

Inventories at June 30, 2022 and December 31, 2021 were comprised of the following (in thousands):

	June 30, 2022	December 31, 2021
Raw materials and supplies	$ 34,565	$ 35,780
Work-in-process	11,856	9,712
Finished goods	27,897	31,479
Total inventories, net	**$ 74,318**	**$ 76,971**

To facilitate product usage, we maintain consignment inventory of our On-X heart valves at domestic hospital locations and On-X heart valves and aortic stent grafts at international hospital locations. We retain title and control over this consignment inventory until the device is implanted, at which time we invoice the hospital and recognize revenue. As of June 30, 2022 we had $14.2 million in consignment inventory, with approximately 39% in domestic locations and 61% in international locations. As of December 31, 2021 we had $12.9 million in consignment inventory, with approximately 43% in domestic locations and 57% in international locations.

Total deferred preservation costs were $44.8 million and $42.9 million as of June 30, 2022 and December 31, 2021, respectively.

Inventory and deferred preservation costs obsolescence reserves were $2.6 million and $3.2 million as of June 30, 2022 and December 31, 2021, respectively.

5. Goodwill and Other Intangible Assets

Indefinite Lived Intangible Assets

As of June 30, 2022 and December 31, 2021 the carrying values of our indefinite lived intangible assets were as follows (in thousands):

	June 30, 2022	December 31, 2021
Goodwill	$ 240,939	$ 250,000
In-process R&D	2,025	2,208
Procurement contracts and agreements	2,013	2,013
Trademarks	226	66

We monitor the phases of development of our acquired in-process research and development projects, including the risks associated with further development and the amount and timing of benefits expected to be derived from the completed projects. Incremental costs associated with development are charged to expense as incurred. Capitalized costs are amortized over the estimated useful life of the developed asset once completed. Our in-process research and development projects are reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. We did not record any impairment of indefinite lived intangible assets during the three and six months ended June 30, 2022. In-process research and development, procurement contracts and agreements, and trademarks are included in Other intangibles, net on the Condensed Consolidated Balance Sheets as of June 30, 2022 and December 31, 2021.

Based on our experience with similar agreements, we believe that our acquired procurement contracts and agreements have indefinite useful lives, as we expect to continue to renew these contracts for the foreseeable future. We believe that our trademarks have indefinite useful lives as we currently anticipate that our trademarks will contribute to our cash flows indefinitely.

We evaluate our goodwill and non-amortizing intangible assets for impairment on an annual basis during the fourth quarter of the year, and, if necessary, during interim periods if factors indicate that an impairment review is warranted. As of June 30, 2022 we concluded that our assessment of current factors did not indicate that goodwill or non-amortizing intangible assets are more likely than not to be impaired. We will continue to evaluate the recoverability of these non-amortizing intangible assets in future periods as necessary.

As of June 30, 2022 and December 31, 2021 the carrying value of goodwill, all of which is related to our Medical devices segment, is as follows (in thousands):

	Medical Devices Segment
Balance as of December 31, 2021	$ 250,000
Foreign currency translation	(9,061)
Balance as of June 30, 2022	**$ 240,939**

Definite Lived Intangible Assets

The definite lived intangible assets balance includes balances related to acquired technology, customer relationships, distribution and manufacturing rights and know-how, patents, and other definite lived intangible assets. As of June 30, 2022 and December 31, 2021 the gross carrying values, accumulated amortization, and approximate amortization period of our definite lived intangible assets were as follows (in thousands):

June 30, 2022	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Useful Life (Years)
Acquired technology	$ 205,124	$ 50,258	$ 154,866	17.7
Other intangibles:				
Customer lists and relationships	30,981	10,332	20,649	20.6
Distribution and manufacturing rights and know-how	9,031	4,798	4,233	5.0
Patents	4,136	3,160	976	17.0
Other	4,403	2,055	2,348	4.5
Total other intangibles	**$ 48,551**	**$ 20,345**	**$ 28,206**	**10.7**

December 31, 2021	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Useful Life (Years)
Acquired technology	$ 213,626	$ 46,632	$ 166,994	17.7
Other intangibles:				
Customer lists and relationships	31,148	9,618	21,530	20.5
Distribution and manufacturing rights and know-how	9,847	4,308	5,539	5.0
Patents	4,083	3,144	939	17.0
Other	3,969	1,762	2,207	4.4
Total other intangibles	**$ 49,047**	**$ 18,832**	**$ 30,215**	**10.6**

Amortization Expense

The following is a summary of amortization expense as recorded in General, administrative, and marketing expenses on our Condensed Consolidated Statement of Operations and Comprehensive (Loss) Income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Amortization expense	$ 3,905	$ 4,238	$ 7,989	$ 8,498

As of June 30, 2022 scheduled amortization of intangible assets for the next five years is as follows (in thousands):

	Remainder of 2022	2023	2024	2025	2026	2027	Total
Amortization expense	$ 7,437	14,662	14,302	12,452	12,233	12,113	$ 73,199

6. Income Taxes

Income Tax Expense

Our effective income tax rate was an expense of 29% and 34% for the three and six months ended June 30, 2022, respectively, as compared to a benefit of under 1% and 20% for the three and six months ended June 30, 2021, respectively. Our income tax rate for the three and six months ended June 30, 2022 was primarily impacted by changes in our valuation allowance against our net deferred tax assets, non-deductible executive compensation, the foreign derived intangible income deduction, the research and development tax credit, changes in our uncertain tax position liabilities, and tax shortfalls on stock compensation. Our income tax rate for the three and six months ended June 30, 2021 was primarily impacted by non-deductible executive compensation, changes in our valuation allowance against our net deferred tax assets, changes in our uncertain tax position liabilities, the research and development tax credit, and excess tax benefits on stock compensation.

Deferred Income Taxes

We generate deferred tax assets primarily as a result of finance leases, net operating losses, amortization of research and development expenses, excess interest carryforward, stock compensation, and accrued compensation. Our deferred tax liabilities are primarily made up of intangible assets acquired in previous years, finance leases, and unrealized gains and losses.

We maintained a net deferred tax liability of $22.7 million and $26.4 million as of June 30, 2022 and December 31, 2021, respectively. Our valuation allowance against our deferred tax assets was $16.2 million and $13.3 million as of June 30, 2022 and December 31, 2021, respectively, primarily related to net operating loss carryforwards and disallowed excess interest carryforwards.

7. Leases

We have operating and finance lease obligations resulting from the lease of land and buildings that comprise our corporate headquarters and various manufacturing facilities; leases related to additional manufacturing, office, and warehouse space; leases on company vehicles; and leases on a variety of office and other equipment.

On January 6, 2021 we executed a modification to extend the lease of our headquarters located in Kennesaw, Georgia. This modification resulted in an increase in the present value of future lease obligations and corresponding right-of-use asset of $23.3 million, using a discount rate of 6.41%.

On June 1, 2021 we began occupancy of the newly constructed addition to our leased international headquarters located in Hechingen, Germany. This lease resulted in an increase in the present value of future lease obligations and corresponding right-of-use asset of $9.8 million, using a discount rate of 5.46%.

Information related to leases included in the Condensed Consolidated Balance Sheets is as follows (in thousands, except lease term and discount rate):

Operating leases:	**June 30, 2022**	**December 31, 2021**
Operating lease right-of-use assets	$ 56,376	$ 58,097
Accumulated amortization	(13,717)	(12,383)
Operating lease right-of-use assets, net	**$ 42,659**	**$ 45,714**
Current maturities of operating leases	$ 3,207	$ 3,149
Non-current maturities of operating leases	42,141	44,869
Total operating lease liabilities	**$ 45,348**	**$ 48,018**
Finance leases:		
Property and equipment, at cost	$ 6,200	$ 6,759
Accumulated amortization	(2,180)	(2,105)
Property and equipment, net	**$ 4,020**	**$ 4,654**
Current maturities of finance leases	$ 489	$ 528
Non-current maturities of finance leases	3,766	4,374
Total finance lease liabilities	**$ 4,255**	**$ 4,902**
Weighted average remaining lease term (in years):		
Operating leases	12.3	12.5
Finance leases	8.4	8.8
Weighted average discount rate:		
Operating leases	5.9%	5.8%
Finance leases	2.0%	2.0%

Current maturities of finance leases are included as a component of Other current liabilities on our Condensed Consolidated Balance Sheets. A summary of lease expenses for our finance and operating leases included in General, administrative, and marketing expenses on our Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income are as follows (in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2022	**2021**	**2022**	**2021**
Amortization of property and equipment	$ 131	$ 155	$ 268	$ 310
Interest expense on finance leases	22	28	47	57
Total finance lease expense	**153**	**183**	**315**	**367**
Operating lease expense	1,883	1,809	3,803	3,575
Sublease income	(91)	(92)	(183)	(216)
Total lease expense	**$ 1,945**	**$ 1,900**	**$ 3,935**	**$ 3,726**

A summary of our cash flow information related to leases is as follows (in thousands):

Cash paid for amounts included in the measurement of lease liabilities:	Six Months Ended June 30, 2022	2021
Operating cash flows for operating leases	$ 3,210	$ 2,957
Financing cash flows for finance leases	244	306
Operating cash flows for finance leases	44	57

Future minimum lease payments and sublease rental income are as follows (in thousands):

	Finance Leases	Operating Leases	Sublease Income
Remainder of 2022	$ 268	$ 2,506	$ 122
2023	575	5,606	—
2024	570	6,198	—
2025	549	5,124	—
2026	531	4,703	—
Thereafter	2,127	41,447	—
Total minimum lease payments	**$ 4,620**	**$ 65,584**	**$ 122**
Less amount representing interest	(365)	(20,236)	
Present value of net minimum lease payments	4,255	45,348	
Less current maturities	(489)	(3,207)	
Lease liabilities, less current maturities	**$ 3,766**	**$ 42,141**	

8. Debt

Credit Agreement

On December 1, 2017 we entered into a credit and guaranty agreement for a $255.0 million senior secured credit facility, consisting of a $225.0 million secured term loan facility (the "Term Loan Facility") and a $30.0 million secured revolving credit facility (the "Revolving Credit Facility" and, together with the Term Loan Facility, the "Credit Agreement"). We and each of our existing domestic subsidiaries (subject to certain exceptions and exclusions) guarantee the obligations under the Credit Agreement (the "Guarantors"). The Credit Agreement is secured by a security interest in substantially all existing and after-acquired real and personal property (subject to certain exceptions and exclusions) of us and the Guarantors.

On June 2, 2021 we entered into an amendment to our Credit Agreement to extend the maturity dates of our Term Loan and Revolving Credit Facility. As part of the amendment, the maturity dates of both our Term Loan and Revolving Credit Facility were each extended by two and one-half years, until June 1, 2027 and June 1, 2025, respectively, subject to earlier springing maturities triggered if our 4.25% Convertible Senior Notes, described below, remain outstanding on April 1, 2025 and December 31, 2024, respectively. With respect to the Term Loan, if the Convertible Senior Notes remain outstanding on April 1, 2025, the Term Loan's maturity date will be April 1, 2025, or, if the Convertible Senior Notes' own maturity date has been extended, the earlier of (i) 91 days prior to the Convertible Senior Notes' new maturity date and (ii) June 1, 2027. In the case of the Revolving Credit Facility, if the Convertible Senior Notes are still outstanding on December 31, 2024, the Revolving Credit Facility's maturity date will be either December 31, 2024 or, if the Convertible Senior Notes' own maturity date has been extended, the earlier of (i) 182 days prior to the Convertible Senior Notes' new maturity date and (ii) June 1, 2025. Under the amendment, the Term Loan Facility bears interest, at our option, at a floating annual rate equal to either the base rate, plus a margin of 2.50%, or LIBOR, plus a margin of 3.50%. Prior to the amendment, the optional floating annual rate was equal to either the base rate plus a margin of 2.25%, or LIBOR, plus a margin of 3.25%. We paid debt issuance costs of $2.1 million, of which $1.8 million will be amortized over the life of the Term Loan Facility and included in current and long-term debt on the Condensed Consolidated Balance Sheets. The remaining $361,000 of debt issuance costs and $474,000 of non-cash debt extinguishment costs were recorded in Interest expense on the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income.

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2021 the Credit Agreement contains certain customary affirmative and negative covenants, including covenants that limit our ability and the ability of our subsidiaries to, among other things, grant liens, incur debt, dispose of assets, make loans and investments, make acquisitions, make certain restricted payments (including cash dividends), merge or consolidate, change business or accounting or reporting practices, in each case subject to customary exceptions for a credit facility of this size and type. Beginning in 2021 if we repay borrowings under our Revolving Credit Facility to 25% or less, no financial maintenance covenants, including the minimum liquidity covenant and the maximum first lien net leverage ratio covenant, are applicable. We are in compliance with our debt covenants as of June 30, 2022.

Convertible Senior Notes

On June 18, 2020 we issued $100.0 million aggregate principal amount of 4.25% Convertible Senior Notes with a maturity date of July 1, 2025 (the "Convertible Senior Notes"). The net proceeds from this offering, after deducting initial purchasers' discounts and costs directly related to this offering, were approximately $96.5 million. On January 1, 2021 we adopted ASU 2020-06 and adjusted the carrying balance of the Convertible Senior Notes to notional. The Convertible Senior Notes balance was $100.0 million recorded in Long-term debt on the Condensed Consolidated Balance Sheets as of June 30, 2022. The Convertible Senior Notes may be settled in cash, stock, or a combination thereof, solely at our discretion. The initial conversion rate of the Convertible Senior Notes is 42.6203 shares per $1,000 principal amount, which is equivalent to a conversion price of approximately $23.46 per share, subject to adjustments. We use the if-converted method for assumed conversion of the Convertible Senior Notes for the diluted earnings per share calculation. The fair value and the effective interest rate of the Convertible Senior Notes as of June 30, 2022 was approximately $107.0 million and 5.05%, respectively. The fair value was based on market prices observable for similar instruments and is considered Level 2 in the fair value hierarchy.

The interest expense recognized on the Convertible Senior Notes includes $1.2 million and $2.5 million for the three and six months ended June 30, 2022, respectively, and $1.2 million and $2.4 million for the three and six months ended June 30, 2021, respectively, related to the aggregate of the contractual coupon interest, and the amortization of the debt issuance costs. Interest on the Convertible Senior Notes began accruing upon issuance and is payable semi-annually. As of June 30, 2022 there were $2.2 million of unamortized debt issuance costs related to Convertible Senior Notes.

Holders of the Convertible Senior Notes may convert their notes at their option at any time prior to January 1, 2025, but only under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending on September 30, 2020 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (ii) during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; (iii) we give a notice of redemption with respect to any or all of the notes, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or (iv) upon the occurrence of specified corporate events. On or after January 1, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances.

We cannot redeem the Convertible Senior Notes before July 5, 2023. We can redeem them on or after July 5, 2023, in whole or in part, at our option, if the last reported sale price per share of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption. We may redeem for cash all or part of the Convertible Senior Notes at a redemption price equal to 100% of the principal amount of the redeemable Convertible Senior Notes, plus accrued and unpaid interest to, but excluding, the redemption date. No principal payments are due on the Convertible Senior Notes prior to maturity. Other than restrictions relating to certain fundamental changes and consolidations, mergers or asset sales and customary anti-dilution adjustments, the Convertible Senior Notes do not contain any financial covenants and do not restrict us from conducting significant restructuring transactions or issuing or repurchasing any of its other securities.

Loan Balances

The short-term and long-term balances of our term loan and other long-term borrowings were as follows (in thousands):

	June 30, 2022	December 31, 2021
Term loan balance	$ 214,875	$ 216,000
Convertible senior notes	100,000	100,000
2.45% Sparkasse Zollernalb (KFW Loan 1)	403	566
1.40% Sparkasse Zollernalb (KFW Loan 2)	844	1,061
Total loan balance	**316,122**	**317,627**
Less unamortized loan origination costs	(7,591)	(8,504)
Net borrowings	308,531	309,123
Less short-term loan balance	(1,590)	(1,630)
Long-term loan balance	**$ 306,941**	**$ 307,493**

Interest Expense

Interest expense was $4.1 million and $8.0 million for the three and six months ended June 30, 2022, respectively, as compared to $4.9 million and $8.9 million for the three and six months ended June 30, 2021, respectively.

