

SONENDO, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except par value and share amounts)

	December 31, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,226	\$ 14,009
Short-term investments	1,401	32,773
Accounts receivable, net	3,682	4,790
Inventory, net	10,210	11,074
Prepaid expenses and other current assets	1,286	1,969
Current assets of discontinued operations	1,000	656
Total current assets	27,805	65,271
Property and equipment, net	—	461
Operating lease right-of-use assets	3,338	2,703
Other assets	122	128
Non-current assets of discontinued operations	—	9,597
Total assets	<u>\$ 31,265</u>	<u>\$ 78,160</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,962	\$ 1,142
Accrued expenses	2,002	3,072
Accrued compensation	2,580	2,413
Operating lease liabilities	1,085	1,250
Current portion of term loan	10,800	24,900
Other current liabilities	1,510	1,844
Current liabilities of discontinued operations	—	700
Total current liabilities	19,939	35,321
Operating lease liabilities, net of current	2,168	1,289
Term loan, net of current	3,637	12,467
Other liabilities	330	530
Non-current liabilities of discontinued operations	—	134
Total liabilities	26,074	49,741
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; authorized —10,000,000 shares; issued and outstanding - none	—	—
Common stock, \$0.001 par value; authorized — 500,000,000 shares; issued and outstanding—427,330 shares as of December 31, 2024 and 317,737 shares as of December 31, 2023	—	—
Additional paid-in-capital	463,236	458,421
Accumulated other comprehensive gain	1	11
Accumulated deficit	(458,046)	(430,013)
Total stockholders' equity	5,191	28,419
Total liabilities and stockholders' equity	<u>\$ 31,265</u>	<u>\$ 78,160</u>

The accompanying notes are an integral part of these Consolidated Financial Statements

SONENDO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share and per share amounts)

	Year Ended December 31,	
	2024	2023
Revenue, net	\$ 31,702	\$ 34,628
Cost of sales	19,860	29,959
Gross profit	11,842	4,669
Operating expenses:		
Selling and marketing	17,097	28,697
General and administrative	17,353	24,794
Research and development	6,758	10,443
Total operating expenses	41,208	63,934
Operating loss	(29,366)	(59,265)
Interest expense and other income:		
Interest expense	(5,471)	(6,456)
Other income	1,297	3,260
Total interest expense and other income	(4,174)	(3,196)
Loss before income tax expense	(33,540)	(62,461)
Income tax expense	(2)	(2)
Loss from continuing operations, net of tax	(33,542)	(62,463)
Income from discontinued operations, net of tax	5,509	1,544
Net loss	<u>\$ (28,033)</u>	<u>\$ (60,919)</u>
Other comprehensive loss (net of tax):		
Unrealized (loss) gain on short-term investments	(10)	72
Comprehensive loss	<u>\$ (28,043)</u>	<u>\$ (60,847)</u>
Net loss per share from continuing operations – basic and diluted	\$ (70.63)	\$ (132.92)
Net income per share from discontinued operations – basic and diluted	\$ 11.60	\$ 3.29
Net loss per share – basic and diluted	<u>\$ (59.03)</u>	<u>\$ (129.63)</u>
Weighted-average shares outstanding – basic and diluted	<u>474,856</u>	<u>469,943</u>

The accompanying notes are an integral part of these Consolidated Financial Statements

SONENDO, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except shares amount)

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Other</u>	<u>Deficit</u>	<u>Stockholders'</u>
			<u>Capital</u>	<u>Comprehensive</u>		<u>Equity</u>
				<u>Gain (Loss)</u>		
Balance at December 31, 2022	249,871	\$ —	\$ 451,110	\$ (61)	\$ (369,094)	\$ 81,955
Employee stock plans	7,314	—	35	—	—	35
Stock-based compensation	—	—	7,276	—	—	7,276
Exercise of Common Stock Warrants	60,552	—	—	—	—	—
Unrealized gain on short-term investments	—	—	—	72	—	72
Net loss	—	—	—	—	(60,919)	(60,919)
Balance at December 31, 2023	317,737	\$ —	\$ 458,421	\$ 11	\$ (430,013)	\$ 28,419
Employee stock plans	6,835	—	(8)	—	—	(8)
Stock-based compensation	—	—	4,823	—	—	4,823
Exercise of pre-funded warrants	102,758	—	—	—	—	—
Unrealized loss on short-term investments	—	—	—	(10)	—	(10)
Net loss	—	—	—	—	(28,033)	(28,033)
Balance at December 31, 2024	<u>427,330</u>	<u>\$ —</u>	<u>\$ 463,236</u>	<u>\$ 1</u>	<u>\$ (458,046)</u>	<u>\$ 5,191</u>

The accompanying notes are an integral part of these Consolidated Financial Statements

SONENDO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,	
	2024	2023
Cash flows from operating activities:		
Net loss	\$ (28,033)	\$ (60,919)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	288	1,118
Amortization of intangible assets	51	585
Amortization of right-of-use lease assets	1,119	1,272
Excess and obsolete inventory provisions	356	2,917
Impairment of long-lived assets	776	2,626
Credit loss expenses (recoveries)	(219)	422
Impairment of intangible assets	—	1,046
Stock-based compensation	4,823	7,276
Amortization of debt issuance costs	1,970	621
Accretion of available for sale securities, net	(406)	(2,248)
Gain on sale of discontinued operations	(5,703)	—
Changes in operating assets and liabilities:		
Accounts receivable	1,619	295
Inventory	75	852
Prepaid expenses and other assets	1,418	6,047
Accounts payable	786	(3,262)
Accrued expenses and other liabilities	(3,618)	(3,955)
Deferred revenue	224	103
Accrued compensation	(178)	(858)
Net cash used in operating activities	<u>(24,652)</u>	<u>(46,062)</u>
Cash flows from investing activities:		
Purchases of available-for-sale securities	(4,506)	(60,069)
Proceeds from maturities of available-for-sale securities	36,273	103,400
Purchases of property and equipment	(161)	(929)
Proceeds from sale of discontinued operations, net	14,208	—
Net cash provided by investing activities	<u>45,814</u>	<u>42,402</u>
Cash flows from financing activities:		
Principal repayments on term loan	(24,900)	—
Issuance of stock under employee stock plans	—	127
Taxes paid on vested stock awards under employee stock plans	(7)	(92)
Principal repayments on finance lease	(38)	(31)
Net cash provided by (used in) financing activities	<u>(24,945)</u>	<u>4</u>
Net decrease in cash and cash equivalents	<u>(3,783)</u>	<u>(3,656)</u>
Cash and cash equivalents at beginning of year	14,009	17,665
Cash and cash equivalents at end of year	<u>\$ 10,226</u>	<u>\$ 14,009</u>
Supplemental disclosures of cash flow information:		
Cash paid for:		
Taxes	\$ 2	\$ 2
Interest	\$ 3,475	\$ 5,813
Supplemental schedule of non-cash investing and financing activities:		
Operating lease right-of-use assets obtained in exchange for lease liabilities	\$ 1,836	\$ 1,792

The accompanying notes are an integral part of these Consolidated Financial Statements

1. Organization and Basis of Presentation

Unless indicated otherwise or the context otherwise requires, the terms “we,” “our,” “us,” “Sonendo,” or the “Company” refer to Sonendo, Inc.

Description of Business

Sonendo, Inc. was incorporated in June 2006 pursuant to the laws of the State of Delaware under the name Dentatek Corporation. In March 2011, the Company changed its name to Sonendo, Inc. The Company is a medical technology company that has developed and is commercializing the GentleWave System to treat tooth decay. The Company’s principal market is the United States. The Company’s products include the GentleWave System, which is cleared by the United States (“U.S.”) Food and Drug Administration (the “FDA”) for sale in the U.S. and approved by Health Canada in Canada, along with the system’s sterilized, single-use procedure instruments (“PIs”).

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements, including the accounts of Sonendo and its wholly-owned subsidiary, PIPStek, LLC, have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). All significant inter-company balances and transactions among the consolidated entities have been eliminated in consolidation.

As discussed in Note 3, “Discontinued Operations”, on March 1, 2024, the Company divested its software segment by selling substantially all assets and liabilities of its wholly owned subsidiary, then-known as TDO Software, Inc. The sale met the criteria to be accounted for as a discontinued operation as required by Accounting Standards Codification (“ASC”) 205-20. Accordingly, the financial results of the Software business are reported as discontinued operations in the accompanying Consolidated Statements of Operations and Comprehensive Loss for all periods presented. The Company’s Consolidated Statements of Cash Flows include the financial results of the Software business for the year ended December 31, 2024 and 2023. All amounts and disclosure included in the Notes to the consolidated financial statements reflect only the Company’s continuing operations unless otherwise noted.

The accompanying consolidated financial statements reflect the 1-for-200 reverse split of the Company’s common stock that was approved by our Board of Directors and made effective on October 18, 2024. All share and per share information herein that relates to our common stock prior to the effective date has been retroactively restated to reflect the reverse stock split.

Certain line items on the consolidated statements of operations and comprehensive loss and the consolidated statements of cash flows are reclassified in the prior period to conform to current period presentation.

Reverse Stock Split

On October 16, 2024, the Company filed an amendment to our Amended and Restated Certificate of Incorporation to implement a 1-for-200 reverse stock split of its issued and outstanding common stock, effective as of October 18, 2024. The reverse stock split was announced by FINRA on its OTC Daily List on November 7, 2024 and took effect at the open of trading on November 8, 2024 on the OTCQX. The reverse stock split correspondingly adjusted the per share exercise price of all outstanding options and all shares underlying any of the Company’s outstanding warrants by reducing the conversion ratio for each outstanding warrant and increasing the applicable exercise price or conversion price in accordance with the terms of each outstanding warrant and based on the reverse stock split ratio. No fractional shares were issued in connection with the reverse stock split. The number of shares of common stock authorized under the Company’s Amended and Restated Certificate of Incorporation is unchanged at 500,000,000 shares. The accompanying consolidated financial statements reflect the 1-for-200 reverse split of the Company’s common stock. All share and per share information data herein that relates to common stock prior to the effective date has been retroactively restated to reflect the reverse stock split.

