Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2023

OR

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

For the transition period from ____ to ____

Commission File Number: 001-39130

TELA Bio, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**45-5320061**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Great Valley Parkway, Suite 24 Malvern, Pennsylvania	**19355**
(Address of principal executive offices)	(Zip Code)

(484) 320-2930
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.001 par value per share	TELA	The Nasdaq Global Market

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

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

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

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

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

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

As of August 3, 2023, the registrant had 24,487,451 shares of Common Stock, $0.001 par value per share, outstanding.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1.	Financial Statements	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	30
Item 4.	Controls and Procedures	31

PART II OTHER INFORMATION

Item 1.	Legal Proceedings	32
Item 1A.	Risk Factors	32
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	32
Item 3.	Defaults Upon Senior Securities	32
Item 4.	Mine Safety Disclosures	32
Item 5.	Other Information	32
Item 6.	Exhibits	33
	Signatures	34

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Quarterly Report") and the documents incorporated by reference herein contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may, through our officers and other authorized representatives, make certain forward-looking statements in publicly released materials, both written and oral, including statements contained in filings with the Securities and Exchange Commission, press releases, and our communications with our stockholders.

Forward-looking statements are neither statements of historical facts nor assurances of future performance, but instead discuss the future of our business, operations, future financial performance and financial condition, plans, anticipated growth strategies, anticipated or perceived trends in our business, the industry in which we operate or the broader economy, and other objectives of management. In some cases, you can identify forward-looking statements by terminology such as "aim," "anticipate," "assume," "believe," "contemplate," "continue," "could," "design," "due," "estimate," "expect," "goal," "intend," "may," "objective," "plan," "predict," "positioned," "potential," "seek," "should," "target," "will," "would," the negative of such terms, and other similar expressions although not all forward-looking statements contain these identifying words.

You should understand that the following important factors could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements:

- the ongoing and possible future effects arising from the COVID-19 pandemic, or other pandemics, epidemics or outbreaks of a contagious illness, and associated economic disruptions, including the frequency of surgical procedures using our products, labor and hospital staffing shortages, supply chain integrity, and inflation, impacting our business, financial condition, results of operations and cash flows;
- estimates regarding future results of operations, financial position, research and development costs, capital requirements and our needs for additional financing;
- the commercial success and degree of market acceptance of our products;
- our ability to expand, manage and maintain our direct sales and marketing organization and to market and sell our products in the U.S. and Europe;
- the performance of our exclusive contract manufacturer for our OviTex portfolio products, Aroa Biosurgery Ltd. ("Aroa"), in connection with the supply of product and in the development of additional products and product configurations within these product lines;
- our ability to maintain our supply chain integrity and expand our supply chain to manage increased demand for our products;
- our ability to compete successfully with larger competitors in our highly competitive industry;
- our ability to achieve and maintain adequate levels of coverage or reimbursement for our current products and any future products we may seek to commercialize;
- our ability to enhance our products, expand our indications and develop and commercialize additional products;
- the development, regulatory approval, efficacy and commercialization of competing products;
- our business model and strategic plans for our products, technologies and business, including our implementation thereof;
- the size of the markets for our current and future products;
- our ability to recruit and retain senior management and other highly qualified personnel;
- our ability to obtain additional capital to finance our planned operations;
- our ability to maintain regulatory approval for our products;
- our ability to commercialize or obtain regulatory approvals for our future products, or the effect of delays in commercializing or obtaining regulatory approvals;
- decreasing selling prices and pricing pressures;
- regulatory developments in the U.S. and European markets;
- the potential impact of healthcare reform in the U.S., including the Inflation Reduction Act of 2022, and measures being taken worldwide designed to reduce healthcare costs;

- the volatility of capital markets and other adverse macroeconomic factors, including due to inflationary pressures, interest rate and currency rate fluctuations, economic slowdown or recession, banking instability, geopolitical tensions or the outbreak of hostilities or war;
- our ability to develop and maintain our corporate infrastructure, including our internal controls;
- our ability to establish and maintain intellectual property protection for our products, as well as our ability to operate our business without infringing the intellectual property rights of others;
- our expectations regarding the use of proceeds from recent and any future financings, if any;
- the occurrence of adverse safety events, restrictions on use with our products or product liability claims; and
- other risks and uncertainties, including those listed under the caption “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022 (our “Annual Report”), our subsequent Quarterly Reports on Form 10-Q and the other documents we file with the Securities and Exchange Commission (the “SEC”).

These forward-looking statements are based on management's current expectations, estimates, forecasts and projections about our business and the industry in which we operate, and management's beliefs and assumptions are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. In light of the significant uncertainties in these forward-looking statements, you should not rely upon forward-looking statements as predictions of future events. Although we believe the expectations reflected in the forward-looking statements are reasonable, the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements may not be achieved or occur at all.

You should refer to the section titled “Risk Factors” in our Annual Report, this Quarterly Report and any subsequent Quarterly Reports for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. Except as required by law, we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

TELA Bio, Inc.
Consolidated Balance Sheets
(In thousands, except share and per share amounts)
(Unaudited)

	June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 65,266	$ 42,019
Accounts receivable, net	7,894	6,621
Inventory	14,098	11,792
Prepaid expenses and other assets	1,910	2,015
Total current assets	89,168	62,447
Property and equipment, net	1,764	1,682
Intangible assets, net	2,309	2,499
Right-of-use assets	1,145	1,227
Total assets	$ 94,386	$ 67,855
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 2,250	$ 1,534
Accrued expenses and other current liabilities	10,795	10,869
Total current liabilities	13,045	12,403
Long-term debt	40,212	39,916
Other long-term liabilities	1,124	1,231
Total liabilities	54,381	53,550
Stockholders' equity:		
Preferred stock; $0.001 par value: 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock; $0.001 par value: 200,000,000 shares authorized; 24,475,504 and 19,165,027 shares issued and outstanding at June 30, 2023 and December 31, 2022, respectively	24	19
Additional paid-in capital	336,939	288,361
Accumulated other comprehensive income	84	150
Accumulated deficit	(297,042)	(274,225)
Total stockholders' equity	40,005	14,305
Total liabilities and stockholders' equity	$ 94,386	$ 67,855

See accompanying notes to unaudited interim consolidated financial statements.

TELA Bio, Inc.
Consolidated Statements of Operations and Comprehensive Loss
(In thousands, except share and per share amounts)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Revenue	$ 14,494	$ 10,406	$ 26,403	$ 18,637
Cost of revenue (excluding amortization of intangible assets)	4,198	3,318	8,114	6,474
Amortization of intangible assets	95	538	190	614
Gross profit	10,201	6,550	18,099	11,549
Operating expenses:				
Sales and marketing	14,577	11,055	28,043	20,433
General and administrative	3,472	3,630	7,106	7,088
Research and development	2,514	2,102	4,566	4,109
Total operating expenses	20,563	16,787	39,715	31,630
Loss from operations	(10,362)	(10,237)	(21,616)	(20,081)
Other expense:				
Interest expense	(1,298)	(934)	(2,544)	(1,845)
Loss on extinguishment of debt	—	(1,228)	—	(1,228)
Other income (expense)	870	(342)	1,343	(449)
Total other expense	(428)	(2,504)	(1,201)	(3,522)
Net loss	$ (10,790)	$ (12,741)	$ (22,817)	$ (23,603)
Net loss per common share, basic and diluted	$ (0.46)	$ (0.88)	$ (1.08)	$ (1.62)
Weighted average common shares outstanding, basic and diluted	23,239,262	14,557,453	21,223,639	14,548,210
Comprehensive loss:				
Net loss	$ (10,790)	$ (12,741)	$ (22,817)	$ (23,603)
Foreign currency translation adjustment	(36)	134	(66)	181
Comprehensive loss	$ (10,826)	$ (12,607)	$ (22,883)	$ (23,422)

See accompanying notes to unaudited interim consolidated financial statements.

TELA Bio, Inc.
Consolidated Statements of Stockholders' Equity
Three and Six Months Ended June 30, 2023
(In thousands, except share amounts)
(Unaudited)

	Common stock		Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total
	Shares	Amount				
Balance at April 1, 2023	19,227,777	$ 19	$ 289,254	$ 120	$ (286,252)	$ 3,141
Vesting of share-based awards and exercise of stock options	28,650	—	56	—	—	56
Shares withheld for employee taxes	(113)	—	(1)	—	—	(1)
Foreign currency translation adjustment	—	—	—	(36)	—	(36)
Stock-based compensation expense	—	—	1,294	—	—	1,294
Sale of common stock, net of underwriting discounts, commissions and offering costs	5,219,190	5	46,336	—	—	46,341
Net loss	—	—	—	—	(10,790)	(10,790)
Balance at June 30, 2023	24,475,504	$ 24	$ 336,939	$ 84	$ (297,042)	$ 40,005

	Common stock		Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total
	Shares	Amount				
Balance at January 1, 2023	19,165,027	$ 19	$ 288,361	$ 150	$ (274,225)	$ 14,305
Vesting of share-based awards and exercise of stock options	117,238	—	100	—	—	100
Shares withheld for employee taxes	(25,951)	—	(280)	—	—	(280)
Foreign currency translation adjustment	—	—	—	(66)	—	(66)
Stock-based compensation expense	—	—	2,422	—	—	2,422
Sale of common stock, net of underwriting discounts, commissions and offering costs	5,219,190	5	46,336	—	—	46,341
Net loss	—	—	—	—	(22,817)	(22,817)
Balance at June 30, 2023	24,475,504	$ 24	$ 336,939	$ 84	$ (297,042)	$ 40,005

See accompanying notes to unaudited interim consolidated financial statements.

TELA Bio, Inc.
Consolidated Statements of Stockholders' Equity (Deficit)
Three and Six Months Ended June 30, 2022
(In thousands, except share amounts)
(Unaudited)

	Common stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total
	Shares	Amount				
Balance at April 1, 2022	14,556,748	$ 15	$ 250,819	$ (5)	$ (240,791)	$ 10,038
Vesting of common stock previously subject to repurchase	2	—	—	—	—	—
Vesting of share-based awards and exercise of stock options	810	—	5	—	—	5
Foreign currency translation adjustment	—	—	—	134	—	134
Stock-based compensation expense	—	—	1,022	—	—	1,022
Net loss	—	—	—	—	(12,741)	(12,741)
Balance at June 30, 2022	14,557,560	$ 15	$ 251,846	$ 129	$ (253,532)	$ (1,542)

	Common stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total
	Shares	Amount				
Balance at January 1, 2022	14,529,577	$ 15	$ 250,064	$ (52)	$ (229,929)	$ 20,098
Vesting of common stock previously subject to repurchase	29	—	—	—	—	—
Vesting of share-based awards and exercise of stock options	40,872	—	12	—	—	12
Shares withheld for employee taxes	(12,918)	—	(153)	—	—	(153)
Foreign currency translation adjustment	—	—	—	181	—	181
Stock-based compensation expense	—	—	1,923	—	—	1,923
Net loss	—	—	—	—	(23,603)	(23,603)
Balance at June 30, 2022	14,557,560	$ 15	$ 251,846	$ 129	$ (253,532)	$ (1,542)

See accompanying notes to unaudited interim consolidated financial statements.