9. Commitments and Contingencies

Liability Claims

In the normal course of business, we are made aware of adverse events involving our products and tissues. Future adverse events could ultimately give rise to a lawsuit against us, and liability claims may be asserted against us in the future based on past events that we are not aware of at the present time. We maintain claims-made insurance policies to mitigate our financial exposure to product and tissue processing liability claims. Claims-made insurance policies generally cover only those asserted claims and incidents that are reported to the insurance carrier while the policy is in effect. The amounts recorded in these Condensed Consolidated Financial Statements as of June 30, 2022 represent our estimate of the probable losses and anticipated recoveries for incurred but not reported claims related to products sold and services performed prior to the balance sheet date.

10. Revenue Recognition

Sources of Revenue

We have identified the following revenues disaggregated by revenue source:

- Domestic hospitals – direct sales of products and preservation services.
- International hospitals – direct sales of products and preservation services.
- International distributors – generally these contracts specify a geographic area that the distributor will service, terms and conditions of the relationship, and purchase targets for the next calendar year.
- CardioGenesis cardiac laser console trials and sales – CardioGenesis cardiac trialed laser consoles are delivered under separate agreements.

For the three and six months ended June 30, 2022 and 2021 the sources of revenue were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Domestic hospitals	$ 39,508	$ 38,932	$ 76,501	$ 75,161
International hospitals	27,235	27,638	55,649	53,765
International distributors	12,152	9,504	23,216	18,146
CardioGenesis cardiac laser therapy	1,445	74	2,187	163
Total sources of revenue	**$ 80,340**	**$ 76,148**	**$ 157,553**	**$ 147,235**

Also see segment disaggregation information in Note 13 below.

Contract Balances

We may generate contract assets during the pre-delivery design and manufacturing stage of E-xtra Design Engineering product order fulfillment. We assess the balance related to any arrangements in process and determine if the enforceable right to payment creates a material contract asset requiring disclosure. No material arrangements in process existed as of June 30, 2022 and 2021.

We also incur contract obligations on general customer purchase orders that have been accepted but unfulfilled. Due to the short duration of time between order acceptance and delivery of the related product or service, we have determined that the balance related to these contract obligations is generally immaterial at any point in time. We monitor the value of orders accepted but unfulfilled at the close of each reporting period to determine if disclosure is appropriate. The value of orders accepted but unfulfilled as of June 30, 2022 and 2021 was not material.

11. Stock Compensation

Overview

We have stock option and stock incentive plans for employees and non-employee Directors that provide for grants of restricted stock awards ("RSAs"), restricted stock units ("RSUs"), performance stock units ("PSUs"), and options to purchase shares of our common stock at exercise prices generally equal to the fair value of such stock at the dates of grant. We also maintain a shareholder-approved Employee Stock Purchase Plan ("ESPP") for the benefit of our employees. The ESPP allows eligible employees to purchase common stock on a regular basis at the lower of 85% of the market price at the beginning or end of each offering period.

Equity Grants

During the six months ended June 30, 2022 the Compensation Committee of our Board of Directors (the "Committee") authorized awards from approved stock incentive plans of RSAs to non-employee directors and RSUs and PSUs to certain employees and company officers, which, assuming that performance under the PSUs were to be achieved at target levels, together totaled 509,000 shares and had an aggregate grant date fair value of $9.4 million.

During the six months ended June 30, 2021 the Committee authorized awards from approved stock incentive plans of RSAs to non-employee directors, RSUs to certain employees, and RSAs and PSUs to certain Company officers, which, assuming that performance under the PSUs were to be achieved at target levels, together totaled 487,000 shares and had an aggregate grant date fair value of $12.3 million.

The Committee authorized, from approved stock incentive plans, grants of stock options to purchase a total of 314,000 and 226,000 shares to certain Company officers during the six months ended June 30, 2022 and 2021, respectively. The exercise prices of the options were equal to the closing stock prices on their respective grant dates.

Employees purchased common stock totaling 37,000 shares in both the six months ended June 30, 2022 and 2021 through the ESPP.

Stock Compensation Expense

The following weighted-average assumptions were used to determine the fair value of options and shares purchased under the ESPP:

	Three Months Ended June 30, 2022		Six Months Ended June 30, 2022	
	Stock Options	ESPP	Stock Options	ESPP
Expected life	N/A	0.5 Years	5.0 Years	0.5 Years
Expected stock price volatility	N/A	0.31	0.40	0.31
Risk-free interest rate	N/A	0.22%	1.89%	0.22%

The following table summarizes total stock compensation expenses prior to the capitalization of amounts into Deferred preservation and Inventory costs (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
RSA, RSU, and PSU expense	$ 2,470	$ 1,695	$ 5,238	$ 3,745
Stock option and ESPP expense	611	572	1,183	1,159
Total stock compensation expense	**$ 3,081**	**$ 2,267**	**$ 6,421**	**$ 4,904**

Included in the total stock compensation expense, as applicable in each period, were expenses related to RSAs, RSUs, PSUs, and stock options issued in each respective year, as well as those issued in prior periods that continue to vest during the period, and compensation related to the ESPP. These amounts were recorded as stock compensation expense and were subject to our normal allocation of expenses to inventory costs and deferred preservation costs. We capitalized $147,000 and $321,000 in the three and six months ended June 30, 2022, respectively, and $152,000 and $309,000 in the three and six months ended June 30, 2021, respectively, of the stock compensation expense into our inventory costs and deferred preservation costs.

12. Loss Per Common Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Basic loss per common share	2022	2021	2022	2021
Net loss	$ (4,259)	$ (2,178)	$ (7,648)	$ (5,316)
Net loss allocated to participating securities	21	14	39	36
Net loss allocated to common shareholders	**$ (4,238)**	**$ (2,164)**	**$ (7,609)**	**$ (5,280)**
Basic weighted-average common shares outstanding	**40,031**	**38,943**	**39,941**	**38,841**
Basic loss per common share	**$ (0.11)**	**$ (0.06)**	**$ (0.19)**	**$ (0.14)**

Diluted loss per common share	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Net loss	$ (4,259)	$ (2,178)	$ (7,648)	$ (5,316)
Net loss allocated to participating securities	21	14	39	36
Net loss allocated to common shareholders	**$ (4,238)**	**$ (2,164)**	**$ (7,609)**	**$ (5,280)**
Diluted weighted-average common shares outstanding	**40,031**	**38,943**	**39,941**	**38,841**
Diluted loss per common share	**$ (0.11)**	**$ (0.06)**	**$ (0.19)**	**$ (0.14)**

We excluded stock options from the calculation of diluted weighted-average common shares outstanding if the per share value, including the sum of (i) the exercise price of the options and (ii) the amount of the compensation cost attributed to future services and not yet recognized, was greater than the average market price of the shares because the inclusion of these stock options would be antidilutive to loss per common share. For the three and six months ended June 30, 2022 and 2021 all stock options and awards were excluded from the calculation of diluted weighted-average common shares outstanding as these would be antidilutive due to the net loss.

13. Segment Information

We have two reportable segments organized according to our products and services: Medical devices and Preservation services. The Medical devices segment includes external revenues from product sales of aortic stent grafts, surgical sealants, On-X, and other product revenues. Aortic stent grafts include aortic arch stent grafts, abdominal stent grafts, and synthetic vascular grafts. Aortic arch stent grafts include our E-vita Open NEO, E-vita Open Plus, AMDS, NEXUS, E-vita Thoracic 3G, and E-nya products. Abdominal stent grafts include our E-xtra Design Engineering, E-nside, E-tegra, E-ventus BX, and E-liac products. Surgical sealants include BioGlue Surgical Adhesive products. The Preservation Services segment includes external services revenues from the preservation of cardiac and vascular tissues. There are no intersegment revenues.

The primary measure of segment performance, as viewed by our management, is segment gross margin or net external revenues less cost of products and preservation services. We do not segregate assets by segment, therefore, asset information is excluded from the segment disclosures below.

The following table summarizes revenues, cost of products and preservation services, and gross margins for our operating segments (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenues:				
Medical devices	$ 58,936	$ 56,076	$ 116,478	$ 109,421
Preservation services	21,404	20,072	41,075	37,814
Total revenues	**80,340**	**76,148**	**157,553**	**147,235**
Cost of products and preservation services:				
Medical devices	18,230	16,178	35,638	31,089
Preservation services	9,938	9,457	19,024	17,795
Total cost of products and preservation services	**28,168**	**25,635**	**54,662**	**48,884**
Gross margin:				
Medical devices	40,706	39,898	80,840	78,332
Preservation services	11,466	10,615	22,051	20,019
Total gross margin	**$ 52,172**	**$ 50,513**	**$ 102,891**	**$ 98,351**

The following table summarizes net revenues by product and service (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Products:				
Aortic stent grafts	$ 23,833	$ 21,064	$ 49,339	$ 41,269
Surgical sealants	15,967	17,864	31,648	35,692
On-X	16,255	14,726	30,626	27,821
Other	2,881	2,422	4,865	4,639
Total products	**58,936**	**56,076**	**116,478**	**109,421**
Preservation services	21,404	20,072	41,075	37,814
Total revenues	**$ 80,340**	**$ 76,148**	**$ 157,553**	**$ 147,235**

Forward-Looking Statements

This Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Forward-looking statements give our expectations or forecasts of future events as of the date of this Form 10-Q. In some cases, words such as "could," "may," "might," "will," "would," "shall," "should," "pro forma," "potential," "pending," "intend," "believe," "expect," "anticipate," "estimate," "plan," "future," "assume," and variations of these types of words or other similar expressions identify forward-looking statements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on these forward-looking statements, which are made as of the date of this Form 10-Q.

All statements included herein, other than statements of historical facts, that address activities, events, or developments that we expect or anticipate will or may occur in the future, or that reflect our beliefs about the future and/or expectations, are forward-looking statements, including statements about the following:

- Our belief that new products, new indications, global expansion, and business development are the four growth areas that will drive our business in the future;
- The potential impact of the COVID-19 pandemic and the war in Ukraine on demand for and sales of our products and services, business operations, manufacturing operations, supply chain, cash flow, workforce, clinical and regulatory timelines, and our research and development projects;
- Our belief that our distributors may delay or reduce purchases of products in US Dollars depending on the relative price of goods in their local currencies;
- Our beliefs that the use of surgical adhesives and sealants, with or without sutures and staples, for certain indications can enhance the efficacy and cost-effectiveness of certain procedures through more effective and rapid wound closure;
- Our beliefs and anticipation regarding the favorable attributes and benefits of our products and services, the basis on which our products and services compete, our physician education activities, the advantages of our relationships with organ and tissue procurement organizations and tissue banks, the FDA classification of our medical devices, our compliance with applicable laws and regulations, and the advantages of our intellectual property and its significance to our segments and our business as a whole, our relations with our employees, timelines regarding product launches and regulatory certifications, clearances, renewals, and approvals;
- Our beliefs about potential competition and competitive products and services, potential adverse regulatory consequences, potential security vulnerabilities, and the associated potential adverse effects on our business;
- Our beliefs regarding our global expansion efforts, including the international growth opportunity that would be provided by obtaining regulatory approval for BioGlue in China;
- The dependencies affecting our ability to realize the anticipated business opportunities, growth prospects, synergies, and other benefits of the agreements with Endospan and Baxter and our acquisition of Ascyrus, and our beliefs about the costs and timelines for certain clinical trial milestones for the regulatory approvals of the NEXUS stent graft system in the US and the AMDS globally;
- Our beliefs regarding the fair value of our acquisitions, divestitures, and other business development activities and the estimates and assumptions about the future achievements of milestones and future revenues and cash flows related to those business development activities, including our ability to achieve the milestones in the Baxter Transaction;
- Our beliefs about the anticipated benefits from our corporate reincorporation and rebranding and the risks posed by the same;
- Our beliefs about the present value and potential impairment of our intangible assets and leases;
- Our beliefs about handpiece availability and CardioGenesis cardiac laser therapy revenue;
- Our beliefs regarding the impact alternative anticoagulation therapy and transcatheter heart valve replacement may have on the number of patients choosing On-X mechanical heart valves;
- Our beliefs about our ability to make timely transitions to our notified bodies and obtain renewals for our CE Marks impacted by Brexit and the transition to the Medical Device Regulation ("MDR") in Europe, our ability to obtain derogations related to the same, and the impact these renewals and derogations may have on our business;
- Our beliefs about our R&D and product pipeline, including our beliefs about the timing of our clinical trials and product launches;

- Our belief that revenues for preservation services, particularly revenues for certain high-demand cardiac tissues, can vary from quarter to quarter and year to year due to a variety of factors including: quantity and type of incoming tissues, yields of tissue through the preservation process, timing of receipt of donor information, staffing levels, timing of the release of tissues to an implantable status, demand for certain tissue types due to the number and type of procedures being performed, and pressures from competing products or services;
- Our beliefs regarding the seasonal nature of the demand for some of our products and services and the reasons for such seasonality, if any, and regarding the impact of consignment inventory on product sales, if any;
- Our belief that our cash from operations and existing cash and cash equivalents will enable us to meet our current operational liquidity needs for at least the next twelve months, our expectations regarding future cash requirements, and the impact that our cash requirements might have on our cash flows for the next twelve months;
- Our expectation regarding the impact on cash flows of undertaking significant business development activities and the potential need to obtain additional debt financing or equity financing;
- Our belief that we will incur expenses for research and development projects, including for clinical research projects to gain regulatory approvals for products or indications, including On-X, aortic stent grafts, and BioGlue products, and for research and development for new products despite reduced planned spending due to COVID-19 and that our efforts to develop new products and technologies will likely require additional investment, research, and new clinical studies or data;
- Our beliefs about pending and potential legal or other governmental or regulatory proceedings;
- Our expectations regarding the timing of clinical research work and regulatory approvals for and expected distribution of products or indications, including On-X, aortic stent grafts, and BioGlue products, and CryoValve SGPV if the FDA reclassifies allograft heart valves as Class III medical devices;
- Our beliefs and expectations regarding the utilization of net operating loss carryforwards from our acquisitions of JOTEC, On-X, Hemosphere, Inc., and Cardiogenesis Corporation;
- Our beliefs about our operating results which may fluctuate significantly on a periodic basis as a result of internal and external factors, including reduced demand for our products, availability of products, materials, and supplies, strategic actions we take such as acquisitions or divestitures, unanticipated costs and expenses, market reception of our new or improved product offerings, and interest rate and currency fluctuations; and
- Other statements regarding projections of future financial and business performance; anticipated growth and trends in our business and the markets relevant to our business, including as our growth relates to our competitors; the robustness and reliability of our workforce and supply chain; future production capacity and product supply; the availability and benefits of our products in the future; and the expected timing and impact of our strategic initiatives.

These and other forward-looking statements reflect the views of management at the time such statements are originally made based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, and expected future developments as well as other factors we believe are appropriate in the circumstances and are subject to a number of risks, uncertainties, estimates, and assumptions. Whether actual results and developments will conform with our expectations and predictions is subject to a number of risks and uncertainties which could cause actual results to differ materially and adversely from our expectations, including, without limitation, in addition to those specified in the text surrounding such statements, the risks described in Part II, Item 1A, “Risks Factors” in this Form 10-Q and elsewhere throughout this report, the risks described in our other filings with the Securities and Exchange Commission including the risks described in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021 and elsewhere throughout that report, and other risks which we may not be able to identify in advance, many of which are beyond our control. Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us or our business or operations. We assume no obligation, and expressly disclaim any duty, to update publicly any such forward-looking statements, whether as a result of new information, future events, or otherwise.

PART I - FINANCIAL INFORMATION

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

Overview

Artivion, Inc. ("Artivion," the "Company," "we," or "us"), is a leader in the manufacturing, processing, and distribution of medical devices and implantable human tissues used in cardiac and vascular surgical procedures for patients with aortic disease. We have four major product families: aortic stent grafts, surgical sealants, On-X® mechanical heart valves and related surgical products, and implantable cardiac and vascular human tissues. Aortic stent grafts include aortic arch stent grafts, abdominal stent grafts, and synthetic vascular grafts. Aortic arch stent grafts include our E-vita Open NEO, E-vita Open Plus, AMDS, NEXUS, E-vita Thoracic 3G, and E-nya products. Abdominal stent grafts include our E-xtra Design Engineering, E-nside, E-tegra, E-ventus BX, and E-liac products. Surgical sealants include BioGlue® Surgical Adhesive ("BioGlue") products. In addition to these four major product families, we sell or distribute PhotoFix® bovine surgical patches, CardioGenesis® cardiac laser therapy, Therion® chorioamniotic allografts (previously marketed as NeoPatch®), and PerClot® hemostatic powder (prior to the sale to a subsidiary of Baxter International, Inc ("Baxter")).