Liquidity and Going Concern

As of December 31, 2024, the Company had cash and cash equivalents and short-term investments of \$11.6 million and \$15.1 million in principal outstanding under its loan facility.

The Company has a limited operating history, and the revenue and income potential of the Company's business and market are unproven. The Company has experienced net losses and negative cash flows from operations since its inception and as of December 31, 2024 had an accumulated deficit of \$458.0 million. During the year ended December 31, 2024, the Company incurred net losses of \$33.5 million and used \$24.7 million of cash, cash equivalents in operations, and recognized a gain of \$5.7 million from sale of discontinued operations. The Company will continue to incur significant costs and expenses related to its ongoing operations until it gains market acceptance of products and achieves a level of revenues adequate to support its operations.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

The Company's ability to continue as a going concern depends on its ability to continue to commercialize its products, achieve and maintain profitable operations, as well as the adherence to conditions of the outstanding term loan as amended in March 2024 (see *Note 10*). Without additional financing, the Company will have insufficient liquidity to achieve further commercialization of our products and maintain compliance with our loan covenants. Due to these conditions, there is substantial doubt about the Company's ability to continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Company has active plans to mitigate any doubt as to the Company's ability to continue as a going concern. Specifically, the Company has been taking steps and plans to further reduce negative cash flow through additional operating expense reductions. The Company is also actively exploring financing options. Its plans are subject to inherent risks and uncertainties and there can be no assurance that its plans can be effectively implemented and, therefore, that the conditions can be effectively mitigated.

The Company will require additional financing in order to fund its future expected negative cash flows. Due to its failure to comply with the continued listing standards set forth in the NYSE's Listed Company Manual, our common stock was suspended from trading on the NYSE effective at the opening of business Eastern Standard Time on November 22, 2023. The Company commenced trading on the OTCQX on the same day. In April 2024, the Company withdrew its request to appeal and the NYSE and our common stock has been delisted from the NYSE, which may negatively impact the Company's stockholders and the trading price and liquidity of its common stock. Over-the-counter markets are more limited than the NYSE, and it is likely that there will be significantly less liquidity in the trading of the Company's common stock. The delisting of the Company's common stock from the NYSE could have material adverse effects on its business, financial condition and results of operations.

On June 4, 2024, the Company received notice from OTC that the Company's common stock no longer met the Standards for Continued Qualification for the OTCQX per the OTCQX Rules for U.S. Companies section 2.1(A) because the Company's stock bid price closed below \$0.10 for more than 30 consecutive calendar days. We subsequently regained compliance for a period of time through the reverse stock split discussed in the following paragraphs.

On June 10, 2024, the Company's shareholders approved an amendment to the Company's Amended and Restated Certificate of Incorporation to effect a reverse stock split of the Company's issued shares of common stock, at a specific ratio, ranging from 1:10 to 1:200, at the discretion of the Company's board of directors at any time prior to the Company's 2025 annual meeting of stockholders, with the exact ratio to be determined by the Company's board of directors without further approval or authorization of the Company's stockholders. In September 2024, the Board approved a 1-for-200 reverse stock split.

On October 16, 2024, the Company filed an amendment to its Amended and Restated Certificate of Incorporation to implement a 1-for-200 reverse stock split of its issued and outstanding common stock, effective as of October 18, 2024. The reverse stock split correspondingly adjusted the per share exercise price of all outstanding options and all shares underlying any of the outstanding warrants by reducing the conversion ratio for each outstanding warrant and increasing the applicable exercise price or conversion price in accordance with the terms of each outstanding warrant and based on the reverse stock split ratio. No fractional shares were issued in connection with the reverse stock split. Stockholders who are entitled to fractional shares will receive a cash payment in lieu of receiving

fractional shares (after taking into account and aggregating all shares of the Company's common stock then held by such stockholder) equal to the fractional share interest multiplied by \$5.00 (the per share closing price of the Company's common stock, on a post-split basis, as last reported on the OTCQX market on November 7, 2024). The reverse stock split was announced by FINRA on its OTC Daily List on November 7, 2024 and took effect at the open of trading on November 8, 2024 on the OTCQX. Upon the effectiveness of the reverse stock split, the Company became compliant with OTCQX Rule 2.1(A) for a period of time.

The number of shares of common stock authorized under the Amended and Restated Certificate of Incorporation is unchanged at 500,000,000 shares. The accompanying consolidated financial statements reflect the 1-for-200 reverse split of our common stock. All share and per share information data herein that relates to the Company's common stock prior to the effective date has been retroactively restated to reflect the reverse stock split.

On November 7, 2024, the Company received notice from the OTC that the Company's common stock no longer met the Standards for Continued Qualification for the OTCQX per the OTCQX Rules for U.S. Companies section 2.1(B) because the Company's market capitalization has stayed below \$5 million for the past 30 consecutive calendar days. After the 90 day grace period to regain compliance expired on February 10, 2025, our common stock was removed from OTCQX and moved to the OTC Pink market.

Operating Segments

Operating segments are defined as components of an enterprise for which discrete financial information is available and evaluated regularly by the chief operating decision maker, who is the Company's chief executive officer ("CEO"), for the purpose of allocating resources and evaluating performance. For the year ended December 31, 2023 and for the period in 2024 until the divestiture of the Software business on March 1, 2024, the Company had business activity and operated two operating and reportable segments: Product and Software. Since March 1, 2024, the Company has been operating under its single reportable segment, Product. There were no substantial assets or operations remaining of the previous software segment. The previous Software segment is reported as discontinued operations and presented as such for all periods in this report.

Emerging Growth Company Status

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 avail itself of this exemption and, therefore, for new or revised accounting standards applicable to public companies, the Company will be subject to an extended transition period until those standards would otherwise apply to private companies.

2. Summary of Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make informed estimates, judgements and assumptions that affect the reported amounts in the consolidated financial statements and disclosures in the accompanying notes, including estimates of probable losses and expenses, as of the date of the accompanying consolidated financial statements. Actual results could differ materially from the estimates and assumptions used in the preparation of the accompanying consolidated financial statements under different assumptions or conditions.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with remaining maturities at purchase of three months or less that can be liquidated without prior notice or penalty. Cash and cash equivalents may include U.S. Treasury bills, corporate bonds, money market funds and commercial paper.

Short-Term Investments

Short-term investments consist of available-for-sale U.S. Treasury securities, U.S. government agency securities, corporate bonds and commercial paper with original maturities greater than three months and remaining maturities of less than twelve months. These investments are recorded at fair value based on quoted prices in active markets, with unrealized gains and losses reported in other comprehensive gain (loss) in the Company's consolidated statements of operations and comprehensive loss. Purchase premiums and discounts are recognized in interest expense using the effective interest method over the terms of the securities. Realized gains and losses and declines in fair value that are deemed to be other than temporary are reflected in the statements of operations and comprehensive loss using the specific-identification method.

The Company periodically reviews all available-for-sale securities for other than temporary declines in fair value below the cost basis whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company also evaluates whether it has plans or is required to sell short-term investments before recovery of their amortized cost bases. To date, the Company has not identified any other than temporary declines in fair value of its short-term investments.

Concentration of Risks

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, cash equivalents and accounts receivable. The Company has established guidelines to mitigate such potential risks by maintaining the Company's cash balances with entities that management believes possess high credit quality to limit the amount of credit exposure. Substantially all of the Company's cash and cash equivalents are maintained at one financial institution domiciled in the United States. Cash and cash equivalents can exceed amounts insured by the Federal Deposit Insurance Corporation of up to \$250,000. The Company has not experienced any losses in its accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents. The primary objectives of the Company's investment portfolio are the preservation of capital and maintenance of liquidity.

The Company believes any concentration of credit risk in its accounts receivable is mitigated by its credit evaluation process, relatively short collection terms and the level of credit worthiness of its customers. No individual customer accounted for more than 10% of sales or accounts receivable in 2024 or 2023.

The Company sources materials and services through several vendors. Certain materials are sourced from a single vendor. The loss of certain vendors could result in a temporary disruption of the Company's commercialization efforts.

The Company's products require clearance from the FDA and foreign regulatory agencies before commercial sales can commence. There can be no assurance that the Company's products in development will receive any of these required clearances. The denial or delay of such clearances may have a material adverse impact on the Company's

business in the future. In addition, after the clearance by the FDA, there is still an ongoing risk of adverse events that did not appear during the device clearance process.

The Company is subject to risks common to companies in the medical device industry, including, but not limited to, new technological innovations, clinical development risk, establishment of appropriate commercial partnerships, protection of proprietary technology, compliance with government and environmental regulations, uncertainty of market acceptance of its products, product liability and the need to obtain additional financing.

Accounts Receivable, Net

Accounts receivable pertain to contracts with customers who are granted credit by the Company in the ordinary course of business and are recorded at the invoiced amount. Accounts receivable do not bear interest. Accounts receivable presented on the consolidated balance sheets are adjusted for any write-offs and net of allowance for credit losses. The Company's allowance for credit losses is developed by using relevant available information including historical collection and loss experience, current economic conditions, prevailing economic conditions, supportable forecasted economic conditions and evaluations of customer balances. Once a receivable is deemed uncollectible after collection efforts have been exhausted, it is written off against the allowance for credit losses. The Company closely monitors the credit quality of its customers and does not generally require collateral or other security on receivables. The allowance for credit losses is measured on a collective basis when similar risk characteristics exist.