TELA Bio, Inc.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six months ended June 30,	
	2023	**2022**
Cash flows from operating activities:		
Net loss	$ (22,817)	$ (23,603)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	239	161
Noncash interest expense	296	359
Noncash loss on extinguishment of debt	—	1,228
Amortization of intangible assets	190	614
Net changes in operating lease ROU assets and liabilities	(22)	(17)
Inventory excess and obsolescence charge	704	1,193
Stock-based compensation expense	2,422	1,923
Change in operating assets and liabilities:		
Accounts receivable, net	(1,219)	(1,115)
Inventory	(2,936)	(3,987)
Prepaid expenses and other current assets	107	920
Accounts payable	651	(411)
Accrued expenses and other current and long-term liabilities	(104)	216
Foreign currency remeasurement (gain) loss	(349)	403
Net cash used in operating activities	(22,838)	(22,116)
Cash flows from investing activities:		
Purchase of property and equipment	(272)	(536)
Net cash used in investing activities	(272)	(536)
Cash flows from financing activities:		
Proceeds from sale of common stock, net of underwriting discounts, commissions and offering costs	46,354	—
Proceeds from issuance of long-term debt	—	40,000
Repayment of long-term debt	—	(30,000)
Payment of debt financing costs	—	(3,357)
Proceeds from exercise of stock options	100	12
Payment of withholding taxes related to stock-based compensation to employees	(280)	(153)
Net cash provided by financing activities	46,174	6,502
Effect of exchange rate on cash and cash equivalents	183	(56)
Net increase (decrease) in cash and cash equivalents	23,247	(16,206)
Cash and cash equivalents, beginning of period	42,019	43,931
Cash and cash equivalents, end of period	$ 65,266	$ 27,725
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 2,248	$ 1,486
Supplemental disclosures of noncash investing and financing activities:		
Property and equipment in accounts payable and accrued expenses and other current liabilities	$ 49	$ 146
Offering costs in accounts payable and accrued expenses and other current liabilities	$ 13	$ 103
Intangible asset in accrued expenses and other liabilities	$ —	$ 1,000
Operating lease ROU asset exchanged for operating lease liabilities	$ —	$ 1,376
Tenant improvement and deferred rent reclassified to operating lease liabilities	$ —	$ 380
Operating lease liabilities assumed for operating lease ROU assets	$ —	$ 1,756

See accompanying notes to unaudited interim consolidated financial statements.

TELA Bio, Inc.

Notes to Unaudited Interim Consolidated Financial Statements

(1) Background

TELA Bio, Inc. (the "Company") was incorporated in the state of Delaware on April 17, 2012 and wholly owns TELA Bio Limited, a company incorporated in the United Kingdom. The Company is a commercial-stage medical technology company focused on providing innovative soft-tissue reconstruction solutions that optimize clinical outcomes by prioritizing the preservation and restoration of the patient's own anatomy. OviTex Reinforced Tissue Matrix ("OviTex"), the Company's first portfolio of products, addresses unmet needs in hernia repair and abdominal wall reconstruction by combining the benefits of biologic matrices and polymer materials while minimizing their shortcomings, at a cost-effective price. OviTex PRS Reinforced Tissue Matrix ("OviTex PRS"), the Company's second portfolio of products, addresses unmet needs in plastic and reconstructive surgery. The Company's principal corporate office and research facility is located in Malvern, Pennsylvania.

The Company has been directly impacted by the COVID-19 pandemic since the onset of the pandemic in 2020. To date, among other impacts on the Company's business related to the pandemic, physicians and their patients have been required by state mandates, or have chosen to, defer elective surgery procedures in which the Company's products otherwise would be used. There remains uncertainty and lack of visibility regarding the Company's near-term revenue growth prospects and product development plans due to the volatility in the frequency of surgical procedures using the Company's products, including through labor and hospital staffing shortages and the allocation of hospital resources due to financial strain experienced during the COVID-19 pandemic. Although the Company continues to monitor developments related to hospital capacity and the volume of elective procedures, there is uncertainty regarding the pace to which surgical volumes will normalize to their pre-pandemic levels and the timing to address the backlog of deferred procedures. The full extent of the impact of the COVID-19 pandemic on the Company's business, results of operations and financial condition, including revenue, expenses, manufacturing capability, supply chain integrity, staffing availability, research and development costs and employee-related compensation, will depend on future developments that are highly uncertain.

(2) Risks and Liquidity

The Company's operations to date have focused on commercializing products, developing and acquiring technology and assets, business planning, raising capital and organization and staffing. The Company has incurred recurring losses and negative cash flows from operations since inception and has an accumulated deficit of $297.0 million as of June 30, 2023. The Company anticipates incurring additional losses until such time, if ever, it can generate sufficient revenue from its products to cover its expenses.

On April 21, 2023, the Company completed an underwritten public offering in which the Company sold 5,219,190 shares of its common stock (including 469,190 shares sold pursuant to the underwriters' overallotment option on May 5, 2023) at a public offering price of $9.50 per share, receiving net proceeds of approximately $46.3 million after deducting underwriting discounts, commissions and other offering expenses.

The operations of the Company are subject to certain risks and uncertainties including, among others, the uncertainty of product development, the impact of macroeconomic conditions, including the COVID-19 pandemic or other public health crises, general economic uncertainty, including as a result of inflationary pressures and the measures undertaken by various governments to address them, banking instability, geopolitical factors such as the ongoing war in Ukraine, technological uncertainty, commercial acceptance of any developed products, alternative competing technologies, dependence on collaborative partners, uncertainty regarding patents and proprietary rights, comprehensive government regulations, and dependence on key personnel.

(3) Summary of Significant Accounting Policies

The Company's complete summary of significant accounting policies can be found in "Note 3, Summary of Significant Accounting Policies" in the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. Any reference in these notes to applicable guidance is meant to refer to generally

accepted accounting principles ("GAAP") in the U.S. as found in the Accounting Standards Codification ("ASC") and Accounting Standards Updates ("ASU") promulgated by the Financial Accounting Standards Board ("FASB").

Interim Financial Statements

The accompanying unaudited interim consolidated financial statements have been prepared from the books and records of the Company in accordance with GAAP for interim financial information and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission ("SEC"), which permits reduced disclosures for interim periods. All adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the accompanying consolidated balance sheets and statements of operations and comprehensive loss, stockholders' equity and cash flows have been made. Although these interim consolidated financial statements do not include all of the information and footnotes required for complete annual consolidated financial statements, management believes the disclosures are adequate to make the information presented not misleading. The unaudited interim results of operations and cash flows are not necessarily indicative of the results that may be expected for the full year. The unaudited interim consolidated financial statements and footnotes should be read in conjunction with the consolidated financial statements and footnotes included in the Annual Report on Form 10-K for the year ended December 31, 2022.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant judgments are employed in estimates used to determine the recoverability of the carrying value of the Company's inventory. As future events and their effects cannot be determined with precision, actual results may differ significantly from these estimates.

Revenue Recognition

Under ASC Topic 606, *Revenue from Contracts with Customers*, ("ASC 606"), an entity recognizes revenue when its customer obtains control of the promised good, in an amount that reflects the consideration that the entity expects to be entitled in exchange for those goods. The Company performs the following five steps to recognize revenue under ASC 606: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only recognizes revenue when it is probable that it will collect the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer.

A significant portion of the Company's revenue is generated from product shipped to customers or from consigned inventory maintained at hospitals or other surgical facilities. Revenue from the sale of consigned products is recognized when control is transferred to the customer, which occurs at the time the product is used in a surgical procedure. For product that is not held on consignment, the Company recognizes revenue when control transfers to the customer, which occurs at the time the product is shipped or delivered. For all of the Company's customer contracts, the only identified performance obligation is providing the product to the customer.

Revenue is recognized at the estimated net sales price which includes estimates of variable consideration. The Company enters into contracts with certain third-party payors for the payment of rebates with respect to the utilization of its products. These rebates are based on contractual percentages. The Company estimates and records these rebates in the same period the related revenue is recognized, resulting in a reduction of product revenue.

Payment terms with customers do not exceed one year and, therefore, the Company does not account for a financing component in these arrangements. There are no incremental costs of obtaining a contract that would rise to or enhance an asset other than product costs, which are a component of inventory. The Company expenses incremental costs of

obtaining a contract with a customer (e.g., sales commissions) when incurred as the period of benefit is less than one year. Fees charged to customers for shipping are recognized as revenue.

The following table presents revenue disaggregated by our portfolio of products (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
OviTex	$ 10,058	$ 7,028	$ 18,081	$ 12,689
OviTex PRS	4,390	3,353	8,251	5,901
Other	46	25	71	47
Total revenue	$ 14,494	$ 10,406	$ 26,403	$ 18,637

Sales outside of the U.S. were $1.5 million and $2.5 million for the three and six months ended June 30, 2023, respectively, and immaterial for the three and six months ended June 30, 2022.

Fair value of financial instruments

Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction among market participants. Fair value determination in accordance with applicable accounting guidance requires that a number of significant judgments are made. Additionally, fair value is used on a nonrecurring basis to evaluate assets for impairment or as required for disclosure purposes by applicable accounting guidance on disclosures about fair value of financial instruments. Depending on the nature of the assets and liabilities, various valuation techniques and assumptions are used when estimating fair value. The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, other assets, and accounts payable are shown at cost, which approximates fair value due to the short-term nature of these instruments. The carrying amounts of the Company's current Credit and Security Agreement approximated its fair value due to its variable interest rate.

The Company follows the provisions of FASB ASC Topic 820, *Fair Value Measurement*, for financial assets and liabilities measured on a recurring basis. The guidance requires fair value measurements be classified and disclosed in one of the following three categories:

- *Level 1:* Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- *Level 2:* Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liabilities.
- *Level 3:* Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

TELA Bio, Inc.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The following fair value hierarchy table presents information about each major category of the Company's financial assets and liabilities measured at fair value on a recurring basis (in thousands):

	Fair value measurement at reporting date using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
June 30, 2023:			
Cash equivalents – money market fund	$ 61,635	$ —	$ —
December 31, 2022:			
Cash equivalents – money market fund	$ 39,010	$ —	$ —

Net loss per common share

Basic and diluted net loss per common share is determined by dividing net loss by the weighted-average shares of common stock outstanding during the reporting period. In periods in which the Company reports a net loss, diluted net loss per share is the same as basic net loss per share since dilutive shares are not assumed to have been issued if their effect is antidilutive. Therefore, the weighted-average shares used to calculate both basic and diluted net loss per share are the same.

The following potentially dilutive securities have been excluded from the computation of diluted weighted-average shares outstanding for the periods presented, as they would be antidilutive.

	Three and Six months ended June 30,	
	2023	2022
Stock options (including shares subject to repurchase)	2,218,832	1,959,437
Unvested restricted stock units	781,011	309,767
Common stock warrants	88,556	88,556
Total	3,088,399	2,357,760

Recently Issued Accounting Pronouncements

The Company is an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act, until such time as those standards apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that it (i) is no longer an emerging growth company or (ii) affirmatively and irrevocably opts out of the extended transition period provided in the JOBS Act. As a result, these consolidated financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which provides guidance for recognizing credit losses on financial instruments based on an estimate of current expected credit losses model. The standard was effective for the Company beginning January 1, 2023, and the adoption of this guidance did not have a significant impact on the consolidated financial statements and related disclosures.

In August 2020, the FASB issued ASU No. 2020-06, *Debt - Debt with Conversion and Other Options and Derivatives and Hedging - Contracts in Entity's Own Equity (*"ASU 2020-06"). ASU 2020-06 eliminates the beneficial conversion and cash conversion accounting models for convertible instruments. It also amends the accounting for certain contracts

in an entity's own equity that are currently accounted for as derivatives because of specific settlement provisions. The new guidance also modifies how particular convertible instruments and certain contracts that may be settled in cash or shares impact the diluted EPS computation. ASU 2020-06 is effective for fiscal years beginning after December 15, 2023, including interim periods within those annual periods. The adoption of this guidance is not expected to have a significant impact on the consolidated financial statements and related disclosures.

(4) Leases

The Company leases office and laboratory space in Malvern, Pennsylvania under a noncancelable lease (the "Malvern Lease"). The Malvern Lease, which was concluded to be an operating lease, was amended in December 2020 to extend the term of the lease from May 2021 to May 2028. The Malvern Lease has annual scheduled payment increases and provides the Company a renewal option for an additional term of 60 months at the end of the lease term. The Company evaluates renewal options at lease inception and on an ongoing basis and includes renewal options that it is reasonably certain to exercise in its expected lease terms when classifying leases and measuring lease liabilities. As the Company is not reasonably certain to exercise the renewal option, the additional 60-month term has been excluded.

The Company's lease does not provide an implicit rate, and therefore, the Company uses its incremental borrowing rate as the discount rate when measuring operating lease liabilities. The incremental borrowing rate represents an estimate of the interest rate the Company would incur at lease commencement to borrow an amount equal to the lease payments on a collateralized basis over the term of a lease. The Company used an incremental borrowing rate of 9.75% to discount the Malvern Lease payments included in the operating lease liabilities recognized.