We reported quarterly revenues of $80.3 million for the three months ended June 30, 2022, a 6% increase from the three months ended June 30, 2021. The increase in revenues for the three months ended June 30, 2022 was primarily due to increases in aortic stent grafts revenues, preservation service revenues, and On-X product revenues, partially offset by decreases in surgical sealants and other product revenues.

See the "Results of Operations" section below for additional analysis of the three and six months ended June 30, 2022.

Effects of COVID-19

In December 2019 an outbreak of a respiratory illness caused by a new coronavirus named "2019-nCoV" ("COVID-19") was detected, and by March 11, 2020, the World Health Organization ("WHO") declared the COVID-19 outbreak a "pandemic."

Beginning in March 2020 we took steps to address the potential impact of COVID-19 on our employees and operations, and to preserve cash, including reducing expenditures and delaying investments. These steps included, but were not limited to, implementing specific protocols to minimize workplace exposures to COVID-19 by our employees; implementing remote work arrangements for most employees we deemed able to do so; restricting business travel; implementing hiring restrictions; reducing planned expenditures on some pending clinical trials; imposing senior management cash salary reductions in exchange for cash payments in the second quarter of 2021; requiring our Board of Directors to accept Artivion stock instead of cash compensation for a six month period through October 2020; and suspending management merit increases for seven months in 2020.

Our efforts to protect our supply chain and reduce the spread of COVID-19 among our employees, including our work-from-home arrangements, have been successful to date as we have continued to operate all manufacturing sites at full production. These efforts have not materially affected our ability to maintain our business operations, including the operation of financial reporting systems, internal control over financial reporting, or disclosure controls and procedures; however, there is no guarantee that these efforts and arrangements, if they are continued, will continue to be successful in the future. Further, our reductions or delays in expenditures slowed our progress on certain key R&D initiatives and could in the future continue to adversely impact our business operations or further delay our recovery from the pandemic.

Although we have scaled back many of our COVID-19 mitigation efforts, we continue to monitor the impact of the pandemic and the emergence of new variants on our business and recognize that COVID-19 and its effects could continue to negatively impact our business and results of operations during the remainder of 2022 and beyond. As an example, the COVID-19 pandemic has impacted certain aspects of the global supply chain and resulted in supply chain inflation. Although we have yet to experience any material effects of this impact on our supply chain or operations, we face an increasing risk that upstream disruptions may occur or worsen. As global economies continue to recover from the COVID-19 downturn, the expiration of COVID-19 related hiring freezes, increased opportunities for remote work, and increasing compensation pressure have resulted in competition for talent and an unprecedented number of retirements or career changes. The resulting worker shortages at all levels have impacted supply chains, distribution channels, and employers' and our own ability to adequately staff operations. These shortages to date, including a shortage of trained staff capable of meeting the increased demand associated with releasing quarantined tissue, have impacted, and may impact our operations going forward. Hospitals and other healthcare providers have also experienced staffing shortages impacting our

business including increased restrictions on elective and non-emergent procedures, restrictions on access to healthcare facilities, cancellation of elective procedures, and the re-allocation of scarce resources to some critically ill patients. New variants of COVID-19 continue to emerge around the globe, increasing the case numbers and short-term quarantines which can each further impact our workforce and those of our customers and suppliers.

The extent to which our operations and financial performance will be impacted by the pandemic for the remainder of 2022 and beyond will depend largely on future developments, including changes in hospital utilization rates and staffing, prevalence and severity of new variants and their impact on case numbers and short-term quarantines, the impact of vaccines on the spread of COVID-19 and its variants, global availability and acceptance of vaccines and their effectiveness against variants, disruptions to workforce availability, and any continuing impact on the global supply chain. If COVID-19 or its variants become more contagious, if efforts to further contain the effects of COVID-19 or its variants, including vaccine availability, are unsuccessful, if COVID-19, its variants, or disruptions to the global supply chain impact our supply chain or employee availability or productivity, or if we continue to experience periods of uncertainty due to COVID-19 or its variants, it could materially, adversely affect our revenues, financial condition, profitability, and cash flows.

See the “Risk Factors” identified in Part II, Item 1A of this form 10-Q for risks related to COVID-19.

New Accounting Pronouncements

See Note 1 of “Notes to Condensed Consolidated Financial Statements” identified in Part I, Item I of this form 10-Q for further discussion of new accounting standards that have been adopted.

Results of Operations
(Tables in thousands)

Revenues

	Revenues for the Three Months Ended June 30,		Percent Change From Prior Year	Revenues as a Percentage of Total Revenues for the Three Months Ended June 30,	
	2022	**2021**		**2022**	**2021**
Products:					
Aortic stent grafts	$ 23,833	$ 21,064	13%	30%	28%
Surgical sealants	15,967	17,864	(11)%	20%	24%
On-X	16,255	14,726	10%	20%	19%
Other	2,881	2,422	19%	3%	3%
Total products	**58,936**	**56,076**	**5%**	**73%**	**74%**
Preservation services	21,404	20,072	7%	27%	26%
Total	**$ 80,340**	**$ 76,148**	**6%**	**100%**	**100%**

	Revenues for the Six Months Ended June 30,		Percent Change From Prior Year	Revenues as a Percentage of Total Revenues for the Six Months Ended June 30,	
	2022	2021		2022	2021
Products:					
Aortic stent grafts	$ 49,339	$ 41,269	20%	31%	28%
Surgical sealants	31,648	35,692	(11)%	20%	24%
On-X	30,626	27,821	10%	20%	19%
Other	4,865	4,639	5%	3%	3%
Total products	**116,478**	**109,421**	**6%**	**74%**	**74%**
Preservation services	41,075	37,814	9%	26%	26%
Total	**$ 157,553**	**$ 147,235**	**7%**	**100%**	**100%**

Revenues increased 6% and 7% for the three and six months ended June 30, 2022, respectively, as compared to the three and six months ended June 30, 2021. The increase in revenues for the three months ended June 30, 2022 was due to an increase in revenues from aortic stent grafts, On-X products, preservation services, and other products, partially offset by a decrease in revenues from surgical sealants. The increase in revenues for the six months ended June 30, 2022 was due to an increase in revenues from aortic stent grafts, preservation services, On-X products, and other products, partially offset by a decrease in revenues from surgical sealants. Excluding the effects of foreign exchange, revenues increased 9% and 10% for the three and six months ended June 30, 2022, respectively, as compared to the three and six months ended June 30, 2021. Revenues for the three and six months ended June 30, 2022 and 2021 were negatively impacted in certain regions by delays or cancellations of some surgical procedures as a result of reduced hospital capacity and staffing and hospital restrictions due to the COVID-19 pandemic. A detailed discussion of the changes in product revenues and preservation services revenues for the three and six months ended June 30, 2022 is presented below.

Products

Revenues from products increased 5% and 6% for the three and six months ended June 30, 2022, respectively, as compared to the three and six months ended June 30, 2021. The increase for the three and six months ended June 30, 2022 was due to an increase in revenues from aortic stent grafts, On-X products, and other products, partially offset by a decrease in revenues in surgical sealants. A discussion of the changes in product revenues for aortic stent grafts, surgical sealants, On-X products, and other product revenues is presented below.

Sales of certain products through our direct sales force and distributors across Europe and various other countries are denominated in a variety of currencies including Euros, British Pounds, Polish Zlotys, Swiss Francs, Brazilian Reals, and Canadian Dollars, with a concentration denominated in Euros. Each currency is subject to exchange rate fluctuations. For the three and six months ended June 30, 2022, as compared to the three and six months ended June 30, 2021, the US Dollar strengthened in comparison to major currencies, resulting in revenue decreases when these foreign currency denominated transactions were translated into US Dollars. Future changes in these exchange rates could have a material, adverse effect on our revenues denominated in these currencies. Additionally, our sales to many distributors around the world are denominated in US Dollars, and although these sales are not directly impacted by currency exchange rates, we believe that some of our distributors may delay or reduce purchases of products in US Dollars depending on the relative price of these goods in their local currencies.

Aortic Stent Grafts

Aortic stent grafts include aortic arch stent grafts, abdominal stent grafts, synthetic vascular grafts, and original equipment manufacturing (“OEM”) aortic stent grafts products. Aortic arch stent grafts include our E-vita Open NEO, E-vita Open Plus, AMDS, NEXUS, E-vita Thoracic 3G, and E-nya products. Abdominal stent grafts include our E-xtra Design Engineering, E-nside, E-tegra, E-ventus BX, and E-liac products. Aortic stent grafts are used in endovascular and open vascular surgery for the treatment of complex aortic arch, thoracic, and abdominal aortic diseases. Our aortic stent grafts are primarily distributed in international markets.

Revenues from aortic stent grafts increased 13% and 20% for the three and six months ended June 30, 2022, respectively, as compared to the three and six months ended June 30, 2021.

Revenues from aortic stent grafts, excluding OEM, increased 16% for the three months ended June 30, 2022, as compared to the three months ended June 30, 2021. This increase was primarily due to an increase in units sold, which increased revenues by 22%, and an increase in average sales prices, which increased revenues by 3%, partially offset by the effect of foreign exchange rates, which decreased revenues by 9%.

Revenues from aortic stent grafts, excluding OEM, increased 21% for the six months ended June 30, 2022, as compared to the six months ended June 30, 2021. This increase was primarily due to an increase in the volume of units sold, which increased revenues by 20%, and an increase in average sales prices, which increased revenues by 10%, partially offset by the effect of foreign exchange rates, which decreased revenues by 9%.

On a constant currency basis, revenues from aortic stent grafts, excluding OEM, increased 26% and 31% for the three and six months ended June 30, 2022, respectively, as compared to the three and six months ended June 30, 2021. The increase in revenues was partially due to improved conditions from the COVID-19 pandemic for the three and six months ended June 30, 2022, as compared to the three and six months ended June 30, 2021. Revenues for the three and six months ended June 30, 2022 increased primarily in Europe, the Middle East, and Africa (collectively, "EMEA") and Asia Pacific ("APAC"). The revenue increase in EMEA was primarily due to buying patterns in certain direct and indirect markets. The revenue increase in APAC was primarily due to an increase in sales of newly launched aortic stent grafts and distributor buying patterns in certain markets. OEM sales of aortic stent grafts accounted for less than 1% of product revenues for the three and six months ended June 30, 2022 and 2021.

Surgical Sealants

Surgical sealants include BioGlue products used as an adjunct to standard methods of achieving hemostasis (such as sutures and staples) in adult patients in open surgical repair of large vessels (such as aorta, femoral, and carotid arteries).

Revenues from the sales of surgical sealants decreased 11% for the three months ended June 30, 2022, as compared to the three months ended June 30, 2021. This decrease was primarily due to a decrease in volume of milliliters sold, which decreased revenues by 9%, and the effect of foreign exchange rates, which decreased revenues by 2%.

Revenues from the sales of surgical sealants decreased 11% for the six months ended June 30, 2022, as compared to the six months ended June 30, 2021. This decrease was primarily due to a decrease in volume of milliliters sold, which decreased revenues by 11%, and the effect of foreign exchange rates, which decreased revenues by 2%, partially offset by an increase in average sales prices, which increased revenues by 2%.

On a constant currency basis, revenues from sales of surgical sealants decreased 9% and 10% for the three and six months ended June 30, 2022, respectively, as compared to the three and six months ended June 30, 2021 primarily due to revenue decreases in North America and EMEA. During the three and six months ended June 30, 2021 revenues from the sales of surgical sealants in North America were larger than in the three and six months ended June 30, 2022 primarily due to inventory restocking orders placed in the first half of 2021 as hospitals experienced reduced impact from the COVID-19 pandemic and began resuming more normal operations. Revenues were negatively impacted during the first quarter of 2022 due to delays and cancellations of some surgical procedures due to hospital staffing challenges as a result of a new COVID-19 variant.

The decrease in surgical sealant revenue in EMEA during the three and six months ended June 30, 2022 was primarily due to temporary commercialization restrictions resulting from the expiration of our BioGlue CE Mark during our transition to a new notified body. During this transition period, we have requested, and certain countries have granted, derogations to allow us to continue to commercialize BioGlue in those countries until we can complete our transition to a new notified body. We currently anticipate completing this transition and the renewal of our BioGlue CE Mark in the third or fourth quarter of 2022. See Part II, Item 1A, “Risk Factors—Industry Risks— Our products and tissues are highly regulated and subject to significant quality and regulatory risks.” for further background on our transition to a new notified body; see also, Part II, Item 1A, “Risk Factors—Operational Risks— We may not be successful in obtaining necessary clinical results or regulatory clearances/approvals for new and existing products and services, and our approved products and services may not achieve market acceptance.”

Domestic revenues from surgical sealants accounted for 51% and 50% of total surgical sealant revenues for the three and six months ended June 30, 2022, respectively, and 54% and 53% of total surgical sealant revenues for the three and six months ended June 30, 2021, respectively.

On-X

The On-X products include the On-X prosthetic aortic and mitral heart valves and the On-X ascending aortic prosthesis ("AAP") for heart valve replacement. On-X product revenues also include revenues from the distribution of CarbonAid® CO_2 diffusion catheters and from the sale of Chord-X® ePTFE sutures for mitral chordal replacement. On-X also generates revenue from pyrolytic carbon coating products produced for OEM customers.

On-X product revenues increased 10% for both the three and six months ended June 30, 2022, as compared to the three and six months ended June 30, 2021.

On-X product revenues, excluding OEM, increased 11% for the three months ended June 30, 2022, as compared to the three months ended June 30, 2021. This increase was primarily due to an increase in volume of units sold, which increased revenues by 9%, and an increase in average sales prices, which increased revenues by 3%, partially offset by the effect of foreign exchange rates, which decreased revenues by 1%.

On-X product revenues, excluding OEM, increased 10% for the six months ended June 30, 2022, as compared to the six months ended June 30, 2021. This increase was primarily due to an increase in volume of units sold, which increased revenues by 9%, and an increase in average sales prices, which increased revenues by 2%, partially offset by the effect of foreign exchange rates, which decreased revenues by 1%.

On a constant currency basis, On-X revenues, excluding OEM, increased 13% and 12% for the three and six months ended June 30, 2022, respectively, as compared to the three and six months ended June 30, 2021. The increase in revenues in the three and six months ended June 30, 2022 was primarily due to revenue increases in North America, Latin America and EMEA. The revenue increases in these markets were partially due to improved conditions from the COVID-19 pandemic for the three and six months ended June 30, 2022, as compared to the three and six months ended June 30, 2021. The increase in revenues in North America was also impacted by increases in market share. The increase in revenues in Latin America was also impacted by market penetration in certain regions. The increase in revenues in EMEA was also primarily impacted by increase of shipments in direct markets. On-X OEM sales accounted for less than 1% of product revenues for both the three and six months ended June 30, 2022 and 2021.

Other

Other revenues are comprised of PhotoFix, PerClot (prior to the Baxter Transaction, described below), and CardioGenesis cardiac laser therapy product revenues. Other revenues increased 19% and 5% for the three and six months ended June 30, 2022, respectively, as compared to the three and six months ended June 30, 2021.

The increase in other revenues for the three and six months ended June 30, 2022, as compared to the three and six months ended June 30, 2021 was primarily due to an increase in CardioGenesis cardiac laser therapy product revenues, partially offset by a decrease in PerClot product revenues. The increase in CardioGenesis cardiac laser therapy product revenues for the three and six months ended June 30, 2022 was primarily due to our ability to resume limited sales of handpieces starting during the fourth quarter of 2021, as further described below. The decrease in PerClot product revenues for the three and six months ended June 30, 2022 was due to the Baxter Transaction, described in more detail in Part II, Item 7, "Sale of PerClot" of our annual report on Form 10-K for the year ended December 31, 2021.