Accounts receivable, net consisted of the following as of December 31:

	<u>2024</u>	<u>2023</u>
	<i>(in thousands)</i>	
Trade receivables	\$ 3,827	\$ 5,240
Less: allowance for credit losses	(145)	(450)
Accounts receivable, net	<u>\$ 3,682</u>	<u>\$ 4,790</u>

The following table presents the changes in allowance for credit losses on accounts receivable for the years ended December 31:

	<u>2024</u>	<u>2023</u>
	<i>(in thousands)</i>	
Balance at beginning of period	\$ (450)	\$ (92)
Credit loss expenses	—	(403)
Credit loss recoveries	219	—
Write-offs	86	45
Balance at end of period	<u>\$ (145)</u>	<u>\$ (450)</u>

Inventory

Inventory is valued at the lower of cost or net realizable value. Cost may include materials, labor and manufacturing overhead. Cost is determined by the first in first out inventory method. The carrying value of inventory is reviewed for potential impairment whenever indicators suggest that the cost of inventory exceeds the carrying value and management adjusts the inventory to its net realizable value. The Company also periodically evaluates inventory for estimated losses from excess quantities and obsolescence and writes down the cost of inventory to net realizable value at the time such determinations are made. Net realizable value is determined using the estimated selling price, in the ordinary course of business, less estimated costs of completion and selling expenses.

Property and Equipment, Net

Property and equipment are recorded at cost, net of accumulated depreciation. The Company records depreciation over the estimated useful lives of the assets, typically three to five years, using the straight-line method, and

amortizes leasehold improvements using a straight-line method over the shorter of the estimated economic lives or the related remaining lease term. Repairs and maintenance expenditures that do not significantly add value to property and equipment, or prolong the useful lives of the assets, are charged to expense as incurred. Gains and losses on dispositions of property and equipment are included in the operating results of the related period.

Leases

Lease right-of-use assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized when the Company takes possession of the leased property (the "Commencement Date") based on the present value of lease payments over the lease term. At the inception of a contract, the Company determines whether the arrangement is or contains a lease based on the facts and circumstances present.

Operating lease right-of-use assets also include any lease payments made at or before lease commencement and exclude any lease incentives received. The lease terms used to calculate the right-of-use asset and related lease liability include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The Company elected the practical expedient to exclude short-term agreements of less than 12 months from capitalization and not to separate lease and non-lease components. The Company enters into various operating leases for office space. The leases expire at various dates, have various options to renew, and may contain escalation provisions.

Rent expense on cancelable leases containing known future scheduled rent increases is recorded on a straight-line basis over the term of the respective leases beginning on the Commencement Date. Landlord improvement allowances and other such lease incentives are recorded as property and equipment and as reduction of the right-of-use leased assets and are amortized on a straight-line basis as a reduction to operating lease costs. The key estimates for the Company's leases include the incremental borrowing rate used to determine the present value of lease payments and the lease term. The Company's leases generally do not include an implicit rate; therefore, management establishes a rate of interest the Company would have to pay on a collateralized borrowing, for an amount equal to the lease payments, over a similar term and in a similar economic environment.

Goodwill and Intangible Assets

Goodwill represents the excess of cost over fair value of identified assets acquired and liabilities assumed by the Company in an acquisition of a business. The determination of the value of goodwill and intangible assets arising from a business combination requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of the net tangible and intangible assets acquired. The Company recorded \$8.5 million of goodwill in conjunction with the acquisition of TDO.

The Company performs its goodwill impairment analysis at the reporting unit level, which aligns with the Company's reporting structure and availability of discrete financial information. The Company performs its annual impairment analysis by either comparing a reporting unit's estimated fair value to its carrying amount or doing a qualitative assessment of a reporting unit's fair value from the last quantitative assessment to determine if there is potential impairment. The Company may do a qualitative assessment when the results of the previous quantitative test indicated the reporting unit's estimated fair value was significantly in excess of the carrying value of its net assets and it does not believe there have been significant changes in the reporting unit's operations that would significantly decrease its estimated fair value or significantly increase its net assets. If a quantitative assessment is performed, the evaluation includes management projections of future cash flows and/or use of a market approach by considering market values of comparable companies. Key assumptions for these projections include revenue growth, future gross and operating margin growth, and the weighted cost of capital and terminal growth rates. The revenue and margin growth is based on increased sales of new and existing products as the Company maintains investments in research and development. Additional value creators may include increased efficiencies from capital spending. The resulting cash flows are discounted using a weighted average cost of capital. Operating mechanisms and requirements to ensure that growth and efficiency assumptions will ultimately be realized are also considered in the evaluation.

The Company's evaluation for goodwill impairment, which is completed annually as of October 31, consists of the TDO reporting unit from which goodwill originated. In the second half of 2023, the Company identified indicators of impairment related to the decline in its market capitalization. The Company completed an evaluation using a quantitative method as of September 30, 2023, the annual evaluation using a qualitative method as of October 31, 2023 and an evaluation using a quantitative method as of December 31, 2023, and determined that no impairment existed in each evaluation.

The assumptions used in the estimate of fair value are generally consistent with the past performance of the Company and are also consistent with the projections and assumptions that are used in current operating plans. The assumptions are subject to change as a result of changing economic and competitive conditions.

Definite-lived intangible assets are recorded at cost, net of accumulated amortization, and are amortized on a straight-line basis over their estimated useful life, which range from five to ten years. In determining the useful lives of intangible assets, the Company considers the expected use of the assets and the effects of obsolescence, demand, competition, anticipated technological advances, market influences and other economic factors. Trademarks and trade names that are related to products are assigned lives consistent with the period in which the products bearing each brand are expected to be sold.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, which includes definite-lived intangibles, long-lived fixed assets and lease right-of-use assets, for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Factors that could trigger an impairment review include significant under-performance relative to expected historical or projected future operating results, significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business or significant negative industry or economic trends. If this evaluation indicates that the value of the long-lived asset may be impaired, the Company makes an assessment of the recoverability of the net carrying value of the asset over its remaining useful life. If this assessment indicates that the long-lived asset is not recoverable, based on the estimated undiscounted future cash flows of the technology over the remaining useful life, the Company reduces the net carrying value of the related asset to fair value and may adjust the remaining useful life. An impairment analysis is subjective and assumptions regarding future growth rates and operating expense levels can have a significant impact on the expected future cash flows and impairment analysis.

In the second half of 2023, the significant decline in the Company's market capitalization was a triggering event, which resulted in the performance of an interim long-lived assets impairment assessment. The assessment indicated that the carrying amount of the Company's definite-lived intangible and long-lived fixed assets in its Product segment would not be recoverable. As a result, the Company recognized a full impairment charge of \$1.0 million to a definite-lived intangible, developed technology, which was recorded in operating expenses on the consolidated statements of operations and comprehensive loss, and a full impairment charge of \$2.6 million to property and equipment, of which \$1.6 million was recorded in cost of sales and the remainder was recorded in operating expenses, on the consolidated statements of operations and comprehensive loss. In the fourth quarter of 2024, the Company recorded \$0.6 million impairment charges to property and equipment, which was recorded in selling and marketing on the consolidated statements of operations and comprehensive loss.

Fair Value of Financial Instruments

The Company applies fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company's financial instruments consist principally of cash, cash equivalents, short-term investments, accounts receivable, accounts payable, operating lease liabilities, and a term loan. Fair value is measured as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 – Observable inputs such as unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities the Company has the ability to access.

Level 2 – Inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 – Unobservable inputs that are significant to the fair value measurement and reflect the reporting entity's use of significant management judgment and assumptions when there is little or no market data. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques and significant management judgment or estimation. These include the Black-Scholes option-pricing model which uses inputs such as expected volatility, risk-free interest rate and expected term to determine fair market valuation.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification at each reporting date. Changes in the ability to observe valuation inputs may result in a reclassification of levels for certain assets or liabilities within the fair value hierarchy. The Company did not have any transfers of assets and liabilities between the levels of the fair value measurement hierarchy during the periods presented.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and certain accrued expenses approximate fair value due to the short-term nature of these items. Accordingly, the Company estimates that the recorded amounts approximate fair market value.

Revenue Recognition

Contracts with Customers

The Company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. Specifically, the Company applies the following five core principles to recognize revenue: (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 Company satisfies a performance obligation.

Product revenue is generated from sales of the GentleWave Console and related PIs and accessories. The Company's products are sold primarily in the United States and Canada directly to customers through its field sales force.

Performance Obligations

The Company's performance obligations primarily arise from the manufacture and delivery of the GentleWave System, related PIs and accessories. Payment terms are typically on open credit terms consistent with industry practice and do not have significant financing components. Consideration may be variable based on volume.

The Company considers the individual deliverables in its product offering as separate performance obligations and assesses whether each promised good or service is distinct. The total contract transaction price is determined based on the consideration expected to be received, based on the stated value in contractual arrangements or the estimated cash to be collected in no-contracted arrangements, and is allocated to the identified performance obligations based upon the relative standalone selling prices of the performance obligations. The stand-alone selling price is based on an observable price offered to other comparable customers. The Company estimates the standalone selling price using the market assessment approach considering market conditions and entity-specific factors including, but not limited to, features and functionality of the products and services, geographies, type of customer and market conditions. The Company regularly reviews and updates standalone selling prices as necessary. The consideration the Company receives in exchange for its goods or services is only recognized when it is probable that a significant reversal will not occur. The consideration to which the Company expects to be entitled includes a stated list price, less various forms of variable consideration.

The Company estimates related variable consideration at the point of sale, including discounts, product returns, refunds, and other similar obligations.

Revenue is recognized over time when the customer simultaneously receives and consumes the benefits provided by the Company's performance. Revenue is recognized at a point in time if the criteria for recognizing revenue over time are not met, and the Company has transferred control of the goods to the customer.

Product revenue is recognized at a point in time when the Company has transferred control to the customer, which is generally when title of the goods transfers to the customer. Sales of extended service contracts are recorded as deferred revenue until such time as the standard warranty expires, which is generally up to two years from the date of sale. Service contract revenue is recognized on a straight-line basis over time consistent with the life of the related service contract in proportion to the costs incurred in fulfilling performance obligations under the service contract.

Revenue for technical support and other services is recognized ratably over the performance obligation period.