The Company recognized $0.1 million and $0.2 million of lease cost during both the three and six months ended June 30, 2023 and 2022, respectively. Cash paid for amounts included in the measurement of operating lease liabilities was $0.1 million and $0.2 million for both the three and six months ended June 30, 2023 and 2022, respectively, and these amounts are included in operating activities in the consolidated statements of cash flows. As of June 30, 2023, the remaining lease term for the Malvern Lease is 5.0 years.

The following table reconciles the undiscounted future minimum lease payments (displayed in aggregate by year) under non-cancelable operating leases with terms of more than one year to the total operating lease liabilities recognized on the consolidated balance sheets as of June 30, 2023 (in thousands):

Remainder of 2023	$	181
2024		366
2025		375
2026		383
2027		392
Thereafter		164
Total undiscounted future minimum lease payments	$	1,861
Less imputed interest		(394)
Total operating lease liabilities	$	1,467

As of June 30, 2023, $0.3 million representing the current portion of operating lease liabilities is included in accrued expenses and other current liabilities in the consolidated balance sheets and $1.1 million representing the long-term portion of operating lease liabilities is included in other long-term liabilities in the consolidated balance sheets.

TELA Bio, Inc.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

(5) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	June 30, 2023	December 31, 2022
Compensation and related benefits	$ 6,235	$ 6,420
Third-party and professional fees	2,220	2,563
Amounts due to contract manufacturer	1,629	1,263
Current portion of operating lease liabilities	343	340
Research and development expenses	115	137
Other	253	146
Total accrued expenses and other current liabilities	$ 10,795	$ 10,869

(6) Long-term Debt

Long-term debt consisted of the following (in thousands):

	June 30, 2023	December 31, 2022
MidCap Term Loan	$ 40,000	$ 40,000
End of term charge	2,000	2,000
Unamortized end of term charge and issuance costs	(1,788)	(2,084)
Long-term debt	$ 40,212	$ 39,916

MidCap Term Loan

On May 26, 2022, the Company entered into the Credit and Security Agreement (the "MidCap Credit Agreement") with MidCap Financial Trust, as agent, and certain lender parties thereto. The MidCap Credit Agreement provides for up to $50.0 million in term loans (the "MidCap Term Loans"), consisting of a $40.0 million Tranche 1 ("Tranche 1") and a $10.0 million Tranche 2 ("Tranche 2"). Upon closing, the Company borrowed $40.0 million of Tranche 1 and used a portion of the proceeds to repay borrowings under the OrbiMed Credit Facility (described below) and intends to use the remaining proceeds to fund operations and other general corporate purposes. The Company will be eligible to borrow Tranche 2 at the Company's option upon meeting certain conditions, including, but not limited to, reaching $65.0 million of net product revenue over the preceding four quarters by fiscal year end 2023.

Pursuant to the MidCap Credit Agreement, the Company provided a first priority security interest in all existing and future acquired assets, including intellectual property, owned by the Company. The MidCap Credit Agreement contains certain covenants that limit the Company's ability to engage in certain transactions that may be in the Company's long-term best interests, including the incurrence of additional indebtedness, effecting certain corporate changes, making certain investments, acquisitions or dispositions and paying dividends.

The MidCap Credit Agreement also contains customary indemnification obligations and customary events of default, including, among other things, (i) non-payment, (ii) breach of warranty, (iii) non-performance of covenants and obligations, (iv) default on other indebtedness, (v) judgments, (vi) change of control, (vii) bankruptcy and insolvency, (viii) impairment of security, (ix) key permit events, (x) termination of a pension plan, (xi) regulatory matters, (xii) material adverse effect and (xiii) breach of material contracts.

In addition, the Company must maintain minimum net revenue levels tested quarterly. In the event of default under the MidCap Credit Agreement, the Company would be required to pay interest on principal and all other due and unpaid obligations at the current rate in effect plus 2%.

The MidCap Term Loans mature on May 1, 2027 and bear interest at a rate equal to 6.25% plus the greater of one-month Term SOFR (as defined in the MidCap Credit Agreement) or 1.0%. The Company is required to make 36 monthly interest payments beginning on June 1, 2022 (the "Interest-Only Period"). If the Company is in covenant compliance at the end of the Interest-Only Period, the Company will have the option to extend the Interest-Only Period by 12 months to 48 monthly interest payments, followed by 12 months of straight-line amortization, with the entire principal payment due at maturity. If the Company is not in covenant compliance at the end of the Interest-Only Period, the Company is required to make 24 months of straight-line amortization payments, with the entire principal amount due at maturity.

Subject to certain limitations, the MidCap Term Loans have a prepayment fee equal to 3.0% of the prepaid principal amount for the first year following the closing date of the MidCap Term Loans, 2.0% of the prepaid principal amount for the second year following the closing date and 1.0% of the prepaid principal amount for the third year following the closing date and thereafter. The Company is also required to pay an exit fee at the time of maturity or prepayment event equal to 5% of all principal borrowings (the "End of Term Charge") (or in the event of a prepayment event, the amount of principal being prepaid). Interest expense associated with the MidCap Credit Facility recorded for the three and six months ended June 30, 2023 was $1.3 million and $2.5 million, respectively, of which $0.2 million and $0.3 million, respectively, was related to the amortization of debt issuance costs. Interest expense associated with the MidCap Credit Facility recorded for both the three and six months ended June 30, 2022 was $0.3 million, of which $0.1 million was related to the amortization of debt issuance costs.

OrbiMed Term Loan (Related Party)

In November 2018, the Company entered into a senior secured term loan facility with OrbiMed (the "OrbiMed Credit Facility"), a related party as the lender is affiliated with a stockholder of the Company, which consisted of up to $35.0 million in term loans (the "OrbiMed Term Loans"). The OrbiMed Term Loans consisted of two tranches, a $30.0 million Tranche 1 ("First Tranche") and a $5.0 million Tranche 2 ("Second Tranche"). In November 2018, the Company borrowed $30.0 million of the First Tranche. The Company elected not to borrow the Second Tranche prior to its expiration on December 31, 2019. On May 26, 2022, the Company entered into the MidCap Credit Agreement and upon closing used a portion of the proceeds to repay all borrowings under the OrbiMed Credit Facility.

The OrbiMed Term Loan bore interest at a rate equal to 7.75% plus the greater of one-month LIBOR or 2.0% until the aggregate principal, interest and End of Term Charge of $3.0 million were paid with part of the proceeds received from the MidCap Credit Agreement. As a result of these payments, a $1.2 million loss on extinguishment was recorded during the three months ended June 30, 2022. Interest expense associated with the OrbiMed Credit Facility recorded for the three and six months ended June 30, 2022 was $0.6 million and $1.5 million, respectively, of which $0.1 million and $0.3 million, respectively, was related to the amortization of debt issuance costs.

(7) Stockholders' Equity

In December 2020, the Company entered into an Equity Distribution Agreement (the "Equity Agreement") with Piper Sandler & Co, (the "Sales Agent") in connection with the establishment of an at-the-market offering program under which the Company may sell up to an aggregate of $50.0 million of shares of the Company's common stock, from time to time through the Sales Agent. No sales were made under the Equity Agreement during the six months ended June 30, 2023.

In August 2022, the Company completed an underwritten public offering in which the Company issued and sold 4,600,000 shares of its common stock at a public offering price of $8.00 per share. The Company received net proceeds of approximately $34.4 million after deducting underwriting discounts, commissions and other offering expenses.

In April 2023, the Company completed an underwritten public offering in which the Company issued and sold 5,219,190 shares of its common stock (including 469,190 shares sold pursuant to the underwriters' overallotment option in May

2023) at a public offering price of $9.50 per share. The Company received net proceeds of approximately $46.3 million after deducting underwriting discounts, commissions and other offering expenses.

Warrants

The Company had the following warrants outstanding to purchase common stock at June 30, 2023:

	Outstanding	Exercise price	Expiration dates
Common stock warrants	8,379	$ 28.65	2028
Common stock warrants	80,177	28.65	2027
	88,556		

(8) Stock-Based Compensation

The Company has two equity incentive plans: the 2012 Stock Incentive Plan and the Amended and Restated 2019 Equity Incentive Plan. New awards can only be granted under the Amended and Restated 2019 Equity Incentive Plan (the "Plan"). At June 30, 2023, 718,453 shares of common stock were available for future issuances under the Plan. The Plan is subject to an annual increase, subject to prior approval by the Company's board of directors, equal to the lesser of (i) 432,442 shares, (ii) 4% of the shares outstanding on the last day of the immediately preceding fiscal year and (iii) such smaller number of shares as determined by the board of directors. The Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock awards, restricted stock units and/or stock appreciation rights to employees, directors, and other persons, as determined by the Company's board of directors. The Company estimates forfeitures that it expects will occur and adjusts expense for actual forfeitures in the periods they occur.

The Company measures employee and nonemployee stock-based awards at grant-date fair value and records compensation expense ratably over the vesting period of the award. The Company recorded stock-based compensation expense in the following expense categories of the accompanying consolidated statements of operations and comprehensive loss (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Sales and marketing	$ 467	$ 340	$ 868	$ 647
General and administrative	637	535	1,191	999
Research and development	190	147	363	277
Total stock-based compensation	$ 1,294	$ 1,022	$ 2,422	$ 1,923

Stock Options

The Company's stock options vest based on the terms in each award agreement and generally vest over four years and have a term of 10 years.

The following table summarizes stock option activity:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual term (years)
Outstanding at January 1, 2023	2,071,848	$ 11.49	
Granted	212,960	10.50	
Exercised	(19,429)	5.17	
Canceled/forfeited	(46,547)	11.03	
Outstanding at June 30, 2023	2,218,832	$ 11.46	6.97
Vested and expected to vest at June 30, 2023	2,170,777	$ 11.46	6.93
Exercisable at June 30, 2023	1,456,572	$ 11.36	6.08

Included in outstanding options at June 30, 2023, were 366,369 stock options granted outside of the Plan. These grants were made pursuant to the Nasdaq inducement grant exception in accordance with Nasdaq listing rule 5635(c)(4). At June 30, 2023, the aggregate intrinsic value of both outstanding options and exercisable options was $2.0 million.

The weighted average grant-date fair value per share of options granted was $7.19 during the six months ended June 30, 2023. The aggregate intrinsic value of options exercised was $35,000 and $0.1 million for the three and six months ended June 30, 2023, respectively. At June 30, 2023, the total unrecognized compensation expense related to unvested employee and nonemployee stock option awards was $5.0 million, which is expected to be recognized in expense over a weighted-average period of approximately 2.4 years.

Estimating Fair Value of Stock Options

The fair value of each grant of stock options was determined by the Company using the methods and assumptions discussed below. Certain of these inputs are subjective and generally require judgment to determine.

Expected term – The expected term of stock options represents the weighted-average period the stock options are expected to be outstanding. The Company uses the simplified method for estimating the expected term as provided by the SEC. The simplified method calculates the expected term as the average time to vesting and the contractual life of the options.

Expected volatility – Due to the Company's limited operating history and lack of sufficient company-specific historical or implied volatility, the expected volatility assumption was determined by examining the historical volatilities of a group of industry peers, as well as the Company's, whose share prices are publicly available.

Risk-free interest rate – The risk-free rate assumption is based on U.S. Treasury instruments, the terms of which were consistent with the expected term of the Company's stock options.

Expected dividend – The Company has not paid and does not intend to pay dividends.