Revenues from our CardioGenesis cardiac laser therapy product line historically consisted primarily of sales of handpieces and, in certain periods, the sale of laser consoles. During the three and six months ended June 30, 2021 we had minimal revenues from the CardioGenesis cardiac laser therapy product line as we did not have a supply of handpieces due to the FDA's review of our supplier's change in manufacturing location. After obtaining approval, our supplier resumed manufacturing a limited supply of handpieces allowing us to resume limited sales during the fourth quarter of 2021.

On July 28, 2021 we entered into an asset purchase agreement and other ancillary agreements related to the sale of PerClot, a polysaccharide hemostatic agent used in surgery, to Baxter, and an agreement to terminate all of our material agreements with Starch Medical, Inc. ("SMI") related to PerClot (collectively the "Baxter Transaction").

Preservation Services

Preservation services include service revenues from processing cardiac and vascular tissues. Our cardiac valves are primarily used in cardiac replacement and reconstruction surgeries, including the Ross procedure, for patients with endocarditis or congenital heart defects. Our cardiac tissues are primarily distributed in domestic markets. The majority of our vascular preservation services revenues are related to shipments of saphenous veins, which are mainly used in peripheral vascular reconstruction surgeries to avoid limb amputations. Competition with synthetic product alternatives and the availability of tissues for processing are key factors affecting revenue volume that can fluctuate from quarter to quarter. Our vascular tissues are primarily distributed in domestic markets.

We continue to evaluate modifications to our tissue processing procedures in an effort to improve tissue processing throughput, reduce costs, and maintain quality across our tissue processing business. Preservation services revenues, particularly revenues for certain high-demand cardiac tissues, can vary from quarter to quarter and year to year due to a variety of factors, including quantity and type of incoming tissues, yields of tissue through the preservation process, timing of receipt of donor information, timing of the release of tissues for implant, demand for certain tissue types due to the number and type of procedures being performed, and pressures from competing products or services.

In the fourth quarter of 2020 we became aware that a supplier shipped to us a saline solution lot that we use in our tissue processing that contained some contamination in a small number of bottles of the solution lot. The contamination was identified by our in-process quality controls. The contaminated solution was estimated to have impacted a small percentage of tissue processed with this solution lot, causing us to write-off approximately $826,000 of tissue in the fourth quarter of 2020. An additional $5.0 million of tissue was quarantined in process pending further testing. Upon completion, and FDA acceptance of the testing, we began releasing tissue meeting our release criteria late in the second quarter of 2021. We believe that the written-off and quarantined tissue impacted the availability of tissue for distribution, which had a negative impact on revenue in the first quarter of 2021, and, to a lesser extent, the second quarter of 2021.

Revenues from tissue processing increased 7% for the three months ended June 30, 2022, as compared to the three months ended June 30, 2021. The increase in revenues for the three months ended June 30, 2022 was primarily due to an increase in average sales prices, which increased revenues by 4%, and an increase in tissue shipments, which increased revenues by 3%.

Revenues from tissue processing increased 9% for the six months ended June 30, 2022, as compared to the six months ended June 30, 2021. The increase in revenues for the six months ended June 30, 2022 was primarily due to a change in the mix and an increase of tissues shipped, which increased revenues by 6%, and an increase in average sales prices, which increased revenues by 3%.

Cost of Products and Preservation Services

Cost of Products

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Cost of products	$ 18,230	$ 16,178	$ 35,638	$ 31,089

Cost of products increased 13% and 15% for the three and six months ended June 30, 2022, respectively, as compared to the three and six months ended June 30, 2021. Cost of products for the three and six months ended June 30, 2022 and 2021 included costs related to aortic stent grafts, surgical sealants, On-X, and other products.

The increase in cost of products for the three and six months ended June 30, 2022 was primarily due to an increase in shipments of aortic stent grafts in certain regions due to improved conditions from the COVID-19 pandemic as well as an increase in the cost of aortic stent grafts, and, to a lesser extent, surgical sealants, as compared to the three and six months ended June 30, 2021.

Cost of Preservation Services

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Cost of preservation services	$ 9,938	$ 9,457	$ 19,024	$ 17,795

Cost of preservation services increased 5% and 7% for the three and six months ended June 30, 2022, respectively, as compared to the three and six months ended June 30, 2021. Cost of preservation services included costs for cardiac and vascular tissue preservation services.

The increase in cost of preservation services for the three months ended June 30, 2022 was primarily due to an increase in the processing cost of cardiac and vascular tissues, as compared to the three months ended June 30, 2021.

The increase in cost of preservation services for the six months ended June 30, 2022 was primarily due to an increase in the processing cost of cardiac and vascular tissues, and, to a lesser extent, due to an increase in shipments resulting from improved conditions from the COVID-19 pandemic, as compared to the six months ended June 30, 2021.

Gross Margin

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Gross margin	$ 52,172	$ 50,513	$ 102,891	$ 98,351
Gross margin as a percentage of total revenues	65%	66%	65%	67%

Gross margin increased 3% for the three months ended June 30, 2022, as compared to the three months ended June 30, 2021. The increase for the three months ended June 30, 2022, as compared to the three months ended June 30, 2021, was primarily due to an increase in shipments of cardiac tissues, aortic stent grafts, and On-X products, partially offset by a decrease in shipments of surgical sealants. Gross margin as a percentage of total revenues decreased for the three months ended June 30, 2022, as compared to the three months ended June 30, 2021, primarily due to an increase in product costs of certain products sold resulting from inflationary pressures of materials and labor, partially offset by a favorable mix of certain products sold during the three months ended June 30, 2022.

Gross margin increased 5% for the six months ended June 30, 2022, as compared to the six months ended June 30, 2021. The increase for the six months ended June 30, 2022, as compared to the six months ended June 30, 2021, was primarily due to an increase in shipments of aortic stent grafts, cardiac tissues, and On-X products, partially offset by a decrease in shipments of surgical sealants. Gross margin as a percentage of total revenues decreased for the six months ended June 30, 2022, as compared to the six months ended June 30, 2021, primarily due to an increase in product costs of certain products sold resulting from inflationary pressures of materials and labor and, to a lesser degree, due to an unfavorable mix of certain aortic stent grafts sold in certain regions during the six months ended June 30, 2022.

Operating Expenses

General, Administrative, and Marketing Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
General, administrative, and marketing expenses	$ 38,983	$ 40,830	$ 77,938	$ 79,468
General, administrative, and marketing expenses as a percentage of total revenues	49%	54%	49%	54%

General, administrative, and marketing expenses decreased 5% and 2% for the three and six months ended June 30, 2022, as compared to the three and six months ended June 30, 2021. The decrease in General, administrative, and marketing expenses for the three and six months ended June 30, 2022, as compared to the three and six months ended June 30, 2021, was primarily due to a decrease in business development expenses, partially offset by an increase in personnel related and marketing costs.

General, administrative, and marketing expenses included $3.1 million and $4.7 million of business development income for the three and six months ended June 30, 2022, respectively, as compared to $3.4 million and $4.8 million of expense for the three and six months ended June 30, 2021, respectively. Business development expenses included $3.2 million and $5.0 million of income during the three and six months ended June 30, 2022, respectively, related to the fair value adjustments for the Ascyrus contingent consideration, as compared to $3.3 million and $4.3 million of expense during the three and six months ended June 30, 2021, respectively.

Research and Development Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Research and development expenses	$ 8,648	$ 8,360	$ 18,776	$ 16,114
Research and development expenses as a percentage of total revenues	11%	11%	12%	11%

Research and development expenses increased 3% and 17% for the three and six months ended June 30, 2022, as compared to the three and six months ended June 30, 2021. Research and development spending for the three and six months ended June 30, 2022 was primarily focused on clinical work to gain regulatory approvals for On-X, certain aortic stent grafts, and PerClot products.

Interest Expense

Interest expense was $4.1 million and $8.0 million for the three and six months ended June 30, 2022, respectively, as compared to $4.9 million and $8.9 million for the three and six months ended June 30, 2021, respectively. Interest expense for the three and six months ended June 30, 2022 and 2021 relates to interest on debt and uncertain tax positions.

Other Expense (Income), Net

Other expense, net was $3.8 million and $3.9 million for the three and six months ended June 30, 2022, respectively. Other income, net was $1.3 million for the three months ended June 30, 2021. Other expense, net was $600,000 for the six months ended June 30, 2021. Other expense (income), net primarily includes the realized and unrealized effects of foreign currency gains and losses.

Earnings

(Table in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Loss before income taxes	$ (3,300)	$ (2,183)	$ (5,729)	$ (6,684)
Income tax expense (benefit)	959	(5)	1,919	(1,368)
Net loss	**$ (4,259)**	**$ (2,178)**	**$ (7,648)**	**$ (5,316)**
Diluted loss per common share	**$ (0.11)**	**$ (0.06)**	**$ (0.19)**	**$ (0.14)**
Diluted weighted-average common shares outstanding	**40,031**	**38,943**	**39,941**	**38,841**

We incurred a loss before income taxes for the three and six months ended June 30, 2022 and 2021. The loss before income taxes for the three and six months ended June 30, 2022 was negatively impacted by an increase in operating expenses to support revenue expansion, an increase in investments in the research and development pipeline, and an unfavorable impact of foreign currency gains and losses, partially offset by the change in fair value of our financial instruments. The loss before income taxes for the three and six months ended June 30, 2021 was due to business development, integration and severance expenses primarily related to the Ascyrus acquisition, and investments in the research and development pipeline. The loss before income taxes for three and six months ended June 30, 2022 and 2021 was also impacted by reduced revenue resulting from delays or cancellations of some surgical procedures as a result of reduced hospital capacity and staffing and hospital restrictions due to the COVID-19 pandemic.

Our effective income tax rate was an expense of 29% and 34% for the three and six months ended June 30, 2022, respectively, as compared to a benefit of under 1% and 20% for the three and six months ended June 30, 2021, respectively. The change in the tax rate for the three and six months ended June 30, 2022 was primarily due to changes in pre-tax book income, a decrease in the excess tax benefit related to stock compensation, and an increase in the estimated current year valuation allowance, as compared to the three and six months ended June 30, 2021.

Our income tax rate for the three and six months ended June 30, 2022 was primarily impacted by changes in our valuation allowance against our net deferred tax assets, non-deductible executive compensation, the foreign derived intangible income deduction, the research and development tax credit, changes in our uncertain tax position liabilities, and tax shortfalls on stock compensation.

Our income tax rate for the three and six months ended June 30, 2021 was primarily impacted by non-deductible executive compensation, changes in our valuation allowance against our net deferred tax assets, changes in our uncertain tax position liabilities, the research and development tax credit, and excess tax benefits on stock compensation.

We experienced net loss and diluted loss per common share for the three and six months ended June 30, 2022 and 2021. Net loss and diluted loss per common share for the three and six months ended June 30, 2022 was primarily due to loss before income taxes, as discussed above.

Seasonality

As a result of the uncertainty and other impacts of the COVID-19 pandemic and the resulting shifts of timing in some revenue, our historically observable seasonality of revenues has been impacted or obscured in 2021 and 2022 and potentially beyond.

Historically, we believe the demand for most of our aortic stent grafts is seasonal, with a decline in demand generally occurring in the third quarter due to the summer holiday season in Europe. We are uncertain whether the demand for AMDS and NEXUS products is seasonal, as these products have not fully penetrated many markets and, therefore, the nature of any seasonal trends may not yet be obvious.

Historically, we believe the demand for BioGlue and On-X products is seasonal, with a decline in demand generally occurring in the third quarter followed by stronger demand in the fourth quarter. We believe that this trend may be due to the summer holiday season in Europe and the US.

We do not believe the demand for our other products is seasonal.

Demand for our cardiac preservation services has traditionally been seasonal, with peak demand generally occurring in the third quarter. We believe this trend for cardiac preservation services is primarily due to the high number of surgeries scheduled during the summer months for school-aged patients. Based on experience in recent years, we believe that this trend is lessening as we are distributing a higher percentage of our tissues for use in adult populations.

Demand for our vascular preservation services has also traditionally been seasonal, with lowest demand generally occurring in the fourth quarter. We believe this trend for vascular preservation services was primarily due to fewer vascular surgeries being scheduled during the winter holiday months.

Liquidity and Capital Resources

Net Working Capital

As of June 30, 2022 net working capital (current assets of $240.4 million less current liabilities of $41.6 million) was $198.8 million, with a current ratio (current assets divided by current liabilities) of 6 to 1, compared to net working capital of $202.7 million and a current ratio of 6 to 1 at December 31, 2021.

Overall Liquidity and Capital Resources

Our primary cash requirements for the six months ended June 30, 2022 were for general working capital needs, capital expenditures for facilities and equipment, interest and principal payments under our Credit Agreement (defined below), interest payments under our Convertible Senior Notes (defined below), and repurchases of stock to cover tax withholdings. We funded our cash requirements through our existing cash reserves and proceeds from stock option exercises.

We believe our cash from operations and existing cash and cash equivalents will enable us to meet our current operational liquidity needs for at least the next twelve months. Our future cash requirements are expected to include interest and principal payments under our Credit Agreement and Convertible Senior Notes (described in "Significant Sources and Uses of Liquidity" section below), expenditures for clinical trials, research and development expenditures, general working capital needs, capital expenditures, and other corporate purposes and may include cash to fund business development activities including obligations in the agreements related to the Endospan and Ascyrus transactions. These items may have a significant effect on our future cash flows during the next twelve months. Subject to the terms of our Credit Agreement, we may seek additional borrowing capacity or financing, pursuant to our current or any future shelf registration statement, for general corporate purposes or to fund other future cash requirements. If we undertake any further significant business development activity, we may need to finance such activities by obtaining additional debt financing or using a registration statement to sell equity securities. There can be no assurance that we will be able to obtain any additional debt or equity financing at the time needed or that such financing will be available on terms that are favorable or acceptable to us.

Significant Sources and Uses of Liquidity

On December 1, 2017 we entered into a credit and guaranty agreement for a $255.0 million senior secured credit facility, consisting of a $225.0 million secured term loan facility (the "Term Loan Facility") and a $30.0 million secured revolving credit facility (the "Revolving Credit Facility" and, together with the Term Loan Facility, the "Credit Agreement"). We and each of our existing domestic subsidiaries (subject to certain exceptions and exclusions) guarantee the obligations under the Credit Agreement (the "Guarantors"). The Credit Agreement is secured by a security interest in substantially all existing and after-acquired real and personal property (subject to certain exceptions and exclusions) of us and the Guarantors.

On June 2, 2021 we entered into an amendment to our Credit Agreement to extend the maturity dates of both our Term Loan and Revolving Credit Facility. As part of the amendment, the maturity dates of both our Term Loan and Revolving Credit Facility were each extended by two and one-half years, until June 1, 2027 and June 1, 2025, respectively, subject to earlier springing maturities triggered if our 4.25% Convertible Senior Notes, described below, remain outstanding on April 1, 2025 and December 31, 2024, respectively. With respect to the Term Loan, if the Convertible Senior Notes remain outstanding on April 1, 2025, the Term Loan's Maturity Date will be April 1, 2025, or, if the Convertible Senior Notes' own maturity date has been extended, the earlier of (i) 91 days prior to the Convertible Senior Notes' new maturity date and (ii) June 1, 2027. In the case of the Revolving Credit Facility, if the Convertible Senior Notes are still outstanding on December 31, 2024, the Revolving Credit Facility's Maturity Date will be either December 31, 2024 or, if the Convertible Senior Notes' own maturity date has been extended, the earlier of (i) 182 days prior to the Convertible Senior Notes' new maturity date and (ii) June 1, 2025. Under the amendment, the Term Loan Facility bears interest, at our option, at a floating annual rate equal to either the base rate, plus a margin of 2.50%, or LIBOR, plus a margin of 3.50%. Prior to the amendment, the optional floating annual rate was equal to either the base rate plus a margin of 2.25%, or LIBOR, plus a margin of 3.25%.

On June 18, 2020 we issued $100.0 million aggregate principal amount of 4.25% Convertible Senior Notes with a maturity date of July 1, 2025 (the "Convertible Senior Notes"). The net proceeds from this offering, after deducting initial purchasers' discounts and costs directly related to this offering, were approximately $96.5 million. On January 1, 2021 we adopted ASU 2020-06 and adjusted the carrying balance of the Convertible Senior Notes to notional. The Convertible Senior Notes balance was $100.0 million recorded in Long-term debt on the Condensed Consolidated Balance Sheets as of June 30, 2022. The Convertible Senior Notes may be settled in cash, stock, or a combination thereof, solely at our discretion. The initial conversion rate of the Convertible Senior Notes is 42.6203 shares per $1,000 principal amount, which is equivalent to a conversion price of approximately $23.46 per share, subject to adjustments. We use the if-converted method for assumed conversion of the Convertible Senior Notes for the diluted earnings per share calculation. The fair value and the effective interest rate of the Convertible Senior Notes as of June 30, 2022 was approximately $107.0 million and 5.05%, respectively. The fair value was based on market prices observable for similar instruments and is considered Level 2 in the fair value hierarchy.