The Company generally does not experience returns. As necessary, a provision is recorded for estimated sales returns and allowances and is deducted from gross product revenue to arrive at net product revenue in the period the related revenue is recorded. These estimates are based on historical sales returns and allowances and other known factors. Actual returns and claims in any future period are inherently uncertain and thus may differ from these estimates. If actual or expected future returns and claims are significantly greater or lower than the reserves established, a reduction or increase to revenue will be recorded in the period in which such a determination is made.

All non-income government-assessed taxes (sales and use taxes) collected from the Company's customers and remitted to governmental agencies are recorded in accrued expenses until they are remitted to the government agency.

The Company has adopted the practical expedient permitting the direct expensing of costs incurred to obtain contracts where the amortization of such costs would occur over one year or less, and it applied to substantially all the Company's contracts.

Contract liabilities

The Company recognizes a contract liability when a customer pays for goods or services for which the Company has not yet transferred control. The balances of the Company's contract liabilities are as follows:

	Year Ended December 31,	
	2024	2023
	(in thousands)	
Total contract liabilities - extended service contracts	\$ 1,144	\$ 920
Less: long-term portion	174	302
Contract liabilities – current	<u>\$ 970</u>	<u>\$ 618</u>

Contract liabilities are included within other current liabilities and other long-term liabilities in the accompanying consolidated balance sheets. Revenue recognized during the years ended December 31, 2024 and 2023 that was included in the contract liability beginning balance of each year was \$0.6 million and \$0.7 million, respectively. The beginning balance of contract liabilities in 2023 was \$0.3 million.

Disaggregation of revenue

The Company disaggregates revenue from contracts with customers by segment and by the timing of when goods and services are transferred which depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected.

The following table provides information regarding revenues disaggregated by the timing of when goods and services are transferred:

	Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Product revenue recognized at a point in time	\$ 30,247	\$ 33,844
Service revenue recognized over time	1,455	784
Total revenue	<u>\$ 31,702</u>	<u>\$ 34,628</u>

Shipping and handling costs

All customer related shipping and handling costs are expensed as incurred and are charged to cost of sales. Charges to customers for shipping and handling are credited to revenue.

Warranty Reserve

The Company provides a standard warranty on its GentleWave Systems for a specified period of time. For the years ended December 31, 2024 and 2023, GentleWave Systems sold were covered by the warranty for a period of up to two years from the date of sale. Estimated warranty costs are recorded as a liability at the time of delivery with a corresponding provision to cost of sales. Warranty accruals are estimated based on the current product costs, the Company's historical experience, management's expectations of future conditions and standard maintenance schedules. The Company evaluates this reserve on a regular basis and makes adjustments as necessary.

The following table provides a reconciliation of the change in estimated warranty liabilities and current and non-current portion included in other current liabilities and other liabilities, respectively, on the consolidated balance sheets, for the years ended December 31, 2024 and 2023:

	Year Ended December 31,	
	2024	2023
Balance at beginning of period	\$ 1,270	\$ 1,930
Provision for warranties issued	852	890
Changes in estimate of pre-existing warranty	(146)	—
Warranty costs incurred	(1,437)	(1,550)
Balance at end of period	<u>\$ 539</u>	<u>\$ 1,270</u>
Current portion	\$ 496	\$ 1,187
Non-current portion	43	83
Total	<u>\$ 539</u>	<u>\$ 1,270</u>

Advertising Expense

Advertising costs are expensed as incurred and amounted to \$0.1 million and \$1.0 million in 2024 and 2023, respectively. These expenses are included in selling and marketing in the Consolidated Statements of Operations and Comprehensive Loss.

Break-up Fee and Reimbursement Related to Biolase Assets Auction

On September 30, 2024, the Company entered into an Asset Purchase Agreement (the "Biolase Asset Purchase Agreement") with Biolase, Inc., a Delaware corporation ("Biolase"), BL Acquisition Corp., a Delaware corporation ("BL Acquisition"), BL Acquisition II, Inc., a Delaware corporation ("BL Acquisition II"), and Model Dental Office, LLC, a Delaware limited liability company ("MDO" and together with Biolase, BL Acquisition and BL Acquisition II, each a "Seller" and collectively, the "Sellers"), pursuant to which, subject to the terms and conditions set forth in the Biolase Asset Purchase Agreement, the Company was designated as the "stalking horse" bidder in connection with a sale of certain assets of Biolase under Section 363 of Title 11 of the United States Code for a total purchase price of (i) \$14 million in cash subject to a downward working capital adjustment, (ii) the assumption of

liabilities and (iii) the value of the Delaware Litigation (as defined in the Biolase Asset Purchase Agreement) (the “Purchase Price”).

The Sellers conducted a bankruptcy auction on November 4, 2024. Based on the result of that auction, the Company was not the winning bidder. Accordingly, the Company did not proceed with the transaction described in the Biolase Asset Purchase Agreement. The Biolase Asset Purchase Agreement was terminated upon the sale of the Biolase assets to the prevailing bidder, and the Sellers paid the Company a break-up fee equal to approximately \$0.4 million and an expense reimbursement of approximately \$0.6 million, which were recorded as contra general and administrative expenses in the consolidated statements of operations and comprehensive loss for the year ended December 31, 2024. Additionally, \$1.4 million, or 10% of the Purchase Price that was placed into escrow at the time of signing, was returned to the Company in December 2024.

Research and Development

Research and development (“R&D”) expenses consist of costs incurred for proprietary R&D programs and are recorded to operating expenses when incurred. Research and development expenses primarily include (1) personnel-related costs, including compensation and benefits and stock-based compensation associated with R&D personnel, (2) costs related to clinical and pre-clinical testing of the Company’s technologies under development, and (3) other R&D expenses. Costs to acquire technologies to be used in R&D that have not reached technological feasibility and have no alternative future use are also expensed as incurred.

Stock-Based Compensation

The Company periodically grants stock-based payment awards in the form of stock options to employees, directors and non-employees and records stock-based compensation expenses for awards of stock-based payments based on their estimated fair value at the grant date. The Company recognizes stock-based compensation expense for all stock-based payments, including stock options.

Stock-based compensation costs are calculated based on the estimated fair value of the underlying option using the Black-Scholes option-pricing model on the date of grant for stock options and recognized as expense in the accompanying consolidated statements of operations and comprehensive loss on a straight-line basis over the requisite service period, which is the vesting period. Determining the appropriate fair value model and related input assumptions requires judgment, including estimating the fair value of the Company’s common stock, stock price volatility, and expected term:

- Prior to the Company's IPO, given the absence of a public trading market, the fair value of the Company’s common stock was determined by the Company’s Board of Directors (the “Board”) at the time of each option grant by considering a number of objective and subjective factors. These factors included the valuation of a select group of public peer group companies within the medical device industry that focus on technological advances and development that the Board believed was comparable to the Company’s operations; operating and financial performance; the lack of liquidity of the common stock and trends in the broader economy and medical device industry also impacted the determination of the fair value of the common stock. In addition, the Company regularly engaged a third-party valuation specialist to assist with estimates related to the valuation of the Company’s common stock. For options and ESPP awards granted post-IPO, the fair value for its underlying common stock is determined using the closing price on the date of grant as reported on the New York Stock Exchange (“NYSE”);
- The risk-free interest rate used is based on the published U.S. Department of Treasury interest rates in effect at the time of stock option grant for zero coupon U.S. Treasury notes with maturities approximating each grant’s expected term;
- The dividend yield is zero as the Company has not paid dividends and does not anticipate paying a cash dividend in the foreseeable future;
- The expected term of "plain vanilla" options granted is calculated using the “simplified method” permitted by the SEC and represents the average time that options are expected to be outstanding based on the mid-point between the vesting date and the end of the contractual term of the award;

- Expected volatility is derived from the historical volatilities of the Company and a select group of comparable peer companies, for a look-back period commensurate with the expected term of the stock options, as the Company has limited trading history of its common stock and limited data regarding company-specific historical or implied volatility of its share price.

No compensation cost is recognized for awards with performance conditions until that condition is probable of being met. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The fair values of RSUs are determined based on the closing market price of the Company's common stock on the date of the grant. The fair values of all Employee Stock Purchase Plan ("ESPP") purchase rights are estimated using Black-Scholes option-pricing model and require the input of subjective assumptions.

Income Taxes

The Company accounts for income taxes under the asset and liability method. Accordingly, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using the enacted tax rates in effect for the year in which the differences are expected to reverse. Estimates and judgments occur in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred income tax assets, which arise from temporary differences and carryforwards. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion of the deferred tax asset will not be realized. Current income taxes are based on the year's taxable income for federal and state income tax reporting purposes.

The Company assesses the likelihood that deferred tax assets will be recovered as deductions from future taxable income. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis and includes a review of all available positive and negative evidence. Factors reviewed include projections of pre-tax book income for the foreseeable future, determination of cumulative pre-tax book income after permanent differences, earnings history and reliability of forecasting.

The Company is required to file federal and state income tax returns in the United States. The preparation of state tax returns requires the Company to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could affect the amount of tax paid by the Company.

The Company's income tax returns are based on calculations and assumptions that are subject to examination by the Internal Revenue Service and other tax authorities. In addition, the calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations. The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. While the Company believes it has appropriate support for the positions taken on its tax returns, the Company regularly assesses the potential outcomes of examinations by tax authorities in determining the adequacy of its provision for income taxes. The Company continually assesses the likelihood and amount of potential revisions and adjusts the income tax provision, income taxes payable and deferred taxes in the period in which the facts that give rise to a revision become known.

The Company follows the accounting guidance on accounting for uncertainty in income taxes. The guidance prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. As applicable, the Company recognizes accrued penalties and interest related to unrecognized tax benefits in the provision for income taxes.

Net Loss Per Share

Basic net loss per share is calculated by dividing net loss attributable to Company's stockholders by the weighted average number of common stock outstanding for the period. Diluted net loss per share is computed by giving effect

to all potentially dilutive common stock equivalents to the extent they are dilutive. The pre-funded warrants are considered outstanding for the purpose of computing loss per share and are included in the calculation of basic and diluted shares outstanding.