TELA Bio, Inc.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model and the weighted average assumptions in the table below:

	Six months ended June 30, 2023
Expected dividend yield	—
Expected volatility	74.3 %
Risk-free interest rate	3.99 %
Expected term (in years)	6.15

Restricted Stock Units

The Company has issued service-based and performance-based restricted stock units ("RSUs"). During the six months ended June 30, 2023, the Company granted 348,110 service-based awards at a weighted average grant-date fair value of $10.65 per RSU. Vesting of the service-based RSUs is based on the terms in each award agreement and is generally over four years. During the six months ended June 30, 2023, the Company granted 225,208 performance-based RSUs at a weighted average grant-date fair value of $11.09 per RSU. Vesting of these performance-based RSUs is subject to continued service through 2026 and the achievement of certain performance milestones for fiscal year 2026. The amount of RSUs that will vest can range from 0% to 110% of the original number of RSUs granted. Expense for the performance-based RSUs is not recognized until the performance conditions are deemed probable of achievement. The Company did not record any expense related to the performance-based RSUs during the six months ended June 30, 2023. The following table summarizes RSUs for the Plan:

	Number of shares
Unvested balance at January 1, 2023	311,991
Granted	573,318
Vested	(97,809)
Canceled/forfeited	(6,489)
Outstanding at June 30, 2023	781,011

Included in outstanding RSUs at June 30, 2023, were 44,600 RSUs granted outside of the Plan. These grants were made pursuant to the Nasdaq inducement grant exception in accordance with Nasdaq listing rule 5635(c)(4). The aggregate intrinsic value of RSUs outstanding was $7.9 million at June 30, 2023. The total unrecognized compensation expense at June 30, 2023 related to RSUs was $5.1 million, which is expected to be recognized in expense over a weighted-average period of approximately 3.2 years.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as other sections in this Quarterly Report, should be read in conjunction with our unaudited interim consolidated financial statements and related notes thereto included elsewhere herein and the consolidated financial statements and notes thereto for the year ended December 31, 2022 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report filed with the SEC on March 23, 2023. In addition to historical financial information, some of the information contained in the following discussion and analysis contains 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, as amended (the "Exchange Act"). All statements other than statements of historical facts, including statements regarding our future results of operations and financial position, business strategy, current and prospective products, product approvals, research and development costs, current and prospective collaborations, timing and likelihood of success, plans and objectives of management for future operations and future results of current and anticipated products, are forward-looking statements. These statements involve known and unknown risks, uncertainties, assumptions and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Overview

We are a commercial-stage medical technology company focused on providing innovative soft-tissue reconstruction solutions that optimize clinical outcomes by prioritizing the preservation and restoration of the patient's own anatomy. Our growing product portfolio is purposefully designed to leverage the patient's natural healing response while minimizing long-term exposure to permanent synthetic materials. We are committed to delivering our advanced technologies with a strong economic value proposition to assist surgeons and institutions in providing next-generation soft-tissue repair solutions to more patients worldwide.

We are dedicated to building true partnerships with surgeons and healthcare providers to deliver solutions that provide both clinical and economic improvements. We believe that genuine collaboration with surgeons and healthcare providers results in the development of new solutions that empower patient care.

Our first portfolio of products, the OviTex Reinforced Tissue Matrix ("OviTex"), which we first commercialized in the U.S. in July 2016, addresses unmet needs in hernia repair and abdominal wall reconstruction by combining the benefits of biologic matrices and polymer materials while minimizing their shortcomings, at a cost-effective price.

Hernia repair is one of the most common surgeries performed in the U.S., representing approximately 1.1 million procedures annually. Based on the volume weighted average selling price of our OviTex products, we estimate the annual U.S. total addressable market opportunity for our OviTex products to be approximately $1.5 billion.

Our OviTex portfolio consists of multiple product configurations intended to address various surgical procedures within hernia repair and abdominal wall reconstruction, including ventral, inguinal, and hiatal hernia repair. In addition, we have also designed an OviTex product specifically for use in laparoscopic and robotic-assisted hernia repair, which we market as OviTex LPR and began commercializing this product in November 2018. We recently launched two new, larger configurations of OviTex LPR, designed for ventral and incisional hernias.

We have also focused on evaluating and publishing clinical data on the effectiveness and safety of our OviTex products. To date, there have been over thirty published or presented works relating to these clinical findings, either by us or a third-party evaluating the OviTex product. In October 2022, the 24-month results of our single arm, multicenter post-market clinical study, which we refer to as our BRAVO study, were published in the *Annals of Medicine and Surgery*. The BRAVO study was designed to evaluate the clinical performance of OviTex for primary or recurrent ventral hernias using open, laparoscopic, or robotic techniques in 92 enrolled patients. The recurrence rate at the 24-month time point was 2.6%, and surgical site occurrences ("SSOs") were observed in 38% of the study population. Of the enrolled patients, 78% were characterized as high risk for experiencing an SSO based on at least one known risk factor, which

included obesity, active smoking, COPD, diabetes mellitus, coronary artery disease, or advanced age (≥75 years). The results also indicated that BRAVO patients experienced statistically significant and clinically meaningful improvements in their quality of life and perceived health based on patient responses to the EuroQol-5 Dimension (EQ-5D) health assessment and the validated 12-question Hernia-Related Quality of Life survey (HerQLes). In addition to the BRAVO study and other current clinical initiatives, we also commenced enrollment in May 2021 for our BRAVO II study, a prospective study evaluating the use of OviTex in robot-assisted ventral and inguinal hernia repairs.

Our second portfolio of products, the OviTex PRS Reinforced Tissue Matrix ("OviTex PRS"), which we first commercialized in the U.S. in May 2019, addresses unmet needs in plastic and reconstructive surgery. OviTex PRS is indicated for use in implantation to reinforce soft-tissue where weakness exists in patients requiring soft-tissue repair or reinforcement in plastic and reconstructive surgery. Our OviTex PRS portfolio is supported by non-human primate data that demonstrated more rapid tissue integration and tissue remodeling compared to the market leading biologic matrix used in this indication. Based on the current sales of biologic matrices in the U.S., we estimate the annual U.S. current addressable market opportunity for our OviTex PRS products to be approximately $700 million.

Our OviTex products have received 510(k) clearance from the U.S. Food and Drug Administration ("FDA"), which clearance was obtained and is currently held by our exclusive contract manufacturer of these products, Aroa. In April 2019, our first OviTex PRS products received 510(k) clearance from the FDA, which clearance was obtained by Aroa and is currently held by us. In March 2023, we received an additional 510(k) clearance, which expands the OviTex PRS portfolio to include OviTex PRS Long-Term Resorbable. We have also engaged in discussions with the FDA regarding an Investigational Device Exemption protocol to study the safety and effectiveness of our OviTex PRS product for an indication in breast reconstruction surgery. The FDA has stated that a premarket approval, rather than 510(k) clearance will be required for such an indication. We have also commenced a retrospective clinical study evaluating the effectiveness and safety of our OviTex PRS products.

We also continue to expand our service offerings and diversify our supplier base as we continue to create a soft tissue restoration portfolio, including through the development of complimentary solutions targeting surgical wound management and infection control. In January 2023, we announced an exclusive development and distribution partnership with Regenity Biosciences, pursuant to which we launched the commercialization of our NIVIS Fibrillar Collagen Pack, an absorbent matrix of Type I and Type III bovine collagen designed to manage moderately to heavily exudating wounds and to control minor bleeding. We also previously commercialized through a distribution agreement with Next Science Technologies Pty Limited, a proprietary antimicrobial surgical wash in the U.S. plastic reconstructive market. We are assessing additional strategic partnerships with medical device companies whereby we may enter into distribution, product development and/or licensing agreements for new products complimentary to, or related to, existing and future products in our distribution channel.

We have a broad portfolio of intellectual property protecting our products that we believe, when combined with the proprietary manufacturing processes associated with our products and our know-how, provides significant barriers to entry. Our intellectual property applies to our differentiated product construction and materials. In addition, we believe our exclusive manufacturing and long-term supply and license agreement (the "Aroa License") with Aroa creates a competitive advantage by allowing us to secure an exclusive supply of ovine rumen at a low cost. Ovine rumen, the forestomach of a sheep, is the source of the biologic material used in our OviTex portfolio products. We use biologic material from ovine rumen because of its plentiful supply, optimal biomechanical profile and open collagen architecture that allows for rapid cellular infiltration. Our OviTex products are manufactured by Aroa at their FDA registered and ISO 13485 compliant facility in Auckland, New Zealand. We purchase product from Aroa at a fixed cost equal to 27% of our net sales of licensed products. This revenue sharing arrangement allows us to competitively price our products and pass along cost-savings to our customers.

We market our products through a single direct sales force, predominantly in the U.S., as augmented by a smaller number of sales representatives and distributors in certain European countries. We have invested in our direct sales and marketing infrastructure to expand our presence and to promote awareness and adoption of our products. As of June 30, 2023, we had 78 sales territories in the U.S. As part of our commercial strategy, we plan to continue to invest in our commercial organization by hiring additional territory managers and administrative and field-based support employees to support and service new accounts for soft-tissue reconstruction procedures. We believe we can enhance the

productivity of our sales force by improving customer segmentation and targeting, implementing and further refining our proprietary training programs, leveraging support from our medical education and clinical development functions to drive physician awareness and education on our products, and utilizing engagement analytics to support product development. Additionally, we have contracted with three national group purchasing organizations ("GPOs") covering our OviTex product and plan to continue to contract with additional GPOs and other integrated delivery networks to increase access to and penetration of hospital accounts.

We are currently devoting research and development resources to develop additional versions of our OviTex hernia product lines, including self-adhering technology to further enhance product compatibility in robotic procedures, as well as additional versions of our OviTex PRS product lines. We are also working to develop new product features and designs for both our existing OviTex and OviTex PRS products. Additionally, we are exploring new packaging technology to increase the shelf life of our OviTex and OviTex PRS products. We are also exploring additional technologies that may complement our existing products, or expand the number of our product lines, in each case within the hernia, plastic and reconstruction, and broader soft-tissue reconstruction and preservation market. We intend to continue to make investments in research and development efforts to develop improvements and enhancements. We are also assessing strategic partnerships with medical device companies whereby we may enter into distribution, product development and/or licensing agreements for products complimentary to, or related to, existing and future products in our distribution channel, which could result in the payment of single digit percentage royalties or other product acquisition costs.

Our business was directly impacted by the COVID-19 pandemic. We experienced volatility in demand for our products which primarily resulted from government and hospital restrictions, as well as patient health and safety concerns, decreasing the volume of elective procedures using our products. We anticipate that procedure volumes will continue to normalize to pre-pandemic levels yet we continue to monitor the potential impact of the COVID-19 pandemic on labor and hospital staffing levels, procedural volumes and ultimately on our results.

The vast majority of our revenue to date has been generated by the sale of our OviTex products. Our revenue increased by $4.1 million, or 39%, from $10.4 million for the three months ended June 30, 2022 to $14.5 million for the three months ended June 30, 2023 and by $7.8 million, or 42%, from $18.6 million for the six months ended June 30, 2022 to $26.4 million for the six months ended June 30, 2023. Our net loss decreased by $2.0 million, or 15%, from $12.7 million for the three months ended June 30, 2022 to $10.8 million for the three months ended June 30, 2023 and by $0.8 million, or 3%, from $23.6 million for the six months ended June 30, 2022 to $22.8 million for the six months ended June 30, 2023. We have not been profitable since inception and as of June 30, 2023, we had an accumulated deficit of $297.0 million. We expect to incur losses for the foreseeable future.

Business Update Regarding Macroeconomic Conditions and COVID-19

Our business, results of operations and commercial operations have been impacted by macroeconomic conditions, including the COVID-19 pandemic, as well as, to a lesser extent, inflationary pressures, fluctuations in foreign currency in the jurisdictions in which we operate, banking instability and geopolitical conflicts. These factors have and may continue to impact us in the following ways:

COVID-19: We have been directly impacted by the COVID-19 pandemic since the onset of the pandemic in 2020. Over the past year, regional surges of the COVID-19 Omicron variant resulted in some government restrictions on elective procedures and surgical staffing challenges leading to the deferral of elective surgeries and lower surgical procedural volumes overall. While we anticipate the normalization of surgical procedures to pre-pandemic levels, the pace of increased procedural volume remains unknown as hospitals allocate to address staffing shortages to prioritize any backlog of non-elective procedures. Additionally, other labor and financial strains on healthcare systems may continue to reduce procedural volumes.

General Economic Uncertainty: Continued concerns about the systemic impact of potential long-term and wide-spread recession, increasing interest rates, further economic downturn or banking instability and geopolitical issues, including the ongoing war in Ukraine, have contributed to increased market volatility and diminished expectations for economic growth in the world. As a result, we have experienced high volatility in our stock price over the prior year. Continued

uncertainty and perception of worsening market conditions could result in a decline in our stock price, high inflation, an increase in our cost of capital and an adverse effect on our ability to access the capital markets in the future on terms acceptable to us or at all.

