

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

FORM 10-Q

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

For the quarterly period ended September 30, 2024

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

For the transition period from _____ to _____.

Commission File Number: 001-39565

The Beauty Health Company

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

85-1908962

(I.R.S. Employer Identification No.)

2165 Spring Street
Long Beach, CA 90806

(Address of principal executive offices, including zip code)

(800) 603-4996

Registrant's telephone number, including area code

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.0001 per share	SKIN	The Nasdaq Capital Market

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of November 8, 2024, there were 124,122,158 shares of Class A Common Stock, par value \$0.0001 per share issued and outstanding.

THE BEAUTY HEALTH COMPANY
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2024
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PART I— FINANCIAL INFORMATION

Item 1. Financial Statements.

THE BEAUTY HEALTH COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except for share amounts)
(Unaudited)

	September 30, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash, cash equivalents, and restricted cash	\$ 358,892	\$ 523,025
Accounts receivable, net of allowances for estimated credit losses of \$ 11,025 and \$6,604 at September 30, 2024 and December 31, 2023, respectively	36,279	54,697
Inventories	73,443	91,321
Income tax receivable	399	332
Prepaid expenses and other current assets	16,034	28,877
Total current assets	485,047	698,252
Property and equipment, net	7,634	14,226
Right-of-use assets, net	14,599	12,120
Intangible assets, net	50,979	62,123
Goodwill	125,455	125,818
Deferred income tax assets, net	1,172	531
Other assets	14,662	16,043
TOTAL ASSETS	\$ 699,548	\$ 929,113
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 23,084	\$ 44,768
Accrued payroll-related expenses	16,543	22,028
Lease liabilities, current	4,827	4,598
Income tax payable	1,401	2,759
Syndeo Program reserves	—	21,009
Other accrued expenses	28,093	19,846
Total current liabilities	73,948	115,008
Lease liabilities, non-current	12,093	9,319
Deferred income tax liabilities, net	1,115	702
Warrant liabilities	558	3,555
Convertible senior notes, net	551,411	738,372
Other long-term liabilities	699	2,767
Total liabilities	639,824	869,723
Commitments (Note 10)		
Stockholders' equity:		
Class A Common Stock, \$0.0001 par value; 320,000,000 shares authorized; 124,111,434 and 122,899,002 shares issued and outstanding at September 30, 2024 and December 31, 2023, respectively	12	12
Additional paid-in capital	561,059	541,281
Accumulated other comprehensive loss	(3,712)	(3,036)
Accumulated deficit	(497,635)	(478,867)
Total stockholders' equity	59,724	59,390
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 699,548	\$ 929,113

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

THE BEAUTY HEALTH COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands, except for share and per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net sales	\$ 78,802	\$ 97,413	\$ 250,799	\$ 301,170
Cost of sales	38,153	109,966	120,849	191,743
Gross profit (loss)	<u>40,649</u>	<u>(12,553)</u>	<u>129,950</u>	<u>109,427</u>
Operating expenses:				
Selling and marketing	27,620	30,731	91,786	112,471
Research and development	1,108	1,839	5,074	7,056
General and administrative	33,436	36,978	93,707	102,457
Total operating expenses	<u>62,164</u>	<u>69,548</u>	<u>190,567</u>	<u>221,984</u>
Loss from operations	<u>(21,515)</u>	<u>(82,101)</u>	<u>(60,617)</u>	<u>(112,557)</u>
Interest expense	2,468	3,445	7,949	10,291
Interest income	(4,876)	(6,750)	(14,426)	(16,782)
Other income, net	(69)	(4,872)	(33,475)	(5,337)
Change in fair value of warrant liabilities	(418)	(5,855)	(2,997)	(8,364)
Foreign currency transaction (gain) loss, net	<u>(2,277)</u>	<u>2,270</u>	<u>164</u>	<u>724</u>
Loss before provision for income taxes	<u>(16,343)</u>	<u>(70,339)</u>	<u>(17,832)</u>	<u>(93,089)</u>
Income tax expense (benefit)	1,948	3,479	936	(2,376)
Net loss	<u>\$ (18,291)</u>	<u>\$ (73,818)</u>	<u>(18,768)</u>	<u>(90,713)</u>
Comprehensive loss, net of tax:				
Foreign currency translation adjustments	1,187	(1,093)	(676)	(572)
Comprehensive loss	<u>\$ (17,104)</u>	<u>\$ (74,911)</u>	<u>(19,444)</u>	<u>(91,285)</u>
Net loss per share				
Basic	\$ (0.15)	\$ (0.56)	\$ (0.15)	\$ (0.68)
Diluted	\$ (0.15)	\$ (0.56)	\$ (0.31)	\$ (0.68)
Weighted average common stock outstanding				
Basic	124,057,602	132,896,626	123,630,811	132,679,547
Diluted	124,057,602	132,896,626	142,667,209	132,679,547