As applicable, for purposes of this calculation, convertible preferred stock, stock options, rights to purchase shares of common stock under the ESPP and warrants are considered to be common stock equivalents but have been excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is anti-dilutive for all periods presented. Diluted net loss per share is the same as basic net loss per share in periods when the effects of potentially dilutive securities are anti-dilutive.

Recent Accounting Updates

Changes to GAAP are established by the Financial Accounting Standards Board (“FASB”) in the form of accounting standards updates (“ASU”). ASU’s not listed below were assessed and determined not to be applicable or are expected to have minimal impact on the Company’s consolidated financial statements.

Accounting Pronouncements Recently Adopted

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures”, which expands on segment reporting requirements primarily through enhanced disclosures surrounding significant segment expenses. The ASU expands on existing segment reporting requirements to require that a public entity, including entities with a single reportable segment, disclose, on an annual and interim basis, significant segment expenses that are regularly provided to an entity's CODM, a description of other segment items by reportable segment, and any additional measures of a segment's profit or loss used by the CODM when deciding how to allocate resources. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company adopted ASU 2023-07, effective December 31, 2024, in these consolidated financial statements. See Note 12, *Segment Information*, for disclosure related to the adoption of 2023-07.

Accounting Pronouncements not yet Adopted

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. The amendments require disclosure of specific categories in the rate reconciliation and provides additional information for reconciling items that meet a quantitative threshold and further disaggregation of income taxes paid for individually significant jurisdictions. The ASU is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company does not plan to early adopt this ASU and is evaluating the impact of on its Consolidated Financial Statements.

In November 2024, the FASB issued ASU No. 2024-03, Income Statement-Reporting Comprehensive Income-Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses. The ASU intends to improve income statement expense disclosure requirements, primarily through enhanced disclosure about certain costs and expenses included in income statement expense captions. The amendments are effective for annual reporting periods beginning after December 15, 2026 and interim periods beginning after December 15, 2027. Early adoption is permitted. The Company is evaluating the impact of this ASU on its Consolidated Financial Statements.

3. Discontinued Operations

On March 1, 2024, the Company entered into an Asset Purchase Agreement by and among TDO, Valsoft Corporation Inc., a Quebec corporation, and Aspire USA LLC, a Delaware limited liability company and affiliate of Valsoft (collectively “Valsoft”), pursuant to which TDO agreed to sell to Valsoft substantially all the assets and liabilities relating to the Company’s software segment for approximately \$16.0 million. The Company received \$15.0 million on March 1, 2024 and \$1.0 million at the end of February 2025. In connection with the transaction, Valsoft agreed to make offers of employment to certain employees of the business on terms that are comparable to those currently in effect for such employees. The Asset Purchase Agreement contains certain representations, warranties and covenants of each of TDO and Valsoft. Each of TDO and the Valsoft has agreed to indemnify the other for certain losses arising out of breaches of representations and covenants and for certain losses arising out of retained liabilities or assumed liabilities relating to the TDO business, as applicable, subject to customary limitations. The Company had no continuing involvement or commitments with TDO after the divestiture.

The divestiture met the criteria to be accounted for as a discontinued operation as of March 31, 2024. Accordingly, the operating results of the discontinued operations for the years ended December 31, 2024 and 2023, respectively, are presented on the consolidated statements of operations and comprehensive loss within income from discontinued operations as follows:

	Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Revenue	\$ 1,478	\$ 9,237
Cost of sales	511	3,184
Gross profit	967	6,053
Operating expenses:		
General and administrative	524	1,669
Selling and marketing	161	714
Research and development	476	2,148
Income (loss) from discontinued operations	(194)	1,522
Other income	—	22
Gain on sale of discontinued operations, net of tax	5,703	—
Net income from discontinued operations	\$ 5,509	\$ 1,544

Software is licensed via delivery to the customer or via a service arrangement under which cloud-based access is provided on a subscription basis (software-as-a-service). When a fixed up-front license fee is received in exchange for the delivery of software, revenue is recognized at the point in time when the delivery of the software has occurred. When software is licensed on a subscription basis, revenue is recognized over the respective license period.

The following table provides information regarding revenues disaggregated by the timing of when software revenue is recognized:

	Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Software revenue recognized at a point in time	\$ 245	\$ 2,014
Software revenue recognized over time	1,233	7,223
Total revenue	\$ 1,478	\$ 9,237

The following table presented assets and liabilities of discontinued operations as of December 31, 2024 and 2023:

	Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Current assets:	\$ 1,000	\$ 656
Non-current assets:		
Intangible assets, net	—	661
Goodwill	—	8,454
Other	—	482
Total assets of discontinued operations	\$ 1,000	\$ 10,253
Current liabilities:		
Accounts payable	\$ —	\$ 34
Accrued expenses	—	194
Accrued compensation	—	345
Operating lease liabilities	—	127
Non-current liabilities		134
Total liabilities of discontinued operations	\$ —	\$ 834

The following table presented intangible assets of discontinued operations as of December 31, 2023. The intangibles were derecognized with the divestiture of the Software business in March 2024.

	2023			
	Weighted Average Amortization Period	Gross	Accumulated Amortization	Net
	(in years)		(in thousands)	
Developed Technology (5 years)	1.6	\$ 1,110	\$ 1,110	—
Customer relationships (7 years)	4.0	1,910	1,421	489
Tradenames (10 years)	1.1	360	188	172
Total intangible assets	6.7	\$ 3,380	\$ 2,719	\$ 661

During the year ended December 31, 2024, \$60 thousand expenses of depreciation and amortization of long-lived assets was recorded in the discontinued operations. During the year ended December 31, 2023, \$0.5 million expenses of depreciation and amortization of long-lived assets was recorded in the discontinued operations.

For each of the years ended December 31, 2024 and 2023, no capital expenditure was recorded in the discontinued operations.

See Note 7 “Stock based Compensation.” for stock based compensation expense recorded in the discontinued operations for each of the years ended December 31, 2024 and 2023.

4. Balance Sheet Components

Inventory

Inventory as of December 31, 2024 and 2023 consisted of the following:

	2024	2023
	(in thousands)	
Raw materials	\$ 5,215	\$ 6,450
Work in process	148	278
Finished goods	4,847	4,346
Total inventory, net	\$ 10,210	\$ 11,074

The balance of the reserve of excess and obsolete inventory was \$1.1 million and \$0.8 million as of December 31, 2024 and 2023, respectively. During the year ended December 31, 2024, the Company recorded a reserve for excess and obsolete inventory of \$0.4 million, respectively, related to phasing out the legacy GentleWave Console (“Gen3”) and legacy molar and anterior pre-molar procedure instruments. During the year ended December 31, 2023, the Company recorded a reserve for excess and obsolete inventory of \$1.7 million related to reduced sales volumes of legacy Gen3, and a charge of \$1.2 million related to phasing out the legacy molar and anterior pre-molar procedure instruments as the Company moved to the CleanFlow procedure instruments, of which \$0.6 million was due to excess and obsolete inventory.

Property and equipment, net

Property and equipment, net as of December 31, 2024 and 2023 consisted of the following:

	2024	2023
	(in thousands)	
Laboratory and warehouse equipment and tooling	\$ —	\$ 469
Computer equipment and software	—	30
Office furniture and fixtures	—	314
Leasehold improvements	—	19
Total	—	832
Less: accumulated depreciation	—	(168)
Property and equipment, net	—	664
Property and equipment, discontinued operations	—	(203)
Property and equipment, continuing operations	\$ —	\$ 461

During 2024, the Company recorded an impairment charge of \$0.6 million to property and equipment, which was recorded in selling and marketing expenses on the consolidated statements of operations and comprehensive loss. Depreciation expense was \$0.3 million for the year ended December 31, 2024, which was recorded in selling and marketing in the consolidated statements of operations and comprehensive loss.

During 2023, the Company recorded an impairment charge of \$2.6 million to property and equipment, of which, \$1.6 million was recorded in cost of sales, \$0.4 million was recorded in selling and marketing expenses, \$0.4 million in general and administrative expenses, and \$0.2 million in research and development expenses on the consolidated statements of operations and comprehensive loss. Depreciation expense was \$1.1 million for the year ended December 3, 2023, of which, approximately \$0.6 million was recorded in cost of sales, \$0.1 million was recorded in selling and marketing expenses, \$0.3 million was recorded in general and administrative expenses, and \$0.1 million was recorded in research and development expenses in the consolidated statements of operations and comprehensive loss.

Accrued Expenses

Accrued expenses as of December 31, 2024 and 2023 consisted of the following:

	2024	2023
	(in thousands)	
Vendor invoices	\$ 1,355	\$ 1,711
Other accrued expenses	647	1,555
Total accrued expenses	2,002	3,266
Total accrued expenses, discontinued operations	—	(194)
Total accrued expenses, continuing operations	\$ 2,002	\$ 3,072

Other Current Liabilities

Other current liabilities as of December 31, 2024 and 2023 consisted of the following:

	2024	2023
	(in thousands)	
Finance lease liability	\$ 44	\$ 39
Warranty liability	496	1,187
Contract liabilities – current	\$ 970	618
Total other current liabilities	1,510	1,844
Total other current liabilities, discontinued operations	—	—
Total other current liabilities, continuing operations	\$ 1,510	\$ 1,844

Other Liabilities

Other liabilities as of December 31, 2024 and 2023 consisted of the following:

	2024	2023
	(in thousands)	
Non-current finance lease liability	\$ 113	\$ 145
Contract liabilities – non-current	174	302
Other non-current liabilities	43	83
Total other liabilities	330	530
Total other liabilities, discontinued operations	—	—
Total other liabilities, continuing operations	\$ 330	\$ 530

5. Fair Value of Financial Instruments

The following table provides the assets and liabilities measured at fair value on a recurring basis and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such value at December 31, 2024 and 2023:

2024				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)				
Assets:				
Money market funds	\$ 7,832	\$ 7,832	\$ —	\$ —
Total cash equivalents at fair value	7,832	7,832	—	—
Short-term investments:				
U.S. treasury securities	999	999	—	—
Commercial paper and corporate bonds	402	—	402	—
Total short-term investments at fair value	1,401	999	402	—
Total assets at fair value	\$ 9,233	\$ 8,831	\$ 402	\$ —

2024				
	Fair Value	Cost Basis	Amounts Recognized in Accumulated Other Comprehensive Loss	
			Unrealized Gains	Unrealized Losses
(in thousands)				
Available-for-sale securities:				
U.S. Treasury securities	\$ 999	\$ 999	\$ —	\$ —
Commercial paper and corporate bonds	402	401	1	—
Total available-for-sale securities at fair value	\$ 1,401	\$ 1,400	\$ 1	\$ —

2023				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)				
Assets:				
Cash equivalents:				
Money market funds	\$ 10,761	\$ 10,761	\$ —	\$ —
Corporate Bonds	1,827	—	1,827	—
Total cash equivalents at fair value	12,588	10,761	1,827	—
Short-term investments:				
U.S. treasury securities	14,826	14,826	—	—
Commercial paper and corporate bonds	13,204	—	13,204	—
U.S. government agency bonds	4,743	—	4,743	—
Total short-term investments at fair value	32,773	14,826	17,947	—
Total assets at fair value	\$ 45,361	\$ 25,587	\$ 19,774	\$ —

	2023			
	Fair Value	Cost Basis	Amounts Recognized in Accumulated Other Comprehensive Loss	
			Unrealized Gains	Unrealized Losses
	(in thousands)			
Available-for-sale securities:				
U.S. Treasury securities	\$ 14,826	\$ 14,820	\$ 6	\$ —
Commercial paper and corporate bonds	13,204	13,197	9	(2)
U.S. government agency bonds	4,743	4,745	—	(2)
Total available-for-sale securities at fair value	\$ 32,773	\$ 32,762	\$ 15	\$ (4)

The Company reviews its investments to identify and evaluate investments that have an indication of possible other-than-temporary impairment. Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been less than the cost basis, any changes to the underlying credit risk of the investment, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. The unrealized losses in the Company's investments were caused by changes in interest rates caused by changing economic conditions, and not from a decline in credit of their underlying issuers. The Company does not generally intend to sell these investments and it is not more likely than not that the Company will be required to sell these investments before recovery of their amortized cost basis which may be at maturity. As such, the Company has classified these losses as temporary in nature.

Money market funds and U.S. Treasury securities are highly liquid investments and are actively traded. The pricing information on these investment instruments is readily available and can be independently validated as of the measurement date. This approach results in the classification of these securities as Level 1 of the fair value hierarchy.

Commercial paper, U.S. government agency bonds and corporate bonds are measured at fair value using Level 2 inputs. The Company reviews trading activity and pricing for these investments as of each measurement date. When sufficient quoted pricing for identical securities is not available, the Company uses market pricing and other observable market inputs for similar securities obtained from third party data providers. These inputs represent quoted prices for similar assets in active markets or these inputs have been derived from observable market data. This approach results in the classification of these securities as Level 2 of the fair value hierarchy.

6. Stockholders' Equity

Warrants

Warrants issued to Perceptive Credit Holdings III, LP ("Perceptive") and certain of its affiliates and outstanding at December 31, 2023 included 95 warrants with exercise price of \$2,190 per share and 1,518 warrants with exercise price of \$2,400 per share. Warrants issued and outstanding at December 31, 2024 includes 1,518 warrants with exercise price of \$2,400 per share. These warrants expire between June 2027 and August 2031.

Warrants outstanding at December 31, included the following:

2024			2023		
Number of warrants	Purchase Price Per Share	Expiration Date	Number of warrants	Purchase Price Per Share	Expiration Date
273	\$ 2,400.00	June, 2027	95	\$ 2,190.00	June, 2024
246	\$ 2,400.00	October, 2028	273	\$ 2,400.00	June, 2027
999	\$ 2,400.00	October, 2029	246	\$ 2,400.00	October, 2028
1,518			999	\$ 2,400.00	October, 2029
			<u>1,613</u>		

The Company issued pre-funded warrants to certain institutional investors and accredited investors in a previous private placement. As of December 31, 2024, approximately 157.2 thousand shares have been issued pursuant to the exercise of pre-funded warrants and 50.1 thousand shares underlying the pre-funded warrants remain outstanding. The pre-funded warrants have an exercise price of \$0.20 per share of common stock. The pre-funded warrants are

classified as equity and are accounted for as a component of additional paid-in capital at the time of issuance. The pre-funded warrants are included in the calculation of basic and diluted loss per share.

7. Stock Based Compensation

2017 and 2021 Incentive Plan

During 2017, the Company adopted a stock option plan (the “2017 Plan”), which replaced the Company’s 2007 stock option plan (the “2007 Plan”). Following the adoption of the 2017 Plan, no stock options were granted under the 2007 Plan. The exercise price of options granted under the 2017 Plan were set at fair market value at the date of the grant as estimated by the Company’s Board with an exercise price of no less than 100% of estimated fair market value on the date of grant.

In November 2021, in connection with its IPO, the Company adopted the 2021 Equity Incentive Plan (the “2021 Plan”). The types of awards that may be granted under the 2021 Plan include stock options, including incentive stock options and nonqualified stock options, restricted stock, dividend equivalents, RSUs, stock appreciation rights, and other stock or cash awards. Under the 2021 Plan, the vesting of stock awards is typically over four years. Following the adoption of the 2021 Plan, no further awards will be granted under the 2017 Plan.

2023 Inducement Plan

During 2023, the Company adopted the 2023 Employment Inducement Incentive Award Plan (the “2023 Inducement Plan”). The 2023 Inducement Plan provides for, among other things, the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalents and other stock- or cash-based awards to eligible individuals. Under the 2023 Plan, the defined vesting term of stock awards typically ranges from four to five years.

Employee Stock Purchase Plan (“ESPP”)

Under the Company’s ESPP, eligible employees may authorize payroll deduction of up to 15% of their eligible compensation, subject to IRS limitations, during prescribed offering periods to purchase the Company's common stock at 85% of the fair market value of common stock either at the beginning of that offering period or on the exercise date, whichever is less. Each offering period is generally six months.

During 2023, the number of shares issued and the purchase was immaterial. In late 2023, the Company suspended future ESPP offering. As a result, no shares were issued under ESPP during 2024.

Stock-based Compensation Expenses

The following tables present the Company’s stock-based compensation for stock-settled awards by type (i.e., stock options and restricted stock units (“RSUs”) granted under the Company’s incentive plans, and rights to purchase shares of common stock issued under the Company’s ESPP and financial statement lines included in the accompanying consolidated statement of operations and comprehensive loss for the years ended December 31, 2024 and 2023:

	2024	2023
	(in thousands)	
Options	\$ 1,062	\$ 2,829
RSUs	3,761	4,297
ESPP	—	150
Total stock-based compensation expense	<u>\$ 4,823</u>	<u>\$ 7,276</u>

	2024			2023		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	(in thousands)					
Cost of sales	\$ 337	\$ 79	\$ 416	\$ 317	\$ 42	\$ 359
Selling and marketing	880	59	939	1,966	25	1,991
General and administrative	2,655	140	2,795	4,162	75	4,237
Research and development	582	91	673	652	37	689
Total stock-based compensation expense	<u>\$ 4,454</u>	<u>\$ 369</u>	<u>\$ 4,823</u>	<u>\$ 7,097</u>	<u>\$ 179</u>	<u>\$ 7,276</u>

During the year ended December 31, 2024, the Company accelerated vesting of outstanding RSUs granted to certain non-executive employees in the continuing operations and recognized \$1.6 million unamortized compensation expenses associated with these RSUs, with approximately \$0.3 million expenses recorded in cost of sales, \$0.6 million in selling and marketing, \$0.2 million in general and administrative and \$0.4 million in research and development.

During the year ended December 31, 2024, the Company accelerated vesting of outstanding RSUs granted to certain non-executive employees in the discontinued operations and recognized \$0.3 million unamortized compensation expenses associated with these RSUs, as presented in the table above.

Compensation cost related to unvested stock options and RSUs will generally be amortized on a straight-line basis over the remaining average service period. The following table presents the unamortized compensation cost and weighted average service period of all unvested outstanding awards as of December 31, 2024.

	Unamortized Compensation Costs	Weighted Average Service Period
	(in thousands)	(years)
Options	\$ 523	0.14
RSUs	2,559	3.05
Total unamortized compensation cost	<u>\$ 3,082</u>	

Plan Activities

The following table summarizes stock option activity under the Company's incentive plans:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
			(in years)	(in thousands)
Options outstanding, December 31, 2022	13,781	\$ 566.00	6.9	\$ 1,510
Granted	972	\$ 166.29		
Forfeited/Expired	(2,967)	\$ 428.00		
Options outstanding, December 31, 2023	11,786	\$ 571.27	6.3	\$ —
Forfeited /Expired	(4,923)	\$ 588.92		\$ —
Options outstanding, December 31, 2024	<u>6,863</u>	\$ 588.92	5.9	\$ —
Options vested and exercisable, December 31, 2024	<u>6,564</u>	\$ 590.07	5.9	\$ —

No options were granted during the year ended December 31, 2024. The weighted-average grant-date fair value of options granted during the year ended December 31, 2023 was and \$166.29 per share per share.

The following table summarizes the non-vested stock options as of December 31, 2024 and 2023:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested Options, December 31, 2023	2,217	\$ 1,045.01
Non-vested Options, December 31, 2024	299	\$ 1,880.25

The total fair value of shares vested during the years ended December 31, 2024 and 2023 was \$0.9 million and \$2.5 million, respectively.