Financial Strain: Market acceptance of our medical products in the U.S. and other countries is dependent upon the procurement practices of our customers, patient need for our products and procedures and the reimbursement of patients' medical expenses by government healthcare programs and third-party payors. The continuing uncertainty surrounding global economic conditions and financial markets, including the financial strain suffered by hospital customers during the COVID-19 pandemic, may adversely affect demand for our products and procedures and result in lower reimbursement rates or coverage for our products, resulting in lower sales volume and downward pricing pressure on our products and slower adoption of new products.

Components of Our Results of Operations

Revenue

Substantially all our revenue consists of direct sales of our products to hospital accounts in the U.S. Depending on the terms of our agreements with our customers, we recognize revenue related to product sales either when control transfers, which generally occurs when the product is shipped to the customer, or when the product is utilized in a surgical procedure in the case of consignment agreements. Fees charged to customers for shipping are recognized as revenue. Recent revenue growth has been driven by increasing revenue from product sales due to our expanding customer base, although it is unclear at this point what long-term effect the COVID-19 pandemic and macroeconomic pressures will have on our ability to continue to generate revenue and expand our customer base.

Cost of Revenue (excluding amortization of intangible assets)

Cost of revenue primarily consists of the costs of licensed products, charges related to excess and obsolete inventory adjustments, royalties and costs related to shipping. We purchase product from Aroa at a fixed cost equal to 27% of our net sales of licensed products. The initial term of our Aroa License terminates on the expiration of the last patent covering bovine and ovine products, with an option to extend for an additional ten-year period. We expect our cost of revenue to increase in absolute dollars as, and to the extent, our sales volume grows, although it is unclear at this point what long-term effect, if any, the COVID-19 pandemic and related macroeconomic pressures will have on our product demand which could lead to additional charges to excess and obsolete inventory.

Amortization of Intangible Assets

Amortization of intangible assets relates to the amortization of capitalized milestone amounts paid or probable to be paid to Aroa related to license fees or commercialization rights after future economic benefit has been established for a product. These capitalized milestone amounts relate to regulatory clearances, the receipt of certain supply quantities of product, and amounts based upon aggregate net sales thresholds within a specified territory, and are amortized over the remaining useful life of the intellectual property.

Gross Profit and Gross Margin

Our gross profit is calculated by subtracting our cost of revenue and amortization of intangible assets from our revenue. We calculate our gross margin percentage as our gross profit divided by our revenue. Our gross margin has been, and we expect it will continue to be, affected by a variety of factors, including sales volume, royalties and inventory excess and obsolescence costs. Our gross profit may increase to the extent our revenue grows.

Sales and Marketing Expenses

Sales and marketing expenses consist of commercial activities related to the sale of our products, along with the salaries and related benefits, including sales commissions and stock-based compensation for employees focused on these efforts.

Other significant sales and marketing expenses include costs incurred with post-market clinical studies, conferences and trade shows, promotional and marketing activities, market research, as well as travel and training expenses.

Over time we expect our sales and marketing expenses to increase in absolute dollars as we continue to expand our commercial organization to both drive and support our planned growth in revenue. We expect our sales and marketing expenses to continue to decrease as a percentage of revenue, as and to the extent, our revenue grows.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and related benefits, including stock-based compensation, for personnel in executive, finance, information technology and administrative functions. General and administrative expenses also include professional service fees for legal, accounting, consulting, investor and public relations, insurance costs and direct and allocated facility-related costs.

We expect that our general and administrative expenses will increase in absolute dollars as we execute our growth initiatives and expand our business and headcount to support these initiatives. We expect our general and administrative expenses to decrease as a percentage of revenue primarily as, and to the extent, our revenue grows.

Research and Development Expenses

Research and development expenses consist primarily of product research, engineering, product development, regulatory compliance and clinical development. These expenses include salaries and related benefits, including stock-based compensation, for employees focused on these efforts, consulting services, costs associated with our preclinical studies, costs incurred with our manufacturing partner under development agreements related to technology transfer, costs incurred from license agreements with no alternative future uses, laboratory materials and supplies and an allocation of related facilities costs. We expense research and development costs as they are incurred.

We expect research and development expenses in absolute dollars to increase in the future as we develop new products and enhance existing products. We expect research and development expenses as a percentage of revenue to vary over time depending on the level and timing of new product development initiatives.

Interest Expense

Interest expense consists of cash interest related to our credit facilities, non-cash interest attributable to the amortization of final payment fees and the amortization of deferred financing costs related to our indebtedness.

Other Income (Expense)

Other income (expense) consists primarily of income earned on our cash and cash equivalents offset by miscellaneous tax expenses and foreign currency exchange gains and losses.

Results of Operations

Comparison of the Three Months Ended June 30, 2023 and 2022

	Three months ended June 30,		Change	
	2023	2022	Dollar	Percentage
	(in thousands, except percentages)			
Revenue	$ 14,494	$ 10,406	$ 4,088	39 %
Cost of revenue (excluding amortization of intangible assets)	4,198	3,318	880	27
Amortization of intangible assets	95	538	(443)	(82)
Gross profit	10,201	6,550	3,651	56
Gross margin	70 %	63 %		
Operating expenses:				
Sales and marketing	14,577	11,055	3,522	32
General and administrative	3,472	3,630	(158)	(4)
Research and development	2,514	2,102	412	20
Total operating expenses	20,563	16,787	3,776	22
Loss from operations	(10,362)	(10,237)	(125)	1
Other expense:				
Interest expense	(1,298)	(934)	(364)	39
Loss on extinguishment of debt	—	(1,228)	1,228	(100)
Other income (expense)	870	(342)	1,212	(354)
Total other expense	(428)	(2,504)	2,076	(83)
Net loss	$ (10,790)	$ (12,741)	$ 1,951	(15)%

Revenue

Revenue increased by $4.1 million, or 39%, to $14.5 million for the three months ended June 30, 2023 from $10.4 million for the three months ended June 30, 2022. The increase in revenue was primarily driven by an increase in unit sales of our products due to the expansion of our commercial organization, the addition of new customers, increased penetration within existing customer accounts and growing international sales. During the three months ended June 30, 2023, we sold 3,428 units of OviTex as compared to 2,423 units of OviTex during the three months ended June 30, 2022, a 41% increase in unit sales volume. Additionally, we sold 820 units of OviTex PRS during the three months ended June 30, 2023 as compared to 644 units during the three months ended June 30, 2022, a 27% increase in unit sales volume.

Cost of Revenue

Cost of revenue (excluding amortization of intangible assets) increased by $0.9 million, or 27%, to $4.2 million for the three months ended June 30, 2023 from $3.3 million for the three months ended June 30, 2022. The increase in cost of revenue was primarily the result of an increase in products purchased to support demand from our higher unit sales, partially offset by a lower charge for excess and obsolete inventory.

Amortization of Intangible Assets

Amortization of intangible assets decreased by $0.4 million, or 82% to $0.1 million for the three months ended June 30, 2023 from $0.5 million for the three months ended June 30, 2022. In June 2022, we determined that our final milestone target under our licensing agreement with Aroa was probable of being met and recorded the payment obligation as an intangible asset, resulting in a cumulative amortization charge of $0.5 million for the three months ended June 30, 2022.

Gross Margin

Gross margin increased to 70% for the three months ended June 30, 2023 from 63% for the three months ended June 30, 2022. The increase was primarily due to a lower charge for excess and obsolete inventory as a percentage of revenue due to improvements in inventory management.

Sales and Marketing

Sales and marketing expenses increased by $3.5 million, or 32%, to $14.6 million for the three months ended June 30, 2023 from $11.1 million for the three months ended June 30, 2022. The increase was primarily due to higher compensation costs as a result of the expansion of our commercial organization, increased travel and consulting expenses and additional employee-related costs due to an increase in headcount.

General and Administrative

General and administrative expenses decreased by $0.2 million, or 4%, to $3.5 million for the three months ended June 30, 2023 from $3.6 million for the three months ended June 30, 2022. The decrease was primarily due to a decreases in insurance and administrative expenses which offset the higher compensation costs and employee-related costs due to an increase in headcount.

Research and Development

Research and development expenses increased by $0.4 million, or 20%, to $2.5 million for the three months ended June 30, 2023 from $2.1 million for the three months ended June 30, 2022. The increase was primarily due to higher compensation costs due to an increase in headcount and increased testing and development expenses.

Interest Expense

Interest expense increased by $0.4 million, or 39%, to $1.3 million for the three months ended June 30, 2023 from $0.9 million for the three months ended June 30, 2022 due to the increased levels of borrowings under our Credit and Security Agreement (the “MidCap Credit Agreement”) with MidCap Financial Trust, as agent and certain lender parties thereto, and an increase to the variable component of our interest rate.

Loss on Extinguishment of Debt

We recorded a loss on the extinguishment of debt of $1.2 million during the three months ended June 30, 2022 related to the repayment of borrowings of our credit facilities with OrbiMed in May 2022. The losses were primarily comprised of the write-off of unamortized debt discounts and prepayment penalties at the time of extinguishment.

Other Income (Expense)

Other income increased $1.2 million to $0.9 million for the three months ended June 30, 2023. The increase was primarily due to higher interest income on increased cash balances and favorable foreign currency translation adjustments.

Comparison of the Six Months Ended June 30, 2023 and 2022

	Six Months Ended June 30,		Change	
	2023	2022	Dollar	Percentage
	(in thousands, except percentages)			
Revenue	$ 26,403	$ 18,637	$ 7,766	42 %
Cost of revenue (excluding amortization of intangible assets)	8,114	6,474	1,640	25
Amortization of intangible assets	190	614	(424)	(69)
Gross profit	18,099	11,549	6,550	57
Gross margin	69 %	62 %		
Operating expenses:				
Sales and marketing	28,043	20,433	7,610	37
General and administrative	7,106	7,088	18	0
Research and development	4,566	4,109	457	11
Total operating expenses	39,715	31,630	8,085	26
Loss from operations	(21,616)	(20,081)	(1,535)	8
Other expense:				
Interest expense	(2,544)	(1,845)	(699)	38
Loss on extinguishment of debt	—	(1,228)	1,228	(100)
Other income (expense)	1,343	(449)	1,792	(399)
Total other expense	(1,201)	(3,522)	2,321	(66)
Net loss	$ (22,817)	$ (23,603)	$ 786	(3)%

Revenue

Revenue increased by $7.8 million, or 42%, to $26.4 million for the six months ended June 30, 2023 from $18.6 million for the six months ended June 30, 2022. The increase in revenue was primarily driven by an increase in unit sales of our products due to the expansion of our commercial organization, the addition of new customers, increased penetration within existing customer accounts and growing international sales. During the six months ended June 30, 2023, we sold 6,278 units of OviTex as compared to 4,465 units of OviTex during the six months ended June 30, 2022, a 41% increase in unit sales volume. Additionally, we sold 1,588 units of OviTex PRS during the six months ended June 30, 2023 as compared to 1,115 units during the six months ended June 30, 2022, a 42% increase in unit sales volume.

Cost of Revenue

Cost of revenue (excluding amortization of intangible assets) increased by $1.6 million, or 25%, to $8.1 million for the six months ended June 30, 2023 from $6.5 million for the six months ended June 30, 2022. The increase in cost of revenue was primarily the result of an increase in products purchased to support demand from our higher unit sales, partially offset by a lower charge for excess and obsolete inventory.

Amortization of Intangible Assets

Amortization of intangible assets decreased by $0.4 million, or 69% to $0.2 million for the six months ended June 30, 2023 from $0.6 million for the six months ended June 30, 2022. In June 2022, we determined that our final milestone target under our licensing agreement with Aroa was probable of being met and recorded the payment obligation as an intangible asset, resulting in a cumulative amortization charge of $0.5 million for the six months ended June 30, 2022.

Gross Margin

Gross margin increased to 69% for the six months ended June 30, 2023 from 62% for the six months ended June 30, 2022. The increase was primarily due to a lower charge for excess and obsolete inventory as a percentage of revenue due to improvements in inventory management.

Sales and Marketing

Sales and marketing expenses increased by $7.6 million, or 37%, to $28.0 million for the six months ended June 30, 2023 from $20.4 million for the six months ended June 30, 2022. The increase was primarily due to higher compensation costs as a result of the expansion of our commercial organization, increased travel and consulting expenses and additional employee-related costs due to an increase in headcount.