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

THE BEAUTY HEALTH COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands, except for share amounts)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount				
BALANCE, December 31, 2022	132,214,695	\$ 14	\$ 550,320	\$ (4,530)	\$ (378,751)	\$ 167,053
Net loss	—	—	—	—	(20,259)	(20,259)
Issuance of common stock pursuant to equity compensation plan	473,049	—	—	—	—	—
Shares withheld for tax withholdings on vested stock awards	(170,415)	—	(2,195)	—	—	(2,195)
Issuance of common stock relating to employee stock purchase plan	—	—	2,034	—	—	2,034
Share-based compensation	—	—	3,577	—	—	3,577
Common stock relating to asset acquisition	109,625	—	1,310	—	—	1,310
Foreign currency translation adjustment	—	—	—	888	—	888
BALANCE, March 31, 2023	132,626,954	\$ 14	\$ 555,046	\$ (3,642)	\$ (399,010)	\$ 152,408
Net income	—	—	—	—	3,364	3,364
Issuance of common stock pursuant to equity compensation plan	254,742	—	—	—	—	—
Shares withheld for tax withholdings on vested stock awards	(83,234)	—	(545)	—	—	(545)
Issuance of common stock relating to employee stock purchase plan	82,955	—	698	—	—	698
Share-based compensation	—	—	8,524	—	—	8,524
Accelerated share repurchase payment	—	—	(2,240)	—	—	(2,240)
Foreign currency translation adjustment	—	—	—	(367)	—	(367)
BALANCE, June 30, 2023	132,881,417	\$ 14	\$ 561,483	\$ (4,009)	\$ (395,646)	\$ 161,842
Net loss	—	—	—	—	(73,818)	(73,818)
Issuance of common stock pursuant to equity compensation plan	157,749	—	—	—	—	—
Shares withheld for tax withholdings on vested stock awards	(50,731)	—	(331)	—	—	(331)
Repurchase and retirement of common stock	(419,242)	—	(4,828)	—	—	(4,828)
Share-based compensation	—	—	8,185	—	—	8,185
Foreign currency translation adjustment	—	—	—	(1,093)	—	(1,093)
BALANCE, September 30, 2023	132,569,193	\$ 14	\$ 564,509	\$ (5,102)	\$ (469,464)	\$ 89,957

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount				
BALANCE, December 31, 2023	122,899,002	\$ 12	\$ 541,281	\$ (3,036)	\$ (478,867)	\$ 59,390
Net loss	—	—	—	—	(679)	(679)
Issuance of common stock pursuant to equity compensation plan	843,950	—	—	—	—	—
Shares withheld for tax withholdings on vested stock awards	(289,533)	—	(1,005)	—	—	(1,005)
Share-based compensation	—	—	6,636	—	—	6,636
Foreign currency translation adjustment	—	—	—	(1,047)	—	(1,047)
BALANCE, March 31, 2024	123,453,419	\$ 12	\$ 546,912	\$ (4,083)	\$ (479,546)	\$ 63,295
Net income	—	—	—	—	202	202
Issuance of common stock pursuant to equity compensation plan	454,362	—	—	—	—	—
Shares withheld for tax withholdings on vested stock awards	(104,120)	—	(368)	—	—	(368)
Issuance of common stock relating to employee stock purchase plan	190,124	—	378	—	—	378
Share-based compensation	—	—	6,498	—	—	6,498
Foreign currency translation adjustment	—	—	—	(816)	—	(816)
BALANCE, June 30, 2024	123,993,785	\$ 12	\$ 553,420	\$ (4,899)	\$ (479,344)	\$ 69,189
Net loss	—	—	—	—	(18,291)	(18,291)
Issuance of common stock pursuant to equity compensation plan	171,021	—	—	—	—	—
Shares withheld for tax withholdings on vested stock awards	(53,372)	—	(73)	—	—	(73)
Share-based compensation	—	—	7,712	—	—	7,712
Foreign currency translation adjustment	—	—	—	1,187	—	1,187
BALANCE, September 30, 2024	124,111,434	\$ 12	\$ 561,059	\$ (3,712)	\$ (497,635)	\$ 59,724