Certain stock option grants under the 2017 Plan allow the recipient to exercise the options prior to the options becoming fully vested. Under the 2017 Plan, the Company retains the right to repurchase common shares that have been issued upon early exercise of options at the original issue price. During the years ended December 31, 2024 and 2023, the Company did not repurchase shares. There was no material number of shares of common stock subject to repurchase as of December 31, 2024. Cash received for the early exercise of unvested stock options is initially recorded as a liability and are released to equity over the vesting period. There was no early exercised stock options during 2024 and 2023.

The following table summarizes RSU activity under the Company's incentive plans:

	Number of Shares	Weighted Average Grant Date Fair Value
RSUs outstanding, December 31, 2022	14,293	\$ 898.00
Granted	17,691	\$ 314.35
Vested	(7,036)	\$ 670.01
Forfeited	(8,355)	\$ 604.00
RSUs outstanding, December 31, 2023	16,593	\$ 517.03
Granted	30,269	\$ 8.47
Vested	(7,832)	\$ 510.04
Forfeited	(5,530)	\$ 391.34
RSUs outstanding, December 31, 2024	33,500	\$ 82.11

The total fair value of RSUs vested during the years ended December 31, 2024 and 2023 was \$4.0 million and \$4.7 million, respectively. During the year ended December 31, 2024, vested RSUs included a total of 2,947 aforementioned accelerated vesting of outstanding RSUs to certain employees.

Fair Value Assumptions

The fair value of the Company's stock options awards is estimated at the date of grant or modification, using the Black-Scholes option-pricing model with the following input assumptions during the years ended December 31, 2023. No stock options awards were granted during the year ended December 31, 2024.

	2023
	Range
Expected volatility	96.65% - 96.65%
Dividend yield	0.00%
Risk-free interest rates	3.92% - 3.92%
Expected term (in years)	5.50 - 5.50

The fair value of the Company's RSU awards is determined based upon the closing price of the Company's stock price on the date of grant.

Stock Reserved for Issuance

As of December 31, 2024, 24 thousand shares of common stock were reserved for issuance under the Company's incentive plans.

8. Leases

The Company leases office space under operating leases with expirations ranging from December 2026 to March 2028, some of which include rent escalations or an option to extend the lease for up to three years per renewal. The exercise of lease renewal options is at the sole discretion of the Company.

The Company determines whether a contract is or contains a lease at the inception of the contract. A contract will be deemed to be or contain a lease if the contract conveys the right to control and direct the use of identified property, plant, or equipment for a period of time in exchange for consideration. The Company generally must also have the right to obtain substantially all of the economic benefits from the use of the property, plant, and equipment.

The Company has elected the practical expedient to not separate its lease component from non-lease component for its real estate leases. The Company has elected the practical expedient not to apply the lease recognition requirements to short-term leases with an initial term of 12 months or less.

The Company uses either its incremental borrowing rate or the implicit rate in the lease agreement as the basis to calculate the present value of future lease payments at lease commencement. The incremental borrowing rate represents the rate the Company would have to pay to borrow funds on a collateralized basis over a similar term and in a similar economic environment.

Future minimum lease payments under these leases are as follows:

	Lease Amounts	
	<i>(in thousands)</i>	
2025	\$	1,173
2026		1,325
2027		876
2028		221
Total future minimum lease payments		3,595
Less: Imputed Interest		(342)
Present value of operating lease liabilities	\$	3,253
Less: Current portion		1,085
Long-term operating lease liabilities	\$	2,168

	Year Ended December 31,	
	2024	2023
Weighted average remaining lease term in years	2.93	2.33
Weighted average discount rate	7.22%	8.82%

Variable operating lease expenses consist primarily real estate taxes and insurance. The components of lease expense and related cash flows were as follows:

	Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Operating leases expenses	\$ 1,305	\$ 1,516
Variable lease costs	67	83
Total	\$ 1,372	\$ 1,599
Cash paid for operating leases	\$ 1,351	\$ 1,521

	Year Ended December 31,	
	2024	2023
	<i>(in thousands)</i>	
Cost of sales	\$ 308	\$ 327
Selling, general and administrative	1,064	1,272
Total	\$ 1,372	\$ 1,599

9. Commitments and Contingencies

Contingencies

The Company is subject to claims and assessments from time to time in the ordinary course of business, including without limitation, actions with respect to intellectual property, employment, regulatory, product liability and contractual matters. For example, on January 22, 2024, a former employee whose position was eliminated as part of the Company's reduction-in-force, filed a complaint against the Company, alleging various violations of California wage and hour laws, including unpaid meal and rest period premiums. In connection with these proceedings or matters, the Company regularly assesses the probability and amount (or range) of possible issues based on the developments in these proceedings or matters. A liability is recorded in the accompanying consolidated financial statements if it is determined that it is probable that a loss will be incurred, and that the amount (or range) of the loss can be reasonably estimated. The Company's management currently does not believe that any such matters, individually or in the aggregate, will have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

10. Term Loan

Perceptive loan

On January 13, 2023, the Company entered into Amendment No. 2 (the "Second Amendment") to the Amended and Restated Credit Agreement and Guaranty by and among the Company, the Subsidiary Guarantors party thereto, the Lenders party thereto and Perceptive (the "Amended Perceptive Loan Agreement") to replace the existing benchmark rate from the one-month LIBOR with a one-month Secured Overnight Financing Rate ("SOFR"). All other terms remain unchanged on the original agreement. For the year ended December 31, 2024 and 2023, the interest rate for amounts borrowed under the Amended Perceptive Loan Agreement was the greater of the one-month SOFR and 2.00% plus the applicable margin of 9.25%.

On March 1, 2024, the Company entered into Amendment No. 3 (the "Third Amendment") to the Amended Perceptive Loan Agreement. Pursuant to the Third Amendment, the Company made a one-time \$15.0 million principal repayment on March 1, 2024, and made an amortization payment of \$1.8 million on the outstanding principal on March 31, 2024 and agreed to make monthly amortization payments on the outstanding principal each in the amount of \$0.9 million on each payment date commencing on April 30, 2024. Accordingly, \$1.0 million of the unamortized debt issuance costs were expensed in connection with the Third Amendment.

On February 28, 2025, the Company entered into Amendment No. 4 (the "Fourth Amendment") to the Amended Perceptive Loan Agreement. The Fourth Amendment, among other things, (i) initially defers the amortization payment due February 28, 2025 to March 31, 2025 (the "February Amortization Payment"), (ii) waives the February Amortization Payment and each other amortization payment which would come due on or prior to September 30, 2025 so long as the Company completed one or more issuances or sales of its common stock, par value, \$0.001 per share, aggregating in an amount not less than \$8.0 million in gross cash proceeds to the Company by March 31, 2025 (the "Equity Offering Transaction"), (iii) waives each amortization payment which would come due after September 30, 2025 until March 31, 2026 so long as the Equity Offering Transaction is completed by March 31, 2025 and a subsequent transaction resulting in not less than \$5.0 million of gross cash proceeds to the Company pursuant to documentation approved by the Collateral Agent in writing is completed by September 30, 2025 (the "Subsequent Financing Transaction"), (iv) requires one or more mandatory prepayments in amounts equal to (x) 100% of the amount of net proceeds from the Subsequent Financing Transaction in excess of \$10.0 million and up to \$15.0 million and (y) 50% of the net proceeds resulting from the Subsequent Financing Transaction in excess of \$15.0 million, and (v) resets required levels in the Minimum Revenue covenant so long as the Equity Offering Transaction is consummated by March 31, 2025. Any remaining outstanding principal amount of the Perceptive loan shall be due and payable in full in cash on August 23, 2026, the maturity date.

For the year ended December 31, 2024 and 2023, the effective interest rate of the Amended Perceptive Loan, was 20.31% and 16.15%, respectively. As of December 31, 2024 and 2023, the fair value of the Amended Perceptive Loan approximates its carrying amount based on Level 2 inputs.

Future principal repayments and the net carrying value of the Perceptive Loan as of December 31, 2024, are as follows:

	Principal
	<i>(in thousands)</i>
2025	\$ 10,800
2026	4,300
Total principal payment	15,100
Debt discounts	(663)
Net carrying value	<u>\$ 14,437</u>

The Company is permitted to make voluntary prepayments, subject to a scaled prepayment premium that ranges from 7.0% to 1.0% of the aggregate principal amount outstanding on such prepayment date for prepayments made after August 23, 2022 and before August 23, 2025. No prepayment premium is required for payments made after August 23, 2025.

The Amended Perceptive Loan Agreement contains events of default, including, without limitation, upon: (i) failure to make a payment pursuant to the terms of the agreement; (ii) violation of certain covenants; (iii) payment or other defaults on other indebtedness; (iv) material adverse change in the business or change in control; (v) insolvency; (vi) significant judgments; (vii) incorrectness of representations and warranties; (viii) regulatory matters; and (ix) failure by us to maintain a valid and perfected lien on the collateral securing the borrowing. Based on the Amended Perceptive Loan Agreement, the Company has granted a security interest in substantially all of its assets.

The Amended Perceptive Loan Agreement includes financial covenants that require the Company to (i) maintain, at all times, a minimum aggregate balance of \$3.0 million in cash in one or more controlled accounts, and (ii) pursuant to the Fourth Amendment, satisfy certain minimum revenue thresholds, measured for the consecutive 12-month periods ending on each calendar quarter-end until December 31, 2026 as follows:

For 12-month Period Ending	Revenue
	<i>(in thousands)</i>
December 31, 2024	\$ 31,500
March 31, 2025	\$ 30,028
June 30, 2025	\$ 28,916
September 30, 2025	\$ 27,858
December 31, 2025	\$ 27,604
March 31, 2026	\$ 28,261
June 30, 2026	\$ 28,966
September 30, 2026	\$ 29,660
December 31, 2026	\$ 30,420

Pursuant to the Third Amendment, the lender also waived the covenant requiring the absence of any “going concern” or like qualification or exception or any qualification or exception as to the scope of the audit, solely with respect to the fiscal year ended on December 31, 2023. Pursuant to the Fourth Amendment, the lender also waived the covenant requiring the absence of any “going concern” or like qualification, solely with respect to the fiscal year ended on December 31, 2024.