The interest expense recognized on the Convertible Senior Notes includes $1.2 million and $2.5 million for the three and six months ended June 30, 2022, respectively, and $1.2 million and $2.4 million for the three and six months ended June 30, 2021, respectively, related to the aggregate of the contractual coupon interest, and the amortization of the debt issuance costs. Interest on the Convertible Senior Notes began accruing upon issuance and is payable semi-annually.

Holders of the Convertible Senior Notes may convert their notes at their option at any time prior to January 1, 2025 but only under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending on September 30, 2020 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (ii) during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; (iii) we give a notice of redemption with respect to any or all of the notes, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or (iv) upon the occurrence of specified corporate events. On or after January 1, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances.

We cannot redeem the Convertible Senior Notes before July 5, 2023. We can redeem them on or after July 5, 2023, in whole or in part, at our option, if the last reported sale price per share of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption. We may redeem for cash all or part of the Convertible Senior Notes at a redemption price equal to 100% of the principal amount of the redeemable Convertible Senior Notes, plus accrued and unpaid interest to, but excluding, the redemption date. No principal payments are due on the Convertible Senior Notes prior to maturity. Other than restrictions relating to certain fundamental changes and consolidations, mergers or asset sales and customary anti-dilution adjustments, the Convertible Senior Notes do not contain any financial covenants and do not restrict us from conducting significant restructuring transactions or issuing or repurchasing any of its other securities.

As of June 30, 2022 approximately 37% of our cash and cash equivalents were held in foreign jurisdictions.

The following table summarizes cash flows from operating activities, investing activities, and financing activities for the periods indicated (in thousands):

	Six Months Ended June 30,	
	2022	**2021**
Cash flows used in:		
Operating activities	$ (8,912)	$ (392)
Investing activities	(4,994)	(7,044)
Financing activities	(1,032)	(3,737)
Effect of exchange rate changes on cash and cash equivalents	310	242
Decrease in cash and cash equivalents	**$ (14,628)**	**$ (10,931)**

Net Cash Flows from Operating Activities

Net cash used in operating activities was $8.9 million and $392,000 for the six months ended June 30, 2022 and 2021, respectively.

We use the indirect method to prepare our cash flow statement and, accordingly, the operating cash flows are based on our net income, which is then adjusted to remove non-cash items, items classified as investing and financing cash flows, and changes in operating assets and liabilities from the prior year end. For the six months ended June 30, 2022 these non-cash items included $11.5 million in depreciation and amortization expenses, $6.1 million in non-cash compensation, $5.0 million in fair value adjustments of financial instruments, $3.8 million of lease expenses, and $1.6 million of deferred income tax changes.

Our working capital needs, or changes in operating assets and liabilities, also affected cash from operations. For the six months ended June 30, 2022 these included the unfavorable effect of $5.7 million due to timing differences between the recording of accounts payable and other current liabilities, $9.6 million due to the timing differences between recording receivables and the receipt of cash, $3.7 million due to an increase in inventory balances and deferred preservation costs, and $0.2 million due to an increase in prepaid expenses and other assets.

Net Cash Flows from Investing Activities

Net cash used in investing activities was $5.0 million and $7.0 million for the six months ended June 30, 2022 and 2021, respectively. During the six months ended June 30, 2022 cash used in investing activities primarily included $4.1 million of cash used for capital expenditures.

Net Cash Flows from Financing Activities

Net cash used in financing activities was $1.0 million and $3.7 million for the six months ended June 30, 2022 and 2021, respectively. The current year cash used in financing activities was primarily due to $1.7 million for repurchases of common stock to cover tax withholdings and $1.4 million for the repayment of debt, partially offset by $2.3 million of proceeds from the exercise of stock options and issuances of common stock.

Scheduled Contractual Obligations and Future Payments

Our long-term debt obligations and interest payments include $316.1 million of scheduled principal payments and $72.0 million in anticipated interest payments related to our Credit Agreement, Convertible Senior Notes, and other governmental loans.

We have contingent payment obligations that include up to $100.0 million to be paid to the former shareholders of Ascyrus, upon the achievement of certain milestones. We are obliged to make a $5.0 million third tranche payment under our loan agreement with Endospan upon receipt of certification that certain clinical trial milestones have been achieved. As part of the Baxter Transaction, we may be required to pay up to $9.0 million if certain milestones are met.

Our operating and finance lease obligations result from the lease of land and buildings that comprise our corporate headquarters and our various manufacturing facilities; leases related to additional manufacturing, office, and warehouse space; leases on Company vehicles; and leases on a variety of office equipment and other equipment.

Capital Expenditures

Capital expenditures were $4.1 million and $7.2 million for the six months ended June 30, 2022 and 2021, respectively. Capital expenditures for the six months ended June 30, 2022 were primarily related to routine purchases of manufacturing and tissue processing equipment, computer software, leasehold improvements needed to support our business, and computer equipment.

Risks and Uncertainties

See the “Risk Factors” identified in Part II, Item 1A of this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

Our interest income and interest expense are sensitive to changes in the general level of US interest rates. In this regard, changes in US interest rates affect the interest earned on our cash and cash equivalents of $40.4 million as of June 30, 2022 and interest paid on the outstanding balances, if any, of our variable rate Revolving Credit Facility, Term Loan Facility, and Convertible Senior Notes. A 10% adverse change in interest rates, as compared to the rates experienced by us for the six months ended June 30, 2022, affecting our cash and cash equivalents, Term Loan Facility, Revolving Credit Facility, and Convertible Senior Notes would not have a material effect on our financial position, results of operations, or cash flows.

Foreign Currency Exchange Rate Risk

We have balances, such as cash, accounts receivable, accounts payable, and accruals that are denominated in foreign currencies. These foreign currency denominated balances are sensitive to changes in exchange rates. In this regard, changes in exchange rates could cause a change in the US Dollar equivalent of cash or funds that we will receive in payment for assets or that we would have to pay to settle liabilities. As a result, we could be required to record these changes as gains or losses on foreign currency translation.

We have revenues and expenses that are denominated in foreign currencies. Specifically, a portion of our international revenues from aortic stent grafts, surgical sealants, On-X, and other products are denominated in Euros, British Pounds, Swiss Francs, Polish Zlotys, Canadian Dollars, and Brazilian Reals and a portion of our General, administrative, and marketing expenses are denominated in Euros, British Pounds, Swiss Francs, Polish Zlotys, Canadian Dollars, Brazilian Reals, and Singapore Dollars. These foreign currency transactions are sensitive to changes in exchange rates. In this regard, changes in exchange rates could cause a change in the US Dollar equivalent of net income from transactions conducted in other currencies. As a result, we could recognize a reduction in revenues or an increase in expenses related to a change in exchange rates.

An additional 10% adverse change in exchange rates from the exchange rates in effect on June 30, 2022 affecting our third-party balances denominated in foreign currencies could impact our financial position or cash flows by approximately $7.0 million. An additional 10% adverse change in exchange rates from the weighted-average exchange rates experienced by us for the six months ended June 30, 2022 affecting our revenue and expense transactions denominated in foreign currencies would not have had a material impact on our financial position, profitability, or cash flows.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (“Disclosure Controls”) as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. These Disclosure Controls are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to management, including to the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required disclosures.

Our management, including our President and CEO and our Executive Vice President of Finance and CFO, does not expect that our Disclosure Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Artivion have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Our Disclosure Controls have been designed to provide reasonable assurance of achieving their objectives.

Our management utilizes the criteria set forth in "Internal Control-Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of our Disclosure Controls over financial reporting. Based upon the most recent Disclosure Controls evaluation conducted by management with the participation of the CEO and CFO, as of June 30, 2022 the CEO and CFO have concluded that our Disclosure Controls were effective at a reasonable assurance level to satisfy their objectives and to ensure that the information required to be disclosed by us in our periodic reports is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized, and reported within the time periods specified in the US Securities and Exchange Commission's rules and forms.

Changes to Disclosure Controls and Procedures

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we are involved in legal proceedings concerning matters arising from the conduct of our business activities. We regularly evaluate the status of legal proceedings in which we are involved in order to assess whether a loss is probable or whether there is a reasonable possibility that a loss or additional loss may have been incurred and to determine if accruals are appropriate. We further evaluate each legal proceeding to assess whether an estimate of possible loss or range of loss can be made.

Based on current knowledge, we do not believe that there are any pending matters that could potentially have a material adverse effect on our business, financial condition, results of operations, or cash flows. We are, however, engaged in various legal actions in the normal course of business. There can be no assurances in light of the inherent uncertainties involved in any potential legal proceedings, some of which are beyond our control, and an adverse outcome in any legal proceeding could be material to our results of operations or cash flows for any particular reporting period.

Item 1A. Risk Factors.

Risks Relating to Our Business

Our business involves a variety of risks and uncertainties, known and unknown, including, among others, the risks discussed below. These risks should be carefully considered together with the other information provided in this Quarterly Report on Form 10-Q and in our other filings with the SEC. Our failure to adequately anticipate or address these risks and uncertainties may have a material, adverse impact on our business, reputation, revenues, financial condition, profitability, and cash flows. Additional risks and uncertainties not presently known or knowable to us, or that we currently believe to be immaterial, may also adversely affect our business.

Business and Economic Risks

COVID-19, and similar outbreaks, could have a material, adverse impact on us.

Since early 2020, businesses, communities, and governments worldwide have taken, and continue to take, a wide range of actions to mitigate the spread and impact of COVID-19, leading to an unprecedented impact on the global economy. Hospitals and other healthcare providers have adopted differing approaches to address the surge and resurgence of COVID-19 cases, including their impact on healthcare workers and related global healthcare worker shortages, such as postponing elective and non-emergent procedures, restricting access to their facilities, cancelling elective procedures, or re-allocating scarce resources to some critically ill patients. Although many areas have seen a decline in COVID-19 cases, the potential for additional impact from new variants of COVID-19 remains. These conditions have, and could continue to, impact our activities, including:

- Our product sales. Certain regions experienced continued impact on revenues in the second quarter of 2022 due to the COVID-19 pandemic, and in particular, the emergence of new variants. In addition to COVID-19's impact on procedure volumes, including an impact on procedure volumes due in part to COVID-19-related healthcare staffing shortages and shortages from workers exiting healthcare, we have observed additional downstream effects on our business, including an increase in delays or difficulty in collecting certain outstanding receivables, particularly with certain governmental payors in regions heavily impacted by COVID-19. The extent to which our financial performance will be impacted by the pandemic through the remainder of 2022 and beyond will depend largely on future developments, including changes in hospital utilization rates and staffing, the prevalence and severity of new variants and their impact on case numbers and short-term quarantines, and the global availability and acceptance of COVID-19 vaccines and their effectiveness against variants. COVID-19's continued or increased impact on our financial performance may also increase the risks we face with respect to managing our indebtedness.
- Our business operations. In 2020 we took several steps to address the impact of COVID-19 on our employees, cash consumption, and operations, including reducing expenditures and delaying investments. Although we have begun to scale back many of these steps in most geographies, the COVID-19 virus and its variants remain highly contagious and may have additional impact on our business operations, including the potential to impact our workforce availability as case numbers and short-term quarantines increase due to the spread of new variants. COVID-19 also continues to impact our business partners, including the various regulators and notified bodies that we rely on, which increases the regulatory risks we face, and specifically, the risks we face with respect to timely review and approval of new and renewal certifications, clearances, and approvals for our products.

- Our manufacturing operations. The COVID-19 pandemic has continued to impact the global supply chain; the pandemic's impact on workforces, global mobility, material availability, demand, costs, and shipping and reorder time and reliability has reportedly continued or worsened in many cases. Although we have yet to experience any material effects of this impact on our supply chain or operations, we have faced increasing costs and face an increasing risk that upstream disruptions may occur and that increasing case numbers and short-term quarantines impact our workforce availability. Risks relating to the lingering effects of global supply chain disruptions may even continue after COVID-19's risk as a global pandemic has subsided.
- Our workforce. As some global economies have begun to emerge from the COVID-19 downturn, the expiration of COVID-19-related hiring freezes, increased opportunities for remote work, the Great Resignation and increasing compensation pressure have resulted in a war for talent and an unprecedented number of career changes. The resulting worker shortages and increased labor costs at all levels have impacted supply chains, distribution channels, and employers' ability to adequately staff their operations. This has impacted not only our own ability to attract and retain employees, but also the ability of our customers who face increasing staffing pressures throughout their healthcare organizations.
- Our research and development projects. In 2020 and parts of 2021 we reduced spending on research and development projects, including clinical research projects. These reductions could adversely impact future revenue, and additional reductions in spending could be implemented, further impacting future revenue. In addition, our ability to conduct our ongoing research and development projects in markets that are affected by COVID-19 has been, and could continue to be, adversely impacted. Enrollment and timelines for our clinical trials have been, and might continue to be, impacted as healthcare providers re-prioritize resources, address staffing shortages, and limit access to healthcare facilities or as patients decline to participate or are hesitant to voluntarily visit healthcare facilities. In addition, staffing shortages and COVID-19-related impacts on government and regulatory agencies have slowed and might continue to slow timelines for regulatory actions, including approvals and re-certifications.

If COVID-19 or its variants continue to spread, if efforts to contain COVID-19 or its variants continue or are unsuccessful, if we experience new outbreaks of COVID-19 in areas previously successful in containing its spread, if staffing shortages continue to impact us, governmental or regulatory bodies, or our customers, or if COVID-19, its variants, or disruptions to the global supply chain impact our supply chain or employee productivity, it could materially, adversely affect our revenues, financial condition, profitability, and cash flows. The nature and extent of these developments are highly uncertain and unpredictable and may vary greatly by region. These adverse developments or a prolonged period of uncertainty could adversely affect our financial performance.

We are subject to a variety of risks due to our international operations and continued global expansion.

Our international operations subject us to a number of risks, which may vary significantly from the risks we face in our US operations, including:

- Greater difficulties and costs associated with staffing, establishing and maintaining internal controls, managing foreign operations and distributor relationships, and selling directly to customers;
- Broader exposure to corruption and expanded compliance obligations, including under the Foreign Corrupt Practices Act, the UK Bribery Law, local anti-corruption laws, Office of Foreign Asset Control administered sanction programs, the European Union's General Data Protection Regulation, and other emerging corruption and data privacy regulations;
- Overlapping and potentially conflicting, or unexpected changes in, international legal and regulatory requirements or reimbursement policies and programs;
- Longer and more expensive collection cycles in certain countries, particularly those in which our primary customers are government-funded hospitals;
- Changes in currency exchange rates, particularly fluctuations in the Euro as compared to the US Dollar;
- Potential adverse financial impact and negative erosion of our operating profit margin over time due to increasing inflationary pressures, particularly through our supply chain; our exposure may be increased through our limited ability to raise prices and through global expansion where business occurs with, or pricing is set directly by, government entities, or we are party to long term pricing agreements with governments or local distributors, impacting our ability to pass on rising costs;
- Potential adverse tax consequences of overlapping tax structures or potential changes in domestic and international tax policy, laws, and treaties; and
- Potential adverse financial and regulatory consequences resulting from the exit of the UK from the European Union, or "Brexit."

Our operations and performance may also be impacted by regional and global geopolitical conditions, domestic and foreign trade and monetary policies, and other factors beyond our control. As an example of these risks, Russia's invasion and military attacks on Ukraine have triggered significant sanctions from the US and foreign governments and retaliatory actions from Russia, resulting in significant banking and trade disruptions. The war has also resulted in significant devastation to the people and infrastructure in the region, significantly impacting trade and transportation which may impact our global supply chain, increase prices, and limit our ability to continue to do business in affected regions.