General and Administrative

General and administrative remained flat at $7.1 million for both the six months ended June 30, 2023 and 2022. Higher compensation costs and employee related expenses due to an increase in headcount offset decreases in insurance and administrative expenses.

Research and Development

Research and development expenses increased by $0.5 million, or 11%, to $4.6 million for the six months ended June 30, 2023 from $4.1 million for the six months ended June 30, 2022. The increase was primarily due to higher compensation costs due to an increase in headcount and increased consulting which offset a decrease in outsourced development.

Interest Expense

Interest expense increased by $0.7 million, or 38%, to $2.5 million for the six months ended June 30, 2023 from $1.8 million for the six months ended June 30, 2022 due to the increased levels of borrowings under our Credit and Security Agreement (the “MidCap Credit Agreement”) with MidCap Financial Trust, as agent and certain lender parties thereto, and an increase to the variable component of our interest rate.

Loss on Extinguishment of Debt

We recorded a loss on the extinguishment of debt of $1.2 million during the six months ended June 30, 2022 related to the repayment of borrowings of our credit facilities with OrbiMed in May 2022. The losses were primarily comprised of the write-off of unamortized debt discounts and prepayment penalties at the time of extinguishment.

Other Income (Expense)

Other income increased $1.8 million to $1.3 million for the six months ended June 30, 2023. The increase was primarily due to higher interest income on increased cash balances and favorable foreign currency translation adjustments.

Liquidity and Capital Resources

Overview

As of June 30, 2023, we had cash and cash equivalents of $65.3 million, working capital of $76.1 million and an accumulated deficit of $297.0 million. As of December 31, 2022, we had cash and cash equivalents of $42.0 million, working capital of $50.0 million and an accumulated deficit of $274.2 million.

In April 2023, we completed an underwritten public offering in which we issued and sold 5,219,190 shares of our common stock (including 469,190 shares sold pursuant to the underwriters' overallotment option in May 2023) at a public offering price of $9.50 per share. We received net proceeds of approximately $46.3 million after deducting underwriting discounts, commissions and other offering expenses.

We have incurred operating losses since our inception, and we anticipate that our operating losses will continue in the near term as we seek to invest in our sales and marketing initiatives to support our growth in existing and new markets and in additional research and development activities. As of June 30, 2023, we had $40.0 million of borrowings outstanding under the MidCap Credit Agreement. The MidCap Credit Agreement matures in May 2027 and provides for up to $50.0 million in term loans (the "MidCap Term Loans"), consisting of a $40.0 million Tranche 1 ("Tranche 1") and a $10.0 million Tranche 2 ("Tranche 2"). Upon closing, we borrowed $40.0 million of Tranche 1 and used a portion of the proceeds to repay borrowings under the OrbiMed Credit Facility and intends to use the remaining proceeds to fund operations and other general corporate purposes. We will be eligible to borrow Tranche 2 at our option upon meeting certain conditions, including, but not limited to, reaching $65.0 million of net product revenue over the preceding four quarters by fiscal year end 2023.

Based on our current business plan, we believe that our existing cash resources will be sufficient to meet our capital requirements and fund our operations for at least the next 12 months from the issuance of this Quarterly Report. If these sources are insufficient to satisfy our liquidity requirements, we may seek to sell common or preferred equity or debt securities or enter into a new credit facility. In December 2020, we entered into an Equity Distribution Agreement (the "Equity Agreement") with Piper Sandler & Co, (the "Agent") in connection with the establishment of an at-the-market offering program under which we may sell up to an aggregate of $50.0 million of shares of our common stock, from time to time through the Agent as sales agent. No sales were made under the Equity Agreement during the six months ended June 30, 2023. If we raise additional funds by issuing equity or equity-linked securities, our stockholders would experience dilution and any new equity securities could have rights, preferences and privileges superior to those of holders of our common stock. Debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. We cannot be assured that additional equity, equity-linked or debt financing will be available on terms favorable to us or our stockholders, or at all, including as a result of market volatility following the COVID-19 pandemic, recent banking instability, increasing interest rates or other factors. If we are unable to obtain adequate financing, we may be required to delay or reduce the current development, commercialization and marketing plans for our products.

Cash Flows

The following table summarizes our sources and uses of cash for each of the periods presented:

	Six Months Ended June 30,	
(in thousands)	2023	2022
Cash used in operating activities	$ (22,838)	$ (22,116)
Cash used in investing activities	(272)	(536)
Cash provided by financing activities	46,174	6,502
Effect of exchange rate changes on cash and cash equivalents	183	(56)
Net increase (decrease) in cash and cash equivalents	$ 23,247	$ (16,206)

Operating Activities

During the six months ended June 30, 2023, we used $22.8 million of cash in operating activities, resulting from our net loss of $22.8 million and the change in operating assets and liabilities of $3.9 million, offset by non-cash charges of $3.8 million. Our non-cash charges were comprised of stock-based compensation expense of $2.4 million, our excess and obsolete inventory charge of $0.7 million, depreciation and amortization expense of $0.4 million and noncash interest expense of $0.3 million. The change in our operating assets and liabilities was primarily related to increases in accounts receivable and inventory partially offset by increases in accounts payable.

During the six months ended June 30, 2022, we used $22.1 million of cash in operating activities, resulting from our net loss of $23.6 million and the change in operating assets and liabilities of $4.0 million, offset by non-cash charges of $5.5 million. Our non-cash charges were comprised of stock-based compensation expense of $1.9 million, a loss on debt extinguishment of $1.2 million, our excess and obsolete inventory charge of $1.2 million, depreciation and amortization expense of $0.8 million and noncash interest expense of $0.4 million. The change in our operating assets and liabilities was primarily related to an increase in our inventory and accounts receivable.

Investing Activities

During the six months ended June 30, 2023, cash used in investing activities was $0.3 million consisting of purchases of property and equipment.

During the six months ended June 30, 2022, cash used in investing activities was $0.5 million, consisting of purchases of property and equipment.

Financing Activities

During the six months ended June 30, 2023, cash provided by financing activities was $46.2 million, consisting primarily of $46.4 million in proceeds received from the sale of our common stock partially offset by the payment of withholding taxes related to stock-based compensation to employees.

During the six months ended June 30, 2022, cash provided by financing activities was $6.5 million, consisting primarily of $40.0 million in proceeds received from the issuance of long-term debt offset by $30.0 million in repayments of long-term debt and $3.4 million in payments of issuance costs.

Indebtedness

On May 26, 2022, we entered into the MidCap Credit Agreement with MidCap Financial Trust, as agent and certain lender parties thereto. The MidCap Credit Agreement provides for up to $50.0 million in MidCap Term Loans, consisting of a $40.0 million Tranche 1 and a $10.0 million Tranche 2. Upon closing, we borrowed $40.0 million of Tranche 1 and used a portion of the proceeds to repay borrowings under the OrbiMed Credit Facility and intend to use the remaining proceeds to fund operations and other general corporate purposes. We will be eligible to borrow Tranche 2 at our option upon meeting certain conditions, including, but not limited to, reaching $65.0 million of net product revenue over the preceding four quarters by fiscal year end 2023.

Pursuant to the MidCap Credit Agreement, we provided a first priority security interest in all existing and future acquired assets, including intellectual property, owned by us. The MidCap Credit Agreement contains certain covenants that limit our ability to engage in certain transactions that may be in our long-term best interests, including the incurrence of additional indebtedness, effecting certain corporate changes, making certain investments, acquisitions or dispositions and paying dividends.

The MidCap Credit Agreement also contains customary indemnification obligations and customary events of default, including, among other things, (i) non-payment, (ii) breach of warranty, (iii) non-performance of covenants and obligations, (iv) default on other indebtedness, (v) judgments, (vi) change of control, (vii) bankruptcy and insolvency,

(viii) impairment of security, (ix) key permit events, (x) termination of a pension plan, (xi) regulatory matters, (xii) material adverse effect and (xiii) breach of material contracts.

In addition, we must maintain minimum net revenue levels tested quarterly. In the event of default under the MidCap Credit Agreement, we would be required to pay interest on principal and all other due and unpaid obligations at the current rate in effect plus 2%.

The MidCap Term Loans mature on May 1, 2027 and bear interest at a rate equal to 6.25% plus the greater of one-month Term SOFR (as defined in the MidCap Credit Agreement) or 1.0%. We are required to make 36 monthly interest payments beginning on June 1, 2022 (the “Interest-Only Period”). If we are in covenant compliance at the end of the Interest-Only Period, we will have the option to extend the Interest-Only Period by 12 months to 48 monthly interest payments, followed by 12 months of straight-line amortization, with the entire principal payment due at maturity. If we are not in covenant compliance at the end of the Interest-Only Period, we are required to make 24 months of straight-line amortization payments, with the entire principal amount due at maturity.

Subject to certain limitations, the MidCap Term Loans have a prepayment fee equal to 3.0% of the prepaid principal amount for the first year following the closing date of the MidCap Term Loans, 2.0% of the prepaid principal amount for the second year following the closing date and 1.0% of the prepaid principal amount for the third year following the closing date and thereafter. We are also required to pay an exit fee at the time of maturity or prepayment event equal to 5% of all principal borrowings (or in the event of a prepayment event, the amount of principal being prepaid).

Contractual Obligations and Commitments

As of June 30, 2023, there were no significant changes to our commitments and future minimum contractual obligations as set forth in our Annual Report.

Critical Accounting Policies and Significant Judgments and Estimates

The Critical Accounting Policies and Significant Judgements and Estimates included in our Annual Report have not materially changed.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our cash is held on deposit in demand accounts at high-credit-quality financial institutions in amounts in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance coverage limit of $250,000 per depositor, per FDIC-insured bank, per ownership category. On March 10, 2023, the California Department of Financial Protection and Innovation closed Silicon Valley Bank (“SVB”) and appointed the FDIC as receiver. On March 12, 2023, the U.S. Department of the Treasury, the Federal Reserve and the FDIC released a joint statement confirming that all depositors of SVB would have access to all of their money after only one business day of closure, including funds held in uninsured deposit accounts. On March 27, 2023, First Citizens BancShares, Inc. announced that it had purchased all of the assets and liabilities of SVB.

In addition, on March 10, 2023, the Bank of England (the “BOE”) announced that it intended to seek the placement of Silicon Valley Bank UK Limited (“SVBUK”), an affiliate of SVB, into a Bank Insolvency Procedure, which ultimately resulted in the acquisition of SVBUK by HSBC UK Bank Plc (“HSBC") on March 13, 2023. On August 7, 2023, all accounts associated with SVBUK were fully transitioned over to HSBC.

During the course of these events, a portion of our cash was held in accounts at SVB and SVBUK, with the remainder at another high-credit-quality financial institution. We have recently established additional redundant accounts with another

high-credit-quality financial institution to mitigate liquidity risk to our cash and cash equivalents from any further instability in the financial industry. We have reviewed the consolidated financial statements of this financial institution and believe they have sufficient assets and liquidity to conduct their operations in the ordinary course of business with little or no credit risk to us.

Financial instruments that potentially subject us to concentrations of credit risk principally consist of cash equivalents and accounts receivable. We limit our credit risk associated with cash equivalents by placing investments in highly-rated money market funds. We limit our credit risk with respect to accounts receivable by performing credit evaluations when deemed necessary, but we do not require collateral to secure amounts owed to us by our customers.

As discussed above in the section of this Quarterly Report entitled “Liquidity and Capital Resources — Indebtedness,” the MidCap Credit Facility bears interest at a floating rate of interest, which resets monthly and is equal to 6.25% plus the greater of one-month Term SOFR or 1.0%. As a result, we are exposed to risks from changes in interest rates. A 1% increase in interest rates would have resulted in a $0.2 million increase to our interest expense for the six months ended June 30, 2023.

Inflationary factors, such as increases in our cost of revenue and operating expenses, may adversely affect our operating results. Although we do not believe inflation has had a material impact on our financial condition, results of operations or cash flows to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain and increase our gross margin or decrease our operating expenses as a percentage of our revenue if our selling prices of our products do not increase as much or more than our costs increase.