Failure to satisfy any covenants would constitute an event of default under the Amended Perceptive Loan Agreement. In the event of an event of default, the lender may terminate its commitments and declare all amounts outstanding under the Amended Perceptive Loan Agreement immediately due and payable, together with accrued interest and all fees and other obligations. The amount of such repayment will include payment of any prepayment premium applicable due to the time of such payment. In addition, upon the occurrence and during the continuance of any event of default, the applicable margin will increase by 3.00% per annum to 12.25%.

Total revenue generated from continuing and discontinued operations for the 12-months period ended December 31, 2024 was \$33.2 million, and the cash and cash equivalents and short term investment balance was \$11.6 million as of December 31, 2024. As such, the Company was in compliance with all financial covenants and conditions under the Amended Perceptive Loan Agreement as of December 31, 2024.

11. Income Taxes

The income tax provision for each of the years ended December 31, 2024 and 2023 \$2 thousand, respectively. The effective tax rate was 0.0% for each of the years ended December 31, 2024 and 2023 and differs from the statutory federal income tax rate due to the deferred tax assets being subject to a full valuation allowance.

The provision (benefit) for income taxes charged to operations was as follows:

	2024	2023
	(in thousands)	
Current tax expense		
U.S. federal	\$ —	\$ —
State and local	2	2
Total current	2	2
Deferred tax expense:		
U.S. federal	\$ —	\$ —
State and local	—	—
Total deferred	—	—
Total provision for income taxes	\$ 2	\$ 2

Pursuant to Internal Revenue Code (“IRC”) Sections 382 and 383 as well as similar state provisions, annual use of the Company’s net operating loss and R&D credit carryforwards may be limited in the event a cumulative change in ownership. In general, an “ownership change,” as defined by IRC Section 382, results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain stockholders or public groups. The Company has not completed an IRC Sections 382 and 383 analysis regarding the limitation of net operating loss and R&D credit carryforwards as of December 31, 2024. The Company has not completed a formal R&D study but has estimated the federal and California credit for purposes of the tax footnote as of December 31, 2024. However, the Company has not reflected a benefit in the consolidated financial statements due to the recorded valuation allowance.

A reconciliation of the provision for income taxes with the expected income tax computed by applying the statutory federal income tax rate to loss before provision for income taxes and a reconciliation of the statutory federal rate and the effective rate was calculated as follows:

	2024		2023	
	Amount	Percent	Amount	Percent
Tax computed at federal statutory rate	\$ (5,872)	21.00%	\$ (12,896)	21.00%
State income tax - net of federal benefit	(383)	1.37%	(1,350)	2.20%
Tax credits	-	-	(351)	0.57%
Change in valuation allowance	2,738	(9.79)%	12,894	(21.00)%
Stock-based compensation	748	(2.68)%	1,623	(2.64)%
Other deferred adjustments	795	(2.84)%	(65)	0.11%
Gain on sale of subsidiary	1,889	(6.76)%	-	-
Permanent items	87	(0.30)%	147	(0.24)%
Income tax provision	\$ 2	0.00%	\$ 2	0.00%

The significant components that comprised the Company's net deferred taxes at December 31, 2024 and 2023 are as follows:

	2024	2023
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	\$ 89,993	\$ 87,831
Fixed assets and intangible assets	1,664	1,643
Lease liabilities	763	659
Accruals and reserves	1,025	1,018
Stock-based compensation	710	453
Tax credits	5,759	5,749
Research & Development	4,749	5,093
Other	2,865	2,261
Gross deferred tax assets	107,528	104,707
Less: valuation allowance	(106,745)	(104,007)
Net deferred tax assets	783	700
Deferred tax liabilities:		
Fixed assets and intangible assets	—	—
Right-of-use assets	(783)	(700)
Total gross deferred tax liabilities:	(783)	(700)
Net deferred tax asset (liability)	\$ —	\$ —

The tax effects of items that give rise to significant portions of deferred tax assets are primarily net operating loss carryforwards. The Company evaluates the recoverability of deferred tax assets and assesses all available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. Based on the weight of all the evidence, including a history of operating losses and the Company's ability to generate future taxable income to realize these assets, a full valuation allowance has been recorded to offset the net deferred tax asset as realization of such asset is uncertain.

On the basis of this evaluation, as of December 31, 2024 and 2023, a valuation allowance of \$106.7 million and \$104.0 million, respectively, has been recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized. For the year ended December 31, 2024, the valuation allowance for deferred tax assets increased by \$2.7 million. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as the Company's projections for growth.

As of December 31, 2024 and 2023, the Company had federal net operating loss carryforwards of approximately \$370.6 million and \$361.2 million, respectively and state net operating loss carryforwards of \$207.6 million and \$205.1 million, respectively. The federal and state loss carryforwards begin to expire in varying amounts between 2026 and 2037 unless previously utilized. Due to the enactment of the Tax Cuts and Jobs Act, federal net operating losses generated beginning in 2018 are carried forward indefinitely. Therefore \$253.4 million of federal net operating loss carryforwards will not expire. As of December 31, 2024 and 2023, the Company also had federal research and development tax credit carry-forwards of approximately \$4.1 million for both years and state research and development tax credit carry-forwards of approximately \$4.6 million for both years. The federal research and development tax credits will begin to expire in varying amounts between 2032 and 2044. The California research and development tax credits carry-forward indefinitely.

Any uncertain tax positions would be related to tax years that remain open and subject to examination by the relevant tax authorities. The Company has no liabilities recorded for uncertain tax positions but does have unrecognized tax benefits of \$2.2 million which have been recorded as a direct reduction to the deferred tax asset as of the year ended December 31, 2024. The Company has not accrued for interest or penalties associated with unrecognized tax liabilities. The Company is subject to U.S. federal tax authority examinations and U.S. state tax authority examinations for all years due to the net operating loss carryforwards. The Company files a federal U.S.

tax return and several U.S. state income tax returns with varying statutes of limitations. The Company's federal tax return for the year ended December 31, 2022 is currently under examinations of Internal Revenue Service.

The following changes occurred in the amount of unrecognized tax benefits:

	2024	2023
	<i>(in thousands)</i>	
Gross unrecognized tax benefits at the beginning of the year	\$ 2,156	\$ 2,020
Increases related to current year tax positions	—	126
Increases related to prior year tax positions	4	10
Gross unrecognized tax benefits at the end of the year	<u>\$ 2,160</u>	<u>\$ 2,156</u>

12. Segment Information

The Company reports segment information based on the management approach, which designates the internal reporting used by the Company's chief operating decision maker ("CODM") for decision making and performance assessment as the basis for determining the Company's reportable segments. The CODM of the Company is its chief executive officer. Operating segments are defined as components of the Company that engage in business activities from which it may earn revenue and incur expenses, and for which separate financial information is available and is regularly reviewed by the CODM to assess the performance of the individual segments and make decisions about company resources such as personnel and working capital to be allocated to the segments. The performance measure of the Company's reportable segments is primarily net income (loss). Net income (loss) for each segment includes all revenues, related cost of net revenues, gross margin, operating expenses, interest expense and other income directly attributable to the segment.

Since the divestiture of the Software business on March 1, 2024, the Company has been operating under its single reportable segment, Product. The Company's Product segment includes sales of the Company's GentleWave System console and related accessories and instruments.

During the year ended December 31, 2023, the Company operated and reported its results in two business segments, Product and Software. The Company's previously reported Software segment, included sales of the Company's traditional software licenses for practice management software to enable an integrated digital office for endodontists. The previous Software segment was reported as discontinued operations and is presented as such for all periods in this report. For more information, see Note 3 "Discontinued Operations."

The following tables presents the Company's segment information for the years ended December 31, 2024 and 2023.

	2024	2023
	<i>(in thousands, except percentage data)</i>	
	Product	Product
Revenue	\$ 31,702	\$ 34,628
Cost of sales:	19,860	29,959
Gross profit	11,842	4,669
Gross margin	37%	13%
Operating expenses:		
Selling and marketing	17,097	28,697
General and administrative	17,353	24,794
Research and development	6,758	10,443
Total operating expenses	41,208	63,934
Operating loss	(29,366)	(59,265)
Interest expense and other income:		
Interest expense	(5,471)	(6,456)
Other income	1,297	3,260
Total interest expense and other income	(4,174)	(3,196)
Loss before income tax expense	(33,540)	(62,461)
Income tax expense	(2)	(2)
Loss from continuing operations, net of tax	(33,542)	(62,463)
Income from discontinued operations, net of tax	5,509	1,544
Net loss	\$ (28,033)	\$ (60,919)

No segment asset information is provided to the CODM to assess performance and allocate resources.

13. Net Loss Per Share

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders for the periods presented:

	Year Ended December 31,	
	2024	2023
	<i>(in thousands, except shares and per share data)</i>	
Numerator:		
Loss from continuing operations, net of tax	\$ (33,542)	\$ (62,463)
Income from discontinued operations, net of tax	5,509	1,544
Net loss	\$ (28,033)	\$ (60,919)
Denominator:		
Weighted-average shares outstanding – basic and diluted	474,856	469,943
Net loss per share - basic and diluted	\$ (59.03)	\$ (129.63)

The pre-funded warrants as discussed in Note 6 are considered outstanding for the purposes of computing loss per share and are included in the calculation of basic and diluted shares outstanding above.

For the years ended December 31, 2024 and 2023, the Company recorded a net loss, and all shares subject to outstanding equity awards were excluded from the calculation of diluted shares for those periods because their impact would have been anti-dilutive.

	Year Ended December 31,	
	2024	2023
Stock options	6,863	11,786
RSUs	33,500	16,593
Warrants	1,518	1,613
Total	41,881	29,992

14. Subsequent Events

On February 28, 2025, the Company entered into the Fourth Amendment. The Fourth Amendment provided for the discontinuation of monthly principal payments, effective February 2025 through February 2026, subject to the timely execution of various financing transactions as outlined in the amendment, and modified certain other terms, including revenue covenants (see *Note 10*).