To date, sanctions and other disruptions in the region have not materially impacted our business or ability to supply products to Russia, Belarus, Ukraine, and the region generally; however, continuation or escalation of the war or increased export controls or additional sanctions imposed on or by Russia, its allies, or related entities could adversely affect our financial performance. Although we do not have any direct operations in Russia or Ukraine, it is difficult to predict the ultimate course of the war and we may face business operations and supply chain disruptions as a result, including disruptions related to shortages of materials, higher costs of materials and freight, freight delays, increased energy costs or energy shortages, travel disruptions, currency fluctuation, and disruptions to banking systems or capital markets.

We operate in highly competitive market segments, face competition from large, well-established medical device companies and tissue service providers with greater resources and we may not be able to compete effectively.

The market for our products and services is competitive and affected by new product introductions and activities of other industry participants. We face intense competition in virtually all of our product lines. A significant percentage of market revenues from competitive products are generated by Baxter International, Inc.; Ethicon (a Johnson & Johnson Company); Medtronic, Inc.; Abbott Laboratories; Edwards Lifesciences Corp.; C.R. Bard, Inc., a subsidiary of Becton, Dickinson and Company; Integra Life Sciences Holdings; LifeNet; CORCYM; Anteris Technologies, Inc.; Aziyo Biologics; Cook Medical; Gore & Associates; Terumo Aortic Corp.; LeMaitre Vascular, Inc.; Maquet, Inc.; Pfizer, Inc.; and BioCer Entwicklungs-GmbH. Several of our competitors enjoy competitive advantages over us, including:

- Greater financial and other resources for research and development, commercialization, acquisitions, and litigation and to weather the impacts of COVID-19 and increased workforce competition;
- Greater name recognition as well as more recognizable trademarks for products similar to products that we sell;
- More established record of obtaining and maintaining regulatory product clearances or approvals;
- More established relationships with healthcare providers and payors;
- Lower cost of goods sold or preservation costs; and
- Larger direct sales forces and more established distribution networks.

We are significantly dependent on our revenues from tissue preservation services and are subject to a variety of risks affecting them.

Tissue preservation services are a significant source of our revenues, and as such, we face risks if we are unable to:

- Source sufficient quantities of some human tissue or address potential excess supply of others. We rely primarily upon the efforts of third-parties to educate the public and foster a willingness to donate tissue. Factors beyond our control such as supply, regulatory changes, negative publicity concerning methods of tissue recovery or disease transmission from donated tissue, or public opinion of the donor process as well as our own reputation in the industry can negatively impact the supply of tissue;
- Compete effectively, as we may be unable to capitalize on our clinical advantages or our competitors may have advantages over us in terms of cost structure, pricing, back-office automation, marketing, and sourcing; or
- Mitigate sufficiently the risk that tissue can become contaminated during processing; that processed tissue cannot be end-sterilized and hence carries an inherent risk of infection or disease transmission or that our quality controls can eliminate that risk.

As an example of this risk, in the fourth quarter of 2020 we became aware that a supplier shipped to us a lot of saline solution that we use in our tissue processing that contained some contamination. The contamination was identified by our routine quality controls. While we were able to mitigate the impact of this contamination through our own efforts and additional testing that was reviewed with the FDA, the contaminated solution impacted a small percentage of the tissue processed with this lot of solution, requiring us to write-off approximately $826,000 in contaminated tissues in the fourth quarter of 2020. The written off and temporarily quarantined tissue impacted our ability to fully meet demand for certain tissues and sizes in the fourth quarter of 2020, the first quarter of 2021, and to a lesser extent the second quarter of 2021. Our inability to meet some demand for tissue in the third quarter resulted in part from a shortage of trained staff capable of

meeting the increased demand for releasing this quarantined tissue. See also, Part I, Item 1A, "Risk Factors—Operational Risks— We are dependent on our specialized workforce."

In addition, US and foreign governmental authorities have adopted laws and regulations that restrict tissue preservation services. Any of these laws or regulations could change, including becoming more restrictive or our interpretation of them could be challenged by governmental authorities.

We are significantly dependent on our revenues from BioGlue and are subject to a variety of related risks.

BioGlue Surgical Adhesive ("BioGlue") is a significant source of our revenues, and as such, any risk adversely affecting our BioGlue products or business would likely be material to our financial results. We face the following risks related to BioGlue:

- Competing effectively with our major competitors, as they may have advantages over us in terms of cost structure, supply chain, pricing, sales force footprint, and brand recognition;
- We may be unable to obtain approval to commercialize BioGlue in certain non US countries as fast as our competitors do of their products or at all. We also may not be able to capitalize on new BioGlue approvals, including for new indications, in non US countries;
- BioGlue contains a bovine blood protein. Animal-based products are subject to increased scrutiny from the public and regulators, who may seek to impose additional regulations, regulatory hurdles or product bans in certain countries on such products; BioGlue is a mature product and other companies may use the inventions disclosed in expired BioGlue patents to develop and make competing products; and
- BioGlue faces potential adverse regulatory consequences resulting from the exit of the UK from the European Union, or "Brexit, as well as the impact of COVID-19 on regulatory authorities' ability to timely re-certify the Conformité Européene Mark ("CE Mark") for BioGlue" See Part I, Item 1A, "Risk Factors—Industry Risks— Our products and tissues are highly regulated and subject to significant quality and regulatory risks."

We are significantly dependent on our revenues from aortic stent grafts and are subject to a variety of related risks.

Aortic stent grafts are a significant source of our revenues, and as such, any risk adversely affecting aortic stent grafts would likely be material to our financial results. We face risks related to aortic stent grafts based on our ability to:

- Compete effectively with our major competitors, as they may have advantages over us in terms of cost structure, supply chain, pricing, sales force footprint, and brand recognition;
- Develop innovative, high quality, and in-demand aortic repair products;
- Respond adequately to enhanced regulatory requirements and enforcement activities, and particularly, our ability to obtain regulatory approvals and renewals globally;
- Meet demand for aortic stent grafts as we seek to expand our business globally; and
- Maintain a productive working relationship with our Works Council in Germany.

We are significantly dependent on our revenues from On-X products and are subject to a variety of related risks.

On-X products are a significant source of our revenues, and as such, any risk adversely affecting our On-X products or business would likely be material to our financial results. We face risks based on our ability to:

- Compete effectively with some of our major competitors, as they may have advantages over us in terms of cost structure, supply chain, pricing, sales force footprint, and brand recognition;
- Take market share in the mechanical heart valve market based on the FDA's approved lower International Normalized Ratio ("INR") indication for the On-X aortic heart valve or complete the associated FDA mandated post-approval studies;
- Address clinical trial data or changes in technology that may reduce the demand for mechanical heart valves, such as data regarding transcatheter aortic valve replacement, or "TAVR" devices;
- Manage risks associated with less favorable contract terms for On-X products on consignment at hospitals;
- Respond adequately to enhanced international regulatory requirements or enforcement activities; and
- Receive timely renewal certifications in certain markets.

Continued fluctuation of foreign currencies relative to the US Dollar could materially, adversely affect our business.

The majority of our foreign product revenues are denominated in Euros and, as such, are sensitive to changes in exchange rates. In addition, a portion of our dollar-denominated and euro-denominated product sales are made to customers in other countries who must convert local currencies into US Dollars or Euros in order to purchase these products. We also have balances, such as cash, accounts receivable, accounts payable, and accruals that are denominated in foreign currencies. These foreign currency transactions and balances are sensitive to changes in exchange rates. Additionally, as a result of global inflationary pressures, and in some cases, currency crises, it is possible that foreign currency controls, the development of parallel exchange rates, or highly inflationary economies could arise in certain countries. Fluctuations in exchange rates of Euros or other local currencies in relation to the US Dollar could materially reduce our future revenues as compared to the comparable prior periods. Should this occur, it could have a material, adverse impact on our revenues, financial condition, profitability, and cash flows.

Our charges resulting from acquisitions, restructurings, and integrations may materially, adversely affect the market value of our common stock.

We account for the completion of acquisitions using the purchase method of accounting. Our financial results could be adversely affected by a number of financial adjustments required by purchase accounting such as:

- We may incur added amortization expense over the estimated useful lives of some acquired intangible assets;
- We may incur additional depreciation expense as a result of recording purchased tangible assets;
- We may be required to incur material charges relating to any impairment of goodwill and intangible assets;
- Cost of sales may increase temporarily if acquired inventory is recorded at fair market value;
- If acquisition consideration consists of earn-outs, our earnings may be affected by changes in estimates of future contingent consideration; or
- Earnings may be affected by transaction and integration costs, which are expensed immediately.

As an example of this risk, in the fourth quarter of 2021, we fully impaired the value of the Endospan Option and fully wrote-down the value of the Endospan Loan, primarily driven by a decrease in forecasted operating results. This impairment, and other potential risks like those mentioned above, may adversely affect the market value of our common stock.

Operational Risks

We are heavily dependent on our suppliers and contract manufacturers to provide quality products.

The materials and supplies used in our product manufacturing and tissue processing are subject to regulatory requirements and oversight. If materials or supplies used in our processes fail to meet these requirements or are subject to regulatory enforcement action, they may have to be scrapped, or our products or tissues could be rejected during or after processing, recalled, or rejected by customers. In these cases, we may have to immediately scrap raw or in process materials or expense the costs of manufacturing or preservation.

As an example of this risk, in the fourth quarter of 2020 we became aware that a supplier shipped to us a lot of saline solution that we use in our tissue processing that contained some contamination. The contamination was identified by our routine quality controls. While we were able to mitigate the impact of this contamination through our own efforts and additional testing that was reviewed with the FDA, the contaminated solution impacted a small percentage of the tissue processed with this lot of solution, requiring us to write-off those contaminated tissues in the fourth quarter of 2020 and impacting our ability to fully meet demand for certain tissues and sizes in the fourth quarter of 2020, the first quarter of 2021, and to a lesser extent the second quarter of 2021.

In addition, if these materials or supplies or changes to them do not receive regulatory approval or are recalled, if the related suppliers and/or their facilities are shut down temporarily or permanently, for any reason, or if the related suppliers are otherwise unable or unwilling to supply us, we may not have sufficient materials or supplies to manufacture our products or process tissues. In addition, we rely on contract manufacturers to manufacture some of our products or to provide additional manufacturing capacity for some products. If these contract manufacturers fail to meet our quality standards or other requirements or if they are unable or unwilling to supply the products, we may not be able to meet demand for these products. Our ability to fully recover all possible losses from these suppliers and contract manufacturers may have practical limitations imposed by factors like industry standard contractual terms or the financial resources of the

adverse party. As a further example of this risk, our supplier of TMR handpieces was informed in the fourth quarter of 2021 that the sole-source manufacturer of tubing used in the handpiece assembly had gone out of business, requiring us to work with our supplier to identify and qualify a new supplier before a disruption in handpiece availability occurs.

Finally, the COVID-19 pandemic has continued to impact the global supply chain; the pandemic's impact on workforces, global mobility, material availability, demand, and shipping and reorder time and reliability has reportedly continued or worsened in many cases. The ongoing war in Ukraine may add to or exacerbate challenges faced by the global supply chain. See Part I, Item 1A, "Risk Factors – Business and Economic Risks - We are subject to a variety of risks due to our international operations and continued global expansion." Although we have yet to experience any material effects of this impact on our supply chain or operations, we face an increasing risk that upstream disruptions may occur. Risks relating to the lingering effects of global supply chain disruptions may even continue after COVID-19's risk as a global pandemic and the war in Ukraine have subsided.

We are dependent on single and sole-source suppliers and single facilities.

Some of the materials, supplies, and services used in our product manufacturing and tissue processing, as well as some of our products, are sourced from single- or sole-source suppliers. As a result, our ability to negotiate favorable terms with those suppliers may be limited, and if those suppliers experience operational, financial, quality, or regulatory difficulties, or if those suppliers and/or their facilities refuse to supply us or cease operations temporarily or permanently, or if those suppliers take unreasonable business positions, we could be forced to cease product manufacturing or tissue processing until the suppliers resume operations, until alternative suppliers could be identified and qualified, or permanently if the suppliers do not resume operations and no alternative suppliers could be identified and qualified. We could also be forced to purchase alternative materials, supplies, or services with unfavorable terms due to diminished bargaining power.

As an example of these risks, in 2019 we lost our supply of handpieces for cardiac laser therapy resulting from a manufacturing location change at our supplier that ultimately required a Premarket Approval ("PMA") supplement and FDA approval before handpiece manufacturing and distribution could resume. Even though the FDA approved the PMA-S, our supplier was unable to fully resume production due to factors outside of our control. Due to these and other supplier issues, we had virtually no supply of handpieces during the first three quarters of 2021. Although handpiece supply resumed on a limited basis during the last quarter of 2021, we remain dependent on a sole-source manufacturer for these handpieces.

By way of additional non-limiting examples, our BioGlue product has three main product components: bovine protein, a cross linker, and a molded plastic resin delivery device. The bovine protein and cross linker are obtained from a small number of qualified suppliers. The delivery devices are manufactured by a single supplier, using resin supplied by a single supplier. We purchase grafts for our On-X AAP from a single supplier and various other components for our On-X valves come from single source suppliers.

Our preservation services business and our ability to supply needed tissues is dependent upon donation of tissues from human donors by donor families. Donated human tissue is procured from deceased human donors by OPOs and tissue banks. We must rely on the OPOs and tissue banks that we work with to educate the public on the need for donation, to foster a willingness to donate tissue, to follow our donor screening and procurement procedures, and to send donated tissue to us. We have active relationships with 59 OPOs and tissue banks throughout the US. As with any vendor, we believe these relationships with our OPOs are critical in the preservation services industry and that the breadth of these existing relationships provides us with a significant advantage over potential new entrants to this market. We also use various raw materials, including medicines and solutions, in our tissue processing. Some of these raw materials are manufactured by single suppliers or by a small group of suppliers.

Our aortic stent graft systems consist of two main product components: the stent graft and the delivery system. The stent graft is manufactured from several different raw materials that are manufactured internally or at various external suppliers, including single suppliers. The delivery systems we manufacture are comprised of several different raw materials and subassemblies. Our internal manufacturing processes include injection molding and machining of plastic parts, suturing of stent grafts, processing of Nitinol, and weaving of textiles. Our conventional polyester grafts consist of two main product components: polyester fabric and collagen coating. The polyester fabric is woven from a few different yarns that are supplied by an external supplier. The collagen suspension we manufacture is comprised of a collagenous tissue that is supplied by a single supplier. The conventional ePTFE grafts we manufacture are comprised of various raw materials supplied by several suppliers. For some products the ePTFE grafts are heparin coated. For these products, the heparin suspension we manufacture is comprised of a heparin solution that is also supplied by an external supplier.

We also conduct all of our own manufacturing operations at three facilities: Austin, Texas for On-X products, Hechingen, Germany for internally manufactured aortic stent grafts, and Kennesaw, Georgia for BioGlue, PerClot, PhotoFix, and tissue preservation services. The AMDS product is solely manufactured by a supplier in Charlotte, North Carolina, the CardioGensis handpieces are solely manufactured by a supplier in Merrilville, Indiana, and the NEXUS product is solely manufactured by Endospan in Herzlia, Israel. If one of these facilities ceases operations temporarily or permanently, for any reason including a pandemic or climate change related event, our business could be substantially disrupted.

Although we work diligently to maintain adequate inventories of raw materials, components, supplies, subassemblies, and finished goods, there can be no assurance that we will be able to avoid all disruptions to our global supply chain, or disruptions to our sterilization or distribution networks. Any of these disruptions could have a material, adverse effect on our revenues, reputation, or profitability.

We are dependent on our specialized workforce.

Our business and future operating results depend in significant part upon the continued contributions of our specialized workforce, including key personnel, qualified personnel with medical device and tissue processing experience, and senior management with experience in the medical device or tissue processing space, some of whom would be difficult to replace. Our business and future operating results, including production at our manufacturing and tissue processing facilities, also depend in significant part on our ability to attract and retain qualified management, operations, processing, marketing, sales, and support personnel. Our primary facilities are in Kennesaw, Georgia; Austin, Texas; and Hechingen, Germany, where the supply of qualified medical device and tissue processing and other personnel is limited, competition for such personnel is significant, and we cannot ensure that we will be successful in attracting or retaining them. We face risks if we lose any key employees to other employers or due to severe illness, death, or retirement, if any of our key employees fail to perform adequately, or if we are unable to attract and retain skilled employees. This risk was exacerbated during 2021, and is expected to continue, as the competition for talent in the medical device industry and in the workforce generally has intensified substantially. As some global economies have begun to emerge from the COVID-19 downturn, the expiration of COVID-19 related hiring freezes, the Great Resignation, increased opportunities for remote work, and increasing compensation pressure have resulted in a war for talent and an unprecedented number of career changes. The resulting competition and worker shortages at all levels have impacted supply chains and distribution channels and our ability to attract and retain the specialized workforce necessary for our business and operations.