We do not currently have any material exposure to foreign currency fluctuations and do not engage in any hedging activities as part of our normal course of business.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation and supervision of our Chief Executive Officer and our Chief Operating Officer and Chief Financial Officer, have evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this Quarterly Report. Based on that evaluation, our Chief Executive Officer and Chief Operating Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Operating Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are not currently subject to any material legal proceedings.

Item 1A. Risk Factors.

You should carefully consider the risk factors described in our Annual Report, under the caption “Item 1A. Risk Factors.” There have been no material changes in our risk factors disclosed in our Annual Report.

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

Recent Sales of Unregistered Securities

None.

Purchase of Equity Securities

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

The following exhibits are being filed herewith:

EXHIBIT INDEX

Exhibit No.	Exhibit
10.1	Employment Agreement, dated August 3, 2023, by and between the Company and Gregory Firestone (filed herewith).
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101 INS	Inline XBRL Instance Document (filed herewith).
101 SCH	Inline XBRL Taxonomy Extension Schema Document (filed herewith).
101 CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith).
101 DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (filed herewith).
101 LAB	Inline XBRL Taxonomy Extension Label Linkbase Document (filed herewith).
101 PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith).
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

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.

TELA BIO, INC.

Date: August 10, 2023

By: /s/ ANTONY KOBLISH
Antony Koblish
President and Chief Executive Officer
(Principal executive officer)

Date: August 10, 2023

By: /s/ ROBERTO CUCA
Roberto Cuca
Chief Operating Officer and Chief Financial Officer
(Principal financial officer)

Date: August 10, 2023

By: /s/ MEGAN SMEYKAL
Megan Smeykal
Chief Accounting Officer and Controller
(Principal accounting officer)

Exhibit 10.1

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), dated as of August 3, 2023, is made and entered into by and between TELA Bio, Inc., a Delaware corporation (the "Company"), and Gregory Firestone (the "Executive").

WHEREAS, the Company and Executive desire to continue the employment of Executive with the Company, on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and intending to be bound hereby, the parties agree as follows:

1. Duration of Agreement. This Agreement is effective on the date set forth above and has no specific expiration date. Unless terminated or amended in writing by the parties, this Agreement will govern the Executive's continued employment by the Company until that employment ceases in accordance with Section 5 hereof.

2. Position; Duties. The Executive will be employed as the Company's Chief Business Officer, reporting directly to the Company's President and Chief Executive Officer. In such position, the Executive shall perform such duties and shall have such authority consistent with such position as may be assigned to him from time to time by the Company's President and Chief Executive Officer. The Executive shall devote his best efforts and all of his business time and services to the Company and its Affiliates. The Executive shall not, in any capacity, engage in other business activities or perform services for any other Person without the prior written consent of the Board; *provided, however,* that without such consent, the Executive may engage in charitable or public service, so long as such activities do not interfere with the Executive's performance of his duties and obligations hereunder.

3. Place of Performance. The Executive may perform his services hereunder at, among other locations, the principal executive offices of the Company, the Executive's home office and/or during business-related travel.

4. Compensation.

4.1. Base Salary. The Executive's annual salary will be $330,000 (the "Base Salary"). The Company shall pay the Base Salary, less such withholdings and deductions as required by applicable law, to the Executive in accordance with the Company's usual payroll practices as in effect from time to time. The Base Salary shall be reviewed on an annual basis by the Board and may adjusted from time to time by the Board; *provided, however,* that any decrease in the Base Salary shall be made only if the Company contemporaneously decreases the salaries of all senior executives and vice presidents of the Company and the Executive's Base Salary is decreased by a percentage that is not greater than the average percentage by which the salaries of such other senior executives and vice presidents are decreased.

4.2. Annual Bonus. Executive will be eligible to participate in an annual incentive program established by the Board. Executive's annual incentive compensation under such incentive program (the "Annual Bonus") shall be targeted at 50% of Executive's Base Salary (the "Target Bonus"). The Annual Bonus payable under the incentive program shall be

based on the achievement of performance goals to be determined by the Board. Any Annual Bonus earned will be paid at the same time annual bonuses are paid to other executives of the Company generally, subject to Executive's continuous employment through the date of payment, except as otherwise provided in Section 5.

4.3. Promotion Equity Award. Within 30 days following the Effective Date and subject to the Executive's continued employment through the date of grant, the Company will grant to the Executive a grant of Restricted Stock Units ("RSUs") covering 17,950 shares of the Company's common stock. The RSU award will represent a right to receive the applicable number of shares of the Company's common stock upon fulfillment of the applicable vesting criteria set forth in the award agreement. We anticipate that the RSUs will vest in equal annual installments over four years, subject to your continued employment with the Company. The grant date for your RSUs will be set by the Board or Compensation Committee at the time of approval and the RSUs shall be subject to the terms and conditions for such awards as set forth in the Company's Amended and Restated 2019 Equity Incentive Plan.

4.4. Employee Benefits. The Executive will be eligible to participate in the employee benefit plans, policies or arrangements maintained by the Company for its senior executive employees generally, subject to the terms and conditions of such plans, policies or arrangements; *provided, however,* that this Agreement will not limit the Company's ability to amend, modify or terminate such plans, policies or arrangements at any time for any reason.

4.5. Paid Time Off. Subject to the terms and conditions of the Company's policy, as may be amended from time to time, the Executive will be eligible for four weeks of paid time off each calendar year.

4.6. Reimbursement of Expenses. The Company will pay or reimburse the Executive for all reasonable business expenses incurred or paid by the Executive in the performance of his duties and responsibilities for the Company in accordance with the business expense reimbursement policies of the Company, as may be amended from time to time.

5. Termination; Severance. The Executive's employment hereunder shall terminate (i) on the date specified in a written notice from the Company that Executive's employment with the Company will be terminated, (ii) on the date not less than 30 days following written notice from the Executive that he is resigning from the Company, (iii) on the date of his death or (iv) on the date of his Disability, as reasonably determined by the Company. Upon cessation of his employment for any reason, unless otherwise consented to in writing by the Board, the Executive shall resign immediately from any and all officer, director and other positions he then holds with the Company and/or its Affiliates. Upon any cessation of his employment with the Company, the Executive shall be entitled only to such compensation and benefits as described in this Section 5.

5.1. Termination without Cause or upon Good Reason. If the Executive's employment by the Company ceases due to a termination by the Company without Cause (as defined below) or a termination by the Executive for Good Reason (as defined below), the Company shall:

5.1.1. pay to the Executive all accrued and unpaid Base Salary through the termination date at the time such Base Salary would otherwise be paid according to the Company's usual payroll practices;

5.1.2. pay to the Executive any accrued and unpaid Annual Bonus for the year preceding the year in which the termination date occurs at the time such Annual Bonus would otherwise be paid in accordance with Section 4.2, but in no event later than March 15 of the year immediately following the year in which the termination date occurs;

5.1.3. make severance payments to the Executive in the form of continuation of the Executive's then current Base Salary for a period of nine (9) months following the termination date (or, if the termination occurs within the Change of Control Period, for a period of twelve (12) months following the termination date), in accordance with the Company's normal payroll practices (such 9- or 12-month period, as applicable, the "Severance Period");

5.1.4. provide to the Executive a continuation of health, dental and vision insurance during the Severance Period and, to the extent that the continuation of such insurance coverage is not permitted under the Company's insurance policies, pay to the Executive a cash amount equal to the monthly cost of continued coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA"); and

5.1.5. in the event that the termination occurs on or within the Change of Control Period, (i) pay to the Executive an amount equal to 100% of the Executive's then current Target Bonus, payable in the form of cash payments in regular installments over the Severance Period in accordance with the Company's normal payroll practices, (ii) pay to the Executive a pro-rated portion (based on the number of days Executive was employed by the Company during the calendar year in which the termination date occurs) of the Annual Bonus that Executive would have earned for the year of termination had Executive remained employed, as determined by the Board in good faith; *provided* that such pro-rated Annual Bonus shall be paid out at the same time annual bonuses are paid generally to other executives of the Company for the relevant year, but in no event later than March 15th of the year immediately following that in which the termination date occurs, and (iii) the vesting and, if applicable, exercisability shall be accelerated (and, if applicable, all restrictions and rights of repurchase on such awards shall lapse) effective as of immediately prior to the termination date with respect to 100% of the shares subject to Executive's then outstanding equity awards; provided, however, that for any awards that vest in whole or in part based on the attainment of performance-vesting conditions, only the service-vesting conditions (if any) of such award shall be deemed satisfied, while the performance-vesting conditions of such award shall remain eligible to be achieved based upon actual performance over the remainder of the applicable performance period.

5.1.6. Except as otherwise provided in this Section 5.1, all compensation and benefits will cease at the time of the Executive's cessation of employment and the Company will have no further liability or obligation by reason of such cessation of employment. The payments and benefits described in this Section 5.1 are in lieu of, and not in addition to, any other severance arrangement maintained by the Company. Notwithstanding any provision of this Agreement, the payments described in Section 5.1 (other than Section 5.1.1) are conditioned on:

(a) the Executive's execution and delivery to the Company of a general release of claims against the Company and its Affiliates substantially in form and substance satisfactory to the Company (the "Release") and on such Release becoming irrevocable by the 60th day following the effective date of the Executive's cessation of employment; and (b) the Executive's continued compliance with the provisions of the Restrictive Covenant Agreement (as defined below). Subject to Section 5.3 below, to the extent that any payments under this Section 5.1 (other than Section 5.1.1) are delayed pending the Release becoming irrevocable, the delayed amounts will be paid in a lump sum as soon as administratively practicable after the Release becomes irrevocable, provided that if the 60 day period described above begins in one taxable year and ends in a second taxable year, the payment of the delayed amounts and the commencement of the remaining payments shall not occur until the second taxable year.

5.2. Other Terminations. If the Executive's employment with the Company ceases for any reason other than as described in Section 5.1 above (including but not limited to (a) termination by the Company for Cause, (b) resignation by the Executive without Good Reason, (c) termination as a result of the Executive's Disability, or (d) the Executive's death), then the Company's obligation to the Executive will be limited solely to the payment of accrued and unpaid Base Salary as described in Section 5.1.1 through the date of such cessation of employment and, in the case of Executive's death or Disability, any Annual Bonus as described in Section 5.1.2. All compensation and benefits will cease at the time of such cessation of employment and, except as otherwise provided by COBRA, the Company will have no further liability or obligation by reason of such termination. The foregoing will not be construed to limit the Executive's right to payment or reimbursement for claims incurred prior to the date of such termination under any insurance contract funding an employee benefit plan, policy or arrangement of the Company in accordance with the terms of such insurance contract.

5.3. Compliance with Section 409A. Notwithstanding anything to the contrary in this Agreement, no portion of the benefits or payments to be made under Section 5.1 will be payable until the Executive has a "separation from service" from the Company within the meaning of Section 409A of the Code. In addition, to the extent compliance with the requirements of Treas. Reg. § 1.409A-3(i)(2) (or any successor provision) is necessary to avoid the application of an additional tax under Section 409A of the Code to payments due to the Executive upon or following his "separation from service", then notwithstanding any other provision of this Agreement (or any otherwise applicable plan, policy, agreement or arrangement), any such payments that are otherwise due within six months following the Executive's "separation from service" (taking into account the preceding sentence of this paragraph) will be deferred without interest and paid to the Executive in a lump sum on the earlier of (i) the expiration of such six month period and (ii) the date of Executive's death. This paragraph should not be construed to prevent the application of Treas. Reg. § 1.409A-1 (b)(9)(iii) (or any successor provision) to amounts payable hereunder. For purposes of the application of Section 409A of the Code, each payment in a series of payments will be deemed a separate payment.

6. Restrictive Covenants. The Executive acknowledges and agrees to abide by the terms of, and agrees that his continued employment by the Company is contingent upon, his valid and binding execution of the Confidential Information, Non-Competition and Assignment Agreement which the Executive previously executed and delivered to the Company (the

"Restrictive Covenant Agreement"). By execution and delivery of this Agreement, the Executive reaffirms his obligations under the Restrictive Covenant Agreement. The Executive acknowledges that the terms of the Restrictive Covenant Agreement shall continue to remain in full-force and effect following the cessation of the Executive's employment with the Company for any reason.