We continue to evaluate expansion through acquisitions of, or licenses with, investments in, and distribution arrangements with, other companies or technologies, which may carry significant risks.

One of our growth strategies is to pursue select acquisitions, licensing, or distribution rights with companies or technologies that complement our existing products, services, and infrastructure. In connection with one or more of these transactions, we may:

- Issue additional equity securities that would dilute our stockholders' ownership interest;
- Use cash we may need in the future to operate our business;
- Incur debt, including on terms that could be unfavorable to us or debt we might be unable to repay;
- Structure the transaction resulting in unfavorable tax consequences, such as a stock purchase that does not permit a step-up in basis for the assets acquired;
- Be unable to realize the anticipated benefits of the transaction; or
- Assume material unknown liabilities associated with the acquired business.

We may not realize all the anticipated benefits of our business development activities.

As part of our efforts to drive growth by pursuing select acquisition, license, and distribution opportunities that are aligned to our objectives and complement our existing products, services, and infrastructure or to divest non-core product lines, we have completed several transactions in recent years and may pursue similar additional transactions in the future. Examples of these activities include the following:

- On December 1, 2017 we acquired JOTEC AG, a Swiss entity that we converted to JOTEC GmbH and subsequently merged with our Swiss acquisition entity, Jolly Buyer Acquisition GmbH and its subsidiaries;

- On September 11, 2019 we entered into various agreements with Endospan, Ltd. ("Endospan"), an Israeli medical device manufacturer (the "Endospan Transaction"). The Endospan Transaction included an exclusive distribution agreement for the NEXUS stent graft system ("NEXUS") in Europe; an agreement ("Endospan Loan") for a secured loan from Artivion to Endospan; and a security purchase option agreement for Artivion to purchase all the then outstanding Endospan securities from Endospan's existing security holders upon FDA approval of NEXUS;
- On September 2, 2020 we acquired 100% of the outstanding shares of Ascyrus Medical LLC ("Ascyrus"), the developer of the Ascyrus Medical Dissection Stent ("AMDS"); and
- On July 28, 2021 we entered into various agreements with Baxter International, Inc. ("Baxter") and Starch Medical, Inc. ("SMI") related to the sale of our PerClot assets to Baxter and the termination of our existing material agreements with SMI (collectively the "Baxter Transaction").

Our ability to realize the anticipated business opportunities, growth prospects, cost savings, synergies, and other benefits of these transactions depends on a number of factors including our ability to:

- Leverage our global infrastructure to sell and cross-market the acquired products;
- Drive adoption of NEXUS and AMDS in the European and other markets, including our ability to manage the substantial requirements for NEXUS procedures for product training, implant support, and proctoring;
- Bring acquired products to the US market, including our acquired aortic stent grafts;
- Harness the aortic stent graft product pipeline and our research and development capabilities;
- Obtain regulatory approvals in relevant markets, including our ability to timely obtain FDA PMA for PerClot under the terms of the Baxter Transaction and to obtain or maintain Conformité Européene Mark ("CE Mark") product certifications for pipeline and current products;
- Execute on development and clinical trial timelines for acquired products;
- Manage global inventories, including our ability to manage inventories for product lines with large numbers of product configurations and manage manufacturing and demand cycles to avoid excess inventory obsolescence due to shelf life expiration, particularly for processed tissues and aortic stent grafts;
- Carry, service, and manage significant debt and repayment obligations; and
- Manage the unforeseen risks and uncertainties related to these transactions, including any related to intellectual property rights.

Additionally, our ability to realize the anticipated business opportunities, growth prospects, synergies, and other benefits of the Endospan Transaction depends on a number of additional factors including Endospan's ability to: (a) comply with the Endospan Loan and other debt obligations, and avoid an event of default; (b) successfully commercialize NEXUS, raise capital and drive adoption in markets in and outside of Europe; (c) meet demand for NEXUS; (d) meet quality and regulatory requirements; (e) manage any intellectual property risks and uncertainties associated with NEXUS; (f) obtain FDA approval of NEXUS; and (g) develop NEXUS product improvements to meet competitive threats and physician demand. As an example of this risk, the forecasted operating results related to NEXUS decreased in the fourth quarter of 2021, resulting in an impairment in the value of the Endospan Option, and a full write-down of the value of the Endospan Loan, reflecting decreased expectations with respect to the anticipated benefits of the Endospan Transaction.

Many of these factors are outside of our control and any one of them could result in increased costs, decreased revenues, and diversion of management's time and energy. The benefits of these transactions may not be achieved within the anticipated time frame or at all. Any of these factors could negatively impact our earnings per share, decrease or delay the expected accretive effect of the transaction, and negatively impact the price of our common stock. In addition, if we fail to realize the anticipated benefits of a transaction, we could experience an interruption or loss of momentum in our existing business activities.

We may not realize all the anticipated benefits of our corporate rebranding and it may result in unanticipated disruptions to our on-going business.

In order to reflect our evolution to focus on providing innovative technologies to surgeons who treat patients with aortic disease, we changed our name to Artivion, Inc., effective January 18, 2022 (the "Corporate Rebrand"). The Corporate Rebrand also involved the adoption of a new ticker symbol on the New York Stock Exchange, "AORT." We may face unanticipated disruptions to our business arising from the Corporate Rebrand, and it may expose us to additional risks, including:

- Disruptions to our day-to-day business operations including disruptions to our ability to receive or our customers' ability to make timely payments;

- Disruptions to access to certain markets or segments due to delays or other issues with regulatory approvals or updates arising from the Corporate Rebrand;
- Unanticipated delays or other impact on our pending regulatory applications or clinical trials arising from the Corporate Rebrand;
- Confusion within the marketplace, particularly with multiple points of contact in our downstream product flow involving purchasing and accounts payable departments and end users;
- Intellectual property risks associated with the adoption of a new corporate identity and trade dress; and
- Loss of brand equity associated with our legacy brands, including our CryoLife and JOTEC brands that will become less prominent over time.

The Corporate Rebrand involved significant financial and resource investment and will continue to do so as we complete our global brand transitions over the coming years. The anticipated benefits of the Corporate Rebrand may not be achieved within the anticipated timeframe, without additional near or long-term investment, or at all. Any of these factors could negatively impact our revenues, earnings per share, decrease or delay the expected accretive effect of the Corporate Rebrand, and negatively impact the price of our common stock.

Significant disruptions of information technology systems or breaches of information security systems could adversely affect our business.

We rely upon a combination of sophisticated information technology systems as well as traditional recordkeeping to operate our business. In the ordinary course of business, we collect, store, and transmit confidential information (including, but not limited to, information about our business, financial information, personal data, intellectual property, and, in some instances, patient data). Our information technology and information security systems and records are potentially vulnerable to security breaches, service interruptions, data loss, or malicious attacks resulting from inadvertent or intentional actions by our employees, vendors, or other third parties. In addition, due to the COVID-19 pandemic, we have implemented remote work arrangements for some employees, and those employees may use outside technology and systems that are vulnerable to security breaches, service interruptions, data loss or malicious attacks, including by third parties.

As an example of these risks, on November 1, 2019 we were notified that we had become a victim of a business e-mail compromise. During the fourth quarter of 2019, a company email account was compromised by a third-party impersonator and a payment intended for one of our US vendors in the amount of $2.6 million was fraudulently re-directed into an individual bank account controlled by this third-party impersonator. Our cyber-insurance covered all but $25,000 of the unrecovered losses from this compromise.

While we have invested, and continue to invest, in our information technology and information security systems and employee information security training, there can be no assurance that our efforts will prevent all security breaches, service interruptions, or data losses. We have limited cyber-insurance coverage that may not cover all possible events, and this insurance is subject to deductibles and coverage limitations. Any security breaches, service interruptions, or data losses could adversely affect our business operations or result in the loss of critical or sensitive confidential information or intellectual property, or in financial, legal, business, and reputational harm to us or allow third parties to gain material, inside information that they may use to trade in our securities.

Industry Risks

Our products and tissues are highly regulated and subject to significant quality and regulatory risks.

The commercialization of medical devices and processing and distribution of human tissues are highly complex and subject to significant global quality and regulatory risks and as such, we face the following risks:

- Our products and tissues allegedly have caused, and may in the future cause, patient injury, which has exposed, and could in the future expose, us to liability claims that could lead to additional regulatory scrutiny;
- Our manufacturing and tissue processing operations are subject to regulatory scrutiny, inspections and enforcement actions, and regulatory agencies could require us to change or modify our operations or take other action, such as issuing product recalls or holds;
- Regulatory agencies could reclassify, re-evaluate, or suspend our clearances or approvals, or fail, or decline to, issue or reissue our clearances or approvals that are necessary to sell our products and distribute tissues;

- Regulatory and quality requirements are subject to change, which could adversely affect our ability to sell our products or distribute tissues; and
- Adverse publicity associated with our products, processed tissues, or our industry could lead to a decreased use of our products or tissues, increased regulatory scrutiny, or product or tissue processing liability claims.

Further, on May 25, 2017 the European Union adopted a new Medical Device Regulation (MDR 2017/745) ("MDR"), which was fully implemented on May 26, 2021. The MDR places stricter requirements on manufacturers and European Notified Bodies regarding, among other things, product classifications and pre- and post-market clinical studies for product clearances and approvals which could result in product reclassifications or the imposition of other regulatory requirements that could delay, impede, or prevent our ability to commercialize existing, improved, or new products in the European Economic Area and other markets that require CE Marking. Additionally, to the extent the MDR places stricter requirements on manufacturers of custom-made devices, those new requirements could delay, impede, or otherwise impact the availability of our E-xtra Design Engineering products. Finally, COVID-19 has impacted the predictability and timelines associated with the MDR transition.

Since the implementation of the MDR, Notified Bodies must review any proposed changes to determine if they require evaluation under the MDR or if they can still be evaluated under currently held MDD certifications. Our inability to obtain certifications for changes under the transitional provisions of the MDR's Article 120 or successfully submit proposed changes requiring MDR evaluation will delay implementation of those changes which could adversely impact our ability to obtain or renew certifications, clearances, or approvals for our products.

Finally, we anticipate additional regulatory impact as a result of the United Kingdom's exit from the European Union ("Brexit"). The UK Medicines and Healthcare Products Regulatory Agency has announced that CE Marking will continue to be recognized in the UK and certificates issued by EU-recognized Notified Bodies will continue to be valid in the UK market until June 30, 2023. Going forward, all devices marketed in the UK will require UK Conformity Assessed Marks certified by a UK Approved Body (the re-designation of the UK Notified Body).

In 2019 our notified body in the UK, Lloyd's Register Quality Assurance Limited ("LRQA"), informed us that it would no longer provide Notified Body services for medical devices effective September 2019. The governing German competent authority, the Regierungspraesidium-Tubingen, granted us an extended grace period until December 31, 2021 to transfer LRQA-issued certifications for BioGlue and PhotoFix to a new Notified Body. We are currently in the process of transferring BioGlue and PhotoFix to our new Notified Body, DEKRA. While positive progress has been made, DEKRA has been unable to complete the registration and the renewal of our BioGlue CE Mark because it significantly delayed its last audit in that process, a Phase 2 onsite audit, due to COVID-19 restrictions on travel, staffing shortages, and workload related to the transition to the MDR. With the Phase 2 audit complete, we currently anticipate completing the registration and renewal process during the fourth quarter of 2022. In the interim, we have requested and received from the majority of relevant territories, derogations from certain individual European countries to allow us to continue to commercialize BioGlue in those countries until we can complete the certification process with DEKRA. For derogations expiring before we anticipate receiving the renewal of the BioGlue CE Mark, we have requested and anticipate receiving, extensions of the previously granted derogations. That said, failure to maintain key derogations in certain countries, or any other delays in the MDR transition, may have a material adverse effect on our ability to supply demand in affected jurisdictions, have a material, adverse impact on our business, and may also impact our Medical Device Single Audit Program ("MDSAP") certifications. Failure to timely obtain new MDSAP certifications following their expiration may impact our ability to distribute covered products in Australia, Brazil, Canada, and Japan.

Reclassification by the FDA of CryoValve SG pulmonary heart valve ("CryoValve SGPV") may make it commercially infeasible to continue processing the CryoValve SGPV.

In December 2019 we learned that the FDA is preparing to issue a proposed rule for reclassification of more than minimally manipulated ("MMM") allograft heart valves to Class III medical devices, which could include our CryoValve SGPV. Following a comment period and subsequent publication of any final rule, should the CryoValve SGPV be determined to be MMM, we expect to have approximately thirty months to submit an FDA PMA application, after which the FDA will determine if, and for how long, we may continue to provide these tissues to customers during review of the PMA application. To date, the FDA has not issued such a proposed final rule.

If the FDA ultimately classifies our CryoValve SGPV as a Class III medical device, and if there are delays in obtaining the PMA, if we are unsuccessful in obtaining the PMA, or if the costs associated with these activities are significant, we could decide that the requirements for continued processing of the CryoValve SGPV are too onerous, leading us to discontinue distribution of these tissues.

We may not be successful in obtaining clinical results or regulatory clearances/approvals for new and existing products and services, and our approved products and services may not achieve market acceptance.

Our growth and profitability depends in part upon our ability to develop, and successfully introduce, new products and services, or expand upon existing indications, clearances, and approvals, requiring that we invest significant time and resources to obtain new regulatory clearances/approvals, including investment into pre- and post-market clinical studies. Although we believe certain products and services in our portfolio or under development may be effective in a particular application, we cannot be certain until we successfully execute on relevant clinical trials, and the results we obtain from pre- and post-market clinical studies may be insufficient for us to obtain or maintain any required regulatory approvals or clearances.

We are currently seeking regulatory approval for BioGlue in China, where the Chinese regulatory body has made additional requests, and expressed several concerns, related to the application. We have obtained an extension of time until February 2024 in which to secure approval for BioGlue in China. If we cannot obtain approval by then or the costs to do so are prohibitive, we ultimately may be unable to see BioGlue in China.

Each of our trials, studies, and approvals is subject to the risks outlined herein.

We cannot give assurance that regulatory agencies will clear or approve these products and services or indications, or any new products and services or new indications, on a timely basis, if ever, or that the products and services or new indications will adequately meet the requirements of the market or achieve market acceptance. Pre- and post-market clinical studies may also be delayed or halted due to many factors beyond our control.

If we are unable to successfully complete the development of a product, service, or application, or if we determine for any reason not to complete development or obtain regulatory approval or clearance of any product, service, or application, particularly in instances when we have expended significant capital, this could materially, adversely affect our financial performance. Research and development efforts are time consuming and expensive, and we cannot be certain that these efforts will lead to commercially successful products or services. Even the successful commercialization of a new product or service in the medical industry can be characterized by slow growth and high costs associated with marketing, under-utilized production capacity, and continuing research and development and education costs, among other things. The introduction of new products or services may require significant physician training or years of clinical evidence in order to gain acceptance in the medical community.

Regulatory enforcement activities regarding Ethylene Oxide, which is used to sterilize some of our products and components, could have a material, adverse impact on us.

Some of our products, including our On-X products, are sterilized using Ethylene Oxide (“EtO”). Although we have a small-scale EtO facility in Austin, Texas, we rely primarily on large-scale EtO facilities to sterilize our products. In addition, some of our suppliers use, or rely upon third parties to use, EtO to sterilize some of our product components. Concerns about the release of EtO into the environment at unsafe levels have led to increased activism and lobbying as well as various regulatory enforcement activities against EtO facilities, including closures and temporary closures, as well as proposals increasing regulations related to EtO. The number of EtO facilities in the US is limited, and any permanent or temporary closures or disruption to their operations could delay, impede, or prevent our ability to commercialize our products. In addition, any regulatory enforcement activities against us for our use of EtO could result in financial, legal, business, and reputational harm to us.

We may be subject to fines, penalties, and other sanctions if we are deemed to be promoting the use of our products for unapproved, or off-label, uses.