7. Certain Definitions. For purposes of this Agreement:

7.1. "Affiliate" means, with respect to any specified Person, any other Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, such specified Person, provided that, in any event, any business in which the Company has any direct ownership interest shall be treated as an Affiliate of the Company.

7.2. "Cause" means (i) indictment, commission of, or the entry of a plea of guilty or no contest to, (A) a felony or (B) any crime (other than a felony) that causes the Company or its Affiliates public disgrace or disrepute, or adversely affects the Company's or its Affiliates' operations or financial performance or the relationship the Company has with its Affiliates, customers and suppliers; (ii) commission of an act of gross negligence, willful misconduct, fraud, embezzlement, theft or material dishonesty with respect to the Company or any of its Affiliates; (iii) a breach of the Executive's fiduciary duty of loyalty to the Company or any of its Affiliates; (iv) alcohol abuse or use of controlled substances (other than prescription drugs taken in accordance with a physician's prescription); (v) material breach of any agreement with the Company or any of its Affiliates, including this Agreement and the Restrictive Covenant Agreement; (vi) a material breach of any Company policy regarding employment practices; or (vii) refusal to perform the lawful directives of the Board, if not cured within 30 days following receipt by the Executive from the Company of written notice thereof.

7.3. "Change of Control" means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events: (A) any sale, lease, exclusive license or other transfer of all or substantially all of the assets of the Company and its Subsidiaries taken as a whole by means of a single transaction or series of related transactions, except where such sale, lease, exclusive license or other transfer is to a wholly owned Subsidiary of the Company; or (B) any transaction or series of transactions involving the Company, or its securities, whether by consolidation, merger, purchase of shares of capital stock or other reorganization or combination or otherwise, in which the holders of the Company's outstanding shares of capital stock immediately prior to such transaction or series of related transactions own, immediately after such transaction or series of related transactions, securities representing fifty percent (50%) or less of the voting power of the entity surviving such transaction or series of related transactions or the entity whose securities are issued pursuant to such transaction or series of related transactions.

7.4. "Change of Control Period" means the period beginning on the date of the consummation of a Change in Control and ending on the first anniversary of such date.

7.5. "Code" means the Internal Revenue Code of 1986, as amended.

7.6. "Control" (including, with correlative meanings, the terms "Controlled by" and "under common Control with"), as used with respect to any Person, means the direct or indirect possession of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

7.7. "Disability" means a condition entitling the Executive to benefits under the Company's long term disability plan, policy or arrangement; *provided, however,* that if no such plan, policy or arrangement is then maintained by the Company and applicable to the Executive, "Disability" will mean the Executive's inability to perform the essential duties of his position due to a mental or physical condition (other than alcohol or substance abuse), with or without a reasonable accommodation. Termination as a result of a Disability will not be construed as a termination by the Company "without Cause."

7.8. "Good Reason" means one or more of the following: (i) a material reduction in the Executive's title, duties, authority or responsibilities, provided that a material reduction of the Executive's title, duties, authority or responsibilities hereunder shall be deemed not to have occurred if, following a Change of Control, (A) if the Company remains a separate entity, Executive is the most senior executive directly responsible for the Commercial functions of the Company, or (B) if the Company does not remain a separate entity, Executive is the most senior executive directly responsible for the Commercial functions of the acquiring entity that are comprised of the former business of the Company; (ii) a material breach of this Agreement by the Company; (iii) a material reduction in Base Salary or Target Bonus opportunity by the Company to the Executive that is not in accordance with Section 4.1 and to which the Executive has not provided written consent; or (iv) any requirement following a Change of Control that the Executive be based 50 or more miles from the facility where the Executive is based immediately prior to the Change of Control. The notice by the Executive of the condition constituting Good Reason under this Agreement shall be provided to the Company in writing within ninety (90) days of the initial existence of the condition constituting Good Reason, the Company shall then have thirty (30) days after receipt of such written notice to remedy the condition, and in the event the Company fails to remedy the condition, the Executive's resignation based on such Good Reason must be effective within thirty (30) days after the expiration of such remedy period.

7.9. "Person" means any individual, firm, corporation, partnership, limited liability company, trust, joint venture, association, governmental entity, unincorporated entity or other entity.

7.10. "Subsidiary" means any corporation, limited liability company, partnership or other entity of which a majority of the outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company.

8. Miscellaneous.

8.1. Cooperation. The Executive further agrees that, subject to reimbursement of his reasonable expenses, he will cooperate fully with the Company and its counsel with respect to any matter (including litigation, investigations, or governmental proceedings) in which the Executive was in any way involved during his employment with the Company. The Executive shall render such cooperation in a timely manner on reasonable notice from the

Company, so long as the Company exercises commercially reasonable efforts to schedule and limit its need for the Executive's cooperation under this paragraph so as not to interfere with the Executive's other personal and professional commitments.

8.2. Section 409A.

8.2.1. Notwithstanding anything herein to the contrary or otherwise, except to the extent any expense, reimbursement or in-kind benefit provided to the Executive does not constitute a "deferral of compensation" within the meaning of Section 409A of the Code, and its implementing regulations and guidance, (i) the amount of expenses eligible for reimbursement or in-kind benefits provided to the Executive during any calendar year will not affect the amount of expenses eligible for reimbursement or in-kind benefits provided to the Executive in any other calendar year, (ii) the reimbursements for expenses for which the Executive is entitled to be reimbursed shall be made on or before the last day of the calendar year following the calendar year in which the applicable expense is incurred and (iii) the right to payment or reimbursement or in-kind benefits hereunder may not be liquidated or exchanged for any other benefit.

8.2.2. Anything to the contrary herein notwithstanding, all benefits or payments provided by the Company to the Executive that would be deemed to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code are intended to comply with Section 409A of the Code. Notwithstanding anything in this Agreement to the contrary, distributions may only be made under this Agreement upon an event and in a manner permitted by Section 409A of the Code or an applicable exemption.

8.3. Section 280G. Notwithstanding any other provision of this Agreement, in the event that any payment or benefit by the Company or otherwise to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (all such payments and benefits, including the payments and benefits under Section 5 above, being hereinafter referred to as the "Total Payments"), would be subject (in whole or in part) to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then the Total Payments shall be reduced to the minimum extent necessary to avoid the imposition of the Excise Tax on the Total Payments, but only if (i) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income and employment taxes on such reduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced Total Payments), is greater than or equal to (ii) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income and employment taxes on such Total Payments and the amount of the Excise Tax to which Executive would be subject in respect of such unreduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced Total Payments). The reduction of the Total Payments contemplated in this Section 8.3 shall be implemented by determining the Parachute Payment Ratio (as defined below), as determined in good faith by the Company (or its successor), for each Total Payment and then reducing the Total Payments in order beginning with the Total Payment with the highest Parachute Payment Ratio. For Total Payments with the same Parachute Payment Ratio, such Total Payments shall be reduced based on the time of payment of such Total Payments, with amounts having later

payment dates being reduced first. For Total Payments with the same Parachute Payment Ratio and the same time of payment, such Total Payments shall be reduced on a pro rata basis (but not below zero) prior to reducing Total Payments with a lower Parachute Payment Ratio. For purposes hereof, the term "Parachute Payment Ratio" shall mean a fraction, (x) the numerator of which is the value of the applicable Total Payment (as calculated for purposes of Section 280G of the Code), and (y) the denominator of which is the intrinsic (i.e., economic) value of such Total Payment.

8.4. Other Agreements. The Executive represents and warrants to the Company that there are no restrictions, agreements, including but not limited to confidentiality, non-compete, invention assignment, or consulting agreements, or understandings whatsoever to which he is a party that would prevent or make unlawful his execution of this Agreement, that would be inconsistent or in conflict with this Agreement or the Executive's obligations hereunder, or that would otherwise prevent, limit or impair the performance by the Executive of his duties under this Agreement.

8.5. Successors and Assigns. The Company may assign this Agreement to any Affiliate or to any successor to its assets and business by means of liquidation, dissolution, merger, sale of assets or otherwise. Upon such assignment, the rights and obligations of the Company hereunder shall become the rights and obligations of such Affiliate or successor. For avoidance of doubt, a termination of the Executive's employment by the Company in connection with a permitted assignment of the Company's rights and obligations under this Agreement is not a termination "without Cause" so long as the assignee offers employment to the Executive substantially on the terms herein specified (without regard to whether the Executive accepts employment with the assignee). The rights and duties of the Executive hereunder are personal to Executive and may not be assigned by him.

8.6. Governing Law and Enforcement. This Agreement will be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to the principles of conflicts of laws. Any legal proceeding arising out of or relating to this Agreement will be instituted in a state or federal court in the Commonwealth of Pennsylvania, and the Executive and the Company hereby consent to the personal and exclusive jurisdiction of such court(s) and hereby waive any objection(s) that they may have to personal jurisdiction, the laying of venue of any such proceeding and any claim or defense of inconvenient forum.

8.7. Waivers. The waiver by either party of any right hereunder or of any breach by the other party will not be deemed a waiver of any other right hereunder or of any other breach by the other party. No waiver will be deemed to have occurred unless set forth in writing. No waiver will constitute a continuing waiver unless specifically stated, and any waiver will operate only as to the specific term or condition waived.

8.8. Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law. However, if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provision, and this Agreement

will be reformed, construed and enforced as though the invalid, illegal or unenforceable provision had never been herein contained.

8.9. Survival. This Agreement will survive the cessation of the Executive's employment to the extent necessary to fulfill the purposes and intent of this Agreement.

8.10. Notices. Any notice or communication required or permitted under this Agreement will be made in writing and (a) sent by reputable overnight courier, (b) mailed by overnight U.S. express mail, return receipt requested or (c) sent by telefax. Any notice or communication to the Executive will be sent to the address contained in his personnel file. Any notice or communication to the Company will be sent to the Company's principal executive offices, to the attention of the Board. Notwithstanding the foregoing, either party may change the address for notices or communications hereunder by providing written notice to the other in the manner specified in this paragraph.

8.11. Withholding. All payments (or transfers of property) to the Executive will be subject to tax withholding to the extent required by applicable law.

8.12. Section Headings. The headings of sections and paragraphs of this Agreement are inserted for convenience only and will not in any way affect the meaning or construction of any provision of this Agreement.

8.13. Counterparts; Facsimile. This Agreement may be executed in multiple counterparts (including by facsimile signature), each of which will be deemed to be an original, but all of which together will constitute but one and the same instrument.

8.14. Entire Agreement; Amendments. This Agreement contains the entire agreement and understanding of the parties hereto relating to the subject matter hereof, and supersedes all prior discussions, agreements and understandings of every nature relating to that subject matter. This Agreement may not be changed or modified, except by an agreement in writing signed by each of the parties hereto.

8.15. Policies. Executive acknowledges that Executive shall be subject to, and hereby agrees to abide by the terms of, Company policies in effect from time to time, including, without limitation, any clawback or recoupment policies, securities trading policies and stock ownership guidelines.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer, and the Executive has executed this Agreement, in each case on the date first above written.

COMPANY:

TELA Bio, Inc.

By: /s/ Antony Koblish
Name: Antony Koblish
Title: Chief Executive Officer

EXECUTIVE:

/s/ Gregory Firestone
Gregory Firestone

EXHIBIT 31.1

CERTIFICATION

Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934,
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Antony Koblish, certify that:

1. I have reviewed this Form 10-Q of TELA Bio, 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 10, 2023

/s/ Antony Koblish
Antony Koblish
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934,
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Roberto Cuca, certify that:

1. I have reviewed this Form 10-Q of TELA Bio, 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 10, 2023

/s/ Roberto Cuca
Roberto Cuca
Chief Operating Officer and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), that: Antony Koblish, Chief Executive Officer of TELA Bio, Inc. (the "Company"), hereby certifies that, to the best of his knowledge:

(1) The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2023, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

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

Date: August 10, 2023

/s/ Antony Koblish
Antony Koblish
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), that: Roberto Cuca, Chief Operating Officer and Chief Financial Officer of TELA Bio, Inc. (the "Company"), hereby certifies that, to the best of his knowledge:

(1) The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2023, to which this Certification is attached as Exhibit 32.2 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

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

Date: August 10, 2023

/s/ Roberto Cuca

Roberto Cuca
Chief Operating Officer and Chief Financial Officer
(Principal Financial Officer)