Our business and future growth depend on the continued use of our products for approved uses. Generally, regulators contend that, unless our products are approved or cleared by a regulatory body for alternative uses, we may not make claims about the safety or effectiveness of our products or promote them for such uses. Such limitations present a risk that law enforcement could allege that the nature and scope of our sales, marketing, or support activities, though designed to comply with all regulatory requirements, constitute unlawful promotion of our products for an unapproved use. We also face the risk that such authorities might pursue enforcement based on past activities that we discontinued or changed. Investigations concerning the promotion of unapproved uses and related issues are typically expensive, disruptive, and burdensome and generate negative publicity. If our promotional activities are found to be in violation of the law, we may face significant fines and penalties and may be required to substantially change our sales, promotion, grant, and educational

activities. In addition, we or our officers could be excluded from participation in government healthcare programs such as Medicare and Medicaid.

Healthcare policy changes may have a material, adverse effect on us.

In response to perceived increases in healthcare costs in recent years, there have been, and continue to be, proposals by the governmental authorities, third-party payors, and elected office holders and candidates to impact public health, control healthcare costs and, more generally, to reform the healthcare systems. Additional uncertainty is anticipated as debates about healthcare, vaccines, and public health continue in light of the COVID-19 pandemic which may have an impact on US law relating to the healthcare industry. Many US healthcare laws, such as the Affordable Care Act, are complex, subject to change, and dependent on interpretation and enforcement decisions from government agencies with broad discretion. The application of these laws to us, our customers, or the specific services and relationships we have with our customers is not always clear. Our failure to anticipate accurately any changes to, or the repeal or invalidation of all or part of the Affordable Care Act and similar or future laws and regulations, or our failure to comply with them, could create liability for us, result in adverse publicity and negatively affect our business, results of operations, and financial condition.

Further, the growth of our business, results of operations and financial condition rely, in part, on customers in the healthcare industry that receive substantial revenues from governmental and other third-party payer programs. A reduction or less than expected increase in government funding for these programs or a change in reimbursement or allocation methodologies, or a change in reimbursement related to products designated as "breakthrough devices" by the FDA, could negatively affect our customers' businesses and, in turn, negatively impact our business, results of operations and financial condition. Any changes that lower reimbursement for our products or reduce medical procedure volumes, could adversely affect our business and profitability.

Legal, Quality, and Regulatory Risks

As a medical device manufacturer and tissue services provider we are exposed to risk of product liability claims and our existing insurance coverage may be insufficient, or we may be unable to obtain insurance in the future, to cover any resulting liability.

Our products and processed tissues allegedly have caused, and may in the future cause, injury or result in other serious complications that may result in product or other liability claims from our customers or their patients. If our products are defectively designed, manufactured, or labeled, or contain inadequate warnings, defective components, or are misused, or are used contrary to our warnings, instructions, and approved indications, we may become subject to costly litigation that can have unpredictable and sometimes extreme outcomes.

We maintain claims-made insurance policies to mitigate our financial exposure to product and tissue processing liability and securities, claims, among others, that are reported to the insurance carrier while the policy is in effect. These policies do not include coverage for punitive damages. Although we have insurance for product and tissue processing liabilities, securities, property, and general liabilities, if we are unsuccessful in arranging cost-effective acceptable resolutions of claims, it is possible that our insurance program may not be adequate to cover any or all possible claims or losses, including losses arising out of natural disasters or catastrophic circumstances. Any significant claim could result in an increase in our insurance rates or jeopardize our ability to secure coverage on reasonable terms, if at all.

Any securities or product liability/tissue processing claim, even a meritless or unsuccessful one, could be costly to defend, and result in diversion of our management's attention from our business, adverse publicity, withdrawal of clinical trial participants, injury to our reputation, or loss of revenue.

We are subject to various US and international bribery, anti-kickback, false claims, privacy, transparency, and similar laws, any breach of which could cause a material, adverse effect on our business, financial condition, and profitability.

Our relationships with physicians, hospitals, and other healthcare providers are subject to scrutiny under various US and international bribery, anti-kickback, false claims, privacy, transparency, and similar laws, often referred to collectively as "healthcare compliance laws." Healthcare compliance laws are broad, sometimes ambiguous, complex, and subject to change and changing interpretations. The ongoing war in Ukraine and the current and future sanctions imposed on Russia and others as a result may exacerbate these risks. See also Part I, Item 1A, "Risk Factors – Business and Economic Risks - We are subject to a variety of risks due to our international operations and continued global expansion." Possible sanctions

for violation of these healthcare compliance laws include fines, civil and criminal penalties, exclusion from government healthcare programs, and despite our compliance efforts, we face the risk of an enforcement activity or a finding of a violation of these laws.

We have entered into consulting and product development agreements with healthcare professionals and healthcare organizations, including some who may order our products or make decisions to use them. We have also adopted the AdvaMed Code of Conduct, the MedTech Europe Code of Ethical Business Practice, and the APACMed Code of Ethical Conduct which govern our relationships with healthcare professionals to bolster our compliance with healthcare compliance laws. While our relationships with healthcare professionals and organizations are structured to comply with such laws and we conduct training sessions on these laws and Codes, it is possible that enforcement authorities may view our relationships as prohibited arrangements that must be restructured or for which we would be subject to other significant civil or criminal penalties or debarment. In any event, any enforcement review of or action against us as a result of such review, regardless of outcome, could be costly and time consuming. Additionally, we cannot predict the impact of any changes in or interpretations of these laws, whether these changes will be retroactive or will have effect on a going-forward basis only.

The proliferation of new and expanded data privacy laws, including the General Data Protection Regulation in the European Union, could adversely affect our business.

An increasing number of federal, state, and foreign data privacy laws and regulations, which can be enforced by private parties or governmental entities, have been or are being promulgated and are constantly evolving. These laws and regulations may include new requirements for companies that receive or process an individual's personal data (including employees), which increases our operating costs and requires significant management time and energy. Many of these laws and regulations, including the European Union's General Data Protection Regulation ("GDPR") also include significant penalties for noncompliance. Although our personal data practices, policies, and procedures are intended to comply with GDPR and other data privacy laws and regulations, there can be no assurance that regulatory or enforcement authorities will view our arrangements as being in compliance with applicable laws, or that one or more of our employees or agents will not disregard the rules we have established. Any privacy related government enforcement activities may be costly, result in negative publicity, or subject us to significant penalties.

Some of our products and technologies are subject to significant intellectual property risks and uncertainty.

We own trade secrets, patents, patent applications, and licenses relating to our technologies and trademarks and goodwill related to our products and services, which we believe provide us with important competitive advantages. We cannot be certain that we will be able to maintain our trade secrets, that our pending patent applications will issue as patents, or that no one will challenge the validity or enforceability of any intellectual property that we adopt, own, or license. Competitors may independently develop our proprietary technologies or design non-infringing alternatives to patented inventions. We do not control the maintenance, prosecution, enforcement, or strategy for in-licensed intellectual property and as such are dependent in part on the owners of these rights to maintain their viability. Their failure to do so could significantly impair our ability to exploit those technologies. Additionally, our technologies, products, or services could infringe intellectual property rights owned by others, or others could infringe our intellectual property rights.

If we become involved in intellectual property disputes, the costs could be expensive, and if we were to lose or decide to settle, the amounts or effects of the settlement or award by a tribunal could be costly.

Risks Relating to Our Indebtedness

The agreements governing our indebtedness contain restrictions that limit our flexibility in operating our business.

The agreements governing our indebtedness contain, and any instruments governing future indebtedness of ours may contain, covenants that impose significant operating and financial restrictions on us and certain of our subsidiaries, including (subject in each case to certain exceptions) restrictions or prohibitions on our and certain of our subsidiaries' ability to, among other things:

- Incur or guarantee additional debt or create liens on certain assets;
- Pay dividends on or make distributions of our share capital, including repurchasing or redeeming capital stock, or make other restricted payments, including restricted junior payments;

- Enter into agreements that restrict our subsidiaries' ability to pay dividends to us, repay debt owed to us or our subsidiaries, or make loans or advances to us or our other subsidiaries;
- Enter into certain transactions with our affiliates including any transaction or merger or consolidation, liquidation, winding-up, or dissolution; convey, sell, lease, exchange, transfer or otherwise dispose of all or any part of our business, assets or property; or sell, assign, or otherwise dispose of any capital stock of any subsidiary;
- Enter into certain rate swap transactions, basis swaps, credit derivative transactions, and other similar transactions, whether relating to interest rates, commodities, investments, securities, currencies, or any other relevant measure, or transactions of any kind subject to any form of master purchase agreement governed by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement;
- Amend, supplement, waive, or otherwise modify our or our subsidiaries' organizational documents in a manner that would be materially adverse to the interests of the lenders, or change or amend the terms of documentation regarding junior financing in a manner that would be materially adverse to the interests of the lenders;
- Make changes to our and our subsidiaries' fiscal year without notice to the administrative agent;
- Enter into agreements which restrict our ability to incur liens;
- Engage in any line of business substantially different from that in which we are currently engaged; and
- Make certain investments, including strategic acquisitions or joint ventures.

Our indebtedness could adversely affect our ability to raise additional capital to fund operations and limit our ability to react to changes in the economy or our industry.

Our current and future levels of indebtedness could adversely affect our ability to raise additional capital, limit our operational flexibility, and hinder our ability to react to changes in the economy or our industry. It may also limit our ability to borrow money, require us to dedicate substantial portions of our cash flow to repayment, and restrict our ability to invest in business opportunities. Because most of our borrowings are at a variable rate of interest, we are exposed to interest rate fluctuations.

We have pledged substantially all of our US assets as collateral under our existing Credit Agreement. If we default on the terms of such credit agreements and the holders of our indebtedness accelerate the repayment of such indebtedness, there can be no assurance that we will have sufficient assets to repay our indebtedness.

A failure to comply with the covenants in our existing Credit Agreement could result in an event of default, which, if not cured or waived, could have a material, adverse effect on our business, financial condition, and profitability. In the event of any such default, the holders of our indebtedness:

- Will not be required to lend any additional amounts to us; and
- Could elect to declare all indebtedness outstanding, together with accrued and unpaid interest and fees, to be due and payable and terminate all commitments to extend further credit, if applicable.

If we are unable to repay those amounts, the holders of our secured indebtedness could proceed against their secured collateral to seek repayment out of proceeds from the sale or liquidation of our assets. If our indebtedness were to be accelerated, there can be no assurance that our assets would be sufficient to repay such indebtedness in full.

Risks Related to Ownership of our Common Stock

Our business could be negatively impacted as a result of shareholder activism.

In recent years, shareholder activists have become involved in numerous public companies. Shareholder activists from time to time propose to involve themselves in the governance, strategic direction, and operations of a company. Such involvement may disrupt our business and divert the attention of our management, and any perceived uncertainties as to our future direction resulting from such involvement could result in the loss of business opportunities, be exploited by our competitors, cause concern for our current or potential customers, cause significant fluctuations in stock price, or make it more difficult to attract and retain qualified personnel and business partners.

Our business could be impacted by increased shareholder emphasis on environmental, social, and governance matters.

Investors and other key stakeholders are increasingly focusing on areas of corporate responsibility, and particularly matters related to environmental, social, and governance ("ESG") factors. Institutional investors have expressed expectations with respect to ESG matters that they use to guide their investment strategies and may, in some cases, choose not to invest in us if they believe our ESG policies are lagging or inadequate. Other stakeholders also have expectations regarding ESG factors, such as employees or potential employees who desire to work for a company that reflects their personal values. These areas of focus are continuing to evolve, as are the criteria that investors assess companies' performance in these areas. Investors are increasingly looking to companies that demonstrate strong ESG and sustainability practices as an indicator of long-term resilience, especially in light of events such as the COVID-19 pandemic. Keeping up with and meeting these expectations may disrupt our business and divert the attention of our management, and we may be unable to make the investments in ESG that our competitors with greater financial resources are able to make. Failure to meet the expectations of investors and other stakeholders in these areas may damage our reputation, impact employee retention, impact the willingness of our customers to do business with us, or otherwise impact our financial results and stock price.

We do not anticipate paying any dividends on our common stock for the foreseeable future.

In December 2015 our Board of Directors discontinued dividend payments on our common stock for the foreseeable future. If we do not pay cash dividends, our shareholders may receive a return on their investment in our common stock only through appreciation of shares of our common stock that they own. In addition, restrictions in our credit facility limit our ability to pay future dividends.

Provisions of Delaware law and anti-takeover provisions in our organizational documents may discourage or prevent a change of control, even if an acquisition would be beneficial to shareholders, which could affect our share price adversely and prevent attempts by shareholders to remove current management.

Effective January 1, 2022 we reincorporated in Delaware. Our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay, or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, the organizational documents adopted in connection with our reincorporation contain provisions that restrict persons who may call shareholder meetings, allow the issuance of blank-check preferred stock without the vote of shareholders, and allow the Board of Directors to fill vacancies and fix the number of directors. These provisions of Delaware law and our articles of incorporation and bylaws could prevent attempts by shareholders to remove current management, prohibit or delay mergers or other changes of control transactions, and discourage attempts by other companies to acquire us, even if such a transaction would be beneficial to our shareholders. The effects of reincorporation in Delaware are detailed in our 2021 Special Proxy Statement and Notice of Special Meeting filed with the SEC on October 7, 2021.

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

(c) The following table provides information about purchases by us during the three months ended June 30, 2022 of equity securities that are registered by us pursuant to Section 12 of the Securities Exchange Act of 1934:

Period	Total Number of Common Shares and Common Stock Units Purchased	Average Price Paid per Common Share	Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Common Shares That May Yet Be Purchased Under the Plans or Programs
04/01/22 - 04/30/22	—	$ —	—	$ —
05/01/22 - 05/31/22	451	20.35	—	—
06/01/22 - 06/30/22	—	—	—	—
Total	**451**	**$ 20.35**	—	$ —

The common shares purchased during the three months ended June 30, 2022 were tendered to us in payment of taxes on stock compensation and were not part of a publicly announced plan or program.

Under our Credit Agreement, we are prohibited from repurchasing our common stock, except for the repurchase of stock from our employees or directors when tendered in payment of taxes or the exercise price of stock options, upon the satisfaction of certain requirements.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The exhibit index can be found below.

Exhibit Number	Description
3.1	Delaware Certificate of Incorporation, effective January 1, 2022. (Incorporated herein by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed January 4, 2022).
3.2	Delaware Certificate of Amendment of Certificate of Incorporation, effective January 18, 2022. (Incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed January 20, 2022).
3.3	Amended and Restated Bylaws of Artivion, Inc., a Delaware Corporation (Incorporated herein by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed January 20, 2022).
31.1*	Certification by J. Patrick Mackin pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification by D. Ashley Lee pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32**	Certification Pursuant To 18 USC. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	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.
† Indicates management contract or compensatory plan or arrangement

SIGNATURES

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

ARTIVION, INC.
(Registrant)

/s/ J. PATRICK MACKIN	/s/ D. ASHLEY LEE
J. PATRICK MACKIN	D. ASHLEY LEE
Chairman, President, and Chief Executive Officer (Principal Executive Officer)	Executive Vice President, and Chief Financial Officer (Principal Financial and Accounting Officer)
August 5, 2022	
DATE	

Exhibit 31.1

CERTIFICATIONS

I, James Patrick Mackin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Artivion, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 5, 2022

/s/ J. PATRICK MACKIN

Chairman, President, and
Chief Executive Officer

Exhibit 31.2

I, David Ashley Lee, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Artivion, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 5, 2022

/s/ D. ASHLEY LEE

Executive Vice President, and
Chief Financial Officer

Exhibit 32

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

In connection with the Quarterly Report of Artivion, Inc. (the "Company") on Form 10-Q for the quarter ending June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of James Patrick Mackin, the Chairman, President, and Chief Executive Officer of the Company, and David Ashley Lee, the Executive Vice President, and Chief Financial Officer of the Company, hereby certifies, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, in his capacity as an officer of the Company and to his 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/ J. PATRICK MACKIN
J. PATRICK MACKIN
Chairman, President, and
Chief Executive Officer
August 5, 2022

/s/ D. ASHLEY LEE
D. ASHLEY LEE
Executive Vice President, and
Chief Financial Officer
August 5, 2022