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

THE BEAUTY HEALTH COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2024	2023
Cash flows from operating activities:		
Net loss	\$ (18,768)	\$ (90,711)
Adjustments to reconcile net loss to net cash from operating activities		
Share-based compensation	20,846	20,281
Amortization of intangible assets	15,314	15,951
Depreciation of property and equipment	8,486	6,951
Amortization of other assets	3,321	1,751
Amortization of debt issuance costs	2,532	3,111
Inventory write-down	22,704	11,901
Syndeo inventory write-down	—	18,801
Provision for estimated credit losses	5,135	2,701
Change in fair value of warrant liabilities	(2,997)	(8,361)
Gain on repurchase of convertible senior notes, net	(33,411)	—
Deferred income taxes	(250)	301
Other, net	9,938	8,501
Changes in operating assets and liabilities:		
Accounts receivable	13,348	6,001
Inventories	(7,468)	3,421
Prepaid expenses, other current assets, and income tax receivable	7,956	(16,151)
Accounts payable, accrued expenses, and income tax payable	(39,501)	50,111
Other, net	(7,523)	(7,861)
Net cash (used for) provided by operating activities	(338)	26,921
Cash flows from investing activities:		
Cash paid for intangible assets	(5,250)	(7,061)
Cash paid for property and equipment	(682)	(3,751)
Cash paid for asset acquisitions	—	(18,451)
Net cash used for investing activities	(5,932)	(29,331)
Cash flows from financing activities:		
Repurchase of convertible senior notes	(156,082)	—
Payment of tax withholdings on vested stock awards	(1,489)	(2,361)
Payment of accelerated share repurchases	—	(2,241)
Payment of contingent considerations related to acquisitions	—	(1,811)
Other, net	—	351
Net cash used for financing activities	(157,571)	(6,061)
Net change in cash, cash equivalents, and restricted cash	(163,841)	(8,511)
Effect of foreign currency translation on cash	(292)	(241)
Cash, cash equivalents, and restricted cash beginning of period	523,025	568,191
Cash, cash equivalents, and restricted cash end of period	\$ 358,892	\$ 559,441

The accompanying notes are an integral part of these unaudited financial statements

THE BEAUTY HEALTH COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Description of Business

The Beauty Health Company (the “Company”) is a global category-creating company focused on delivering skin health experiences that help consumers reinvent their relationship with their skin, bodies, and self-confidence. The Company and its subsidiaries design, develop, manufacture, market, and sell esthetic technologies and products. The Company’s brands are pioneers: HydraFacial in hydradermabrasion; SkinStylus in microneedling; and Keravive in scalp health. Together, with its powerful global community of estheticians, partners, and consumers, the Company is personalizing skin health for all ages, genders, skin tones, and skin types.

Historical Information

The Company (f.k.a. Vesper Healthcare Acquisition Corp.) was incorporated in the State of Delaware on July 8, 2020. On May 4, 2021, we consummated the business combination pursuant to that certain Agreement and Plan of Merger, dated December 8, 2020, by and among Vesper Healthcare Acquisition Corp. (“Vesper Healthcare”), Hydrate Merger Sub I, Inc. (“Merger Sub I”), Hydrate Merger Sub II, LLC (“Merger Sub II”), LCP Edge Intermediate, Inc., the indirect parent of HydraFacial LLC, f.k.a. Edge Systems LLC (“HydraFacial”), and LCP Edge Holdco, LLC (“LCP,” or “Former Parent,” and, in its capacity as the stockholders’ representative, the “Stockholders’ Representative”) (the “Merger Agreement”), which provided for: (a) the merger of Merger Sub I with and into HydraFacial, with HydraFacial continuing as the surviving corporation (the “First Merger”), and (b) immediately following the First Merger and as part of the same overall transaction as the First Merger, the merger of HydraFacial with and into Merger Sub II, with Merger Sub II continuing as the surviving entity (the “Second Merger” and, together with the First Merger, the “Mergers” and, together with the other transactions contemplated by the Merger Agreement, the “Business Combination”). As a result of the First Merger, the Company owns 100% of the outstanding common stock of HydraFacial and each share of common stock and preferred stock of HydraFacial was cancelled and converted into the right to receive a portion of the consideration payable in connection with the Mergers. As a result of the Second Merger, the Company owns 100% of the outstanding interests in Merger Sub II. In connection with the closing of the Business Combination (the “Closing”), the Company owns, directly or indirectly, 100% of the stock of HydraFacial and its subsidiaries and the stockholders of HydraFacial as of immediately prior to the effective time of the First Merger (the “HydraFacial Stockholders”) hold a portion of the Company’s Class A common stock, par value \$0.0001 per share (the “Class A Common Stock”).

Basis of Presentation

The accompanying unaudited interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete financial statements. These statements reflect all normal and recurring adjustments which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of the Company for the interim periods presented.

These interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in, or presented as exhibits to, the Company’s Annual Report on Form 10-K for the year ended December 31, 2023.

Note 2 — Revenue

The Company generates revenue through manufacturing and selling its patented hydradermabrasion delivery systems (“Delivery Systems”). In conjunction with the sale of Delivery Systems, the Company also sells single-use tips, solutions, and serums used to provide a HydraFacial treatment that cleanses, extracts, and hydrates the skin (collectively “Consumables”). Original Consumables are sold solely and exclusively by the Company (and from authorized retailers) and are available for purchase separately from the purchase of Delivery Systems. For both Delivery Systems and Consumables, revenue is recognized upon transfer of control to the customer, which generally takes place at the point of shipment.

The Company manages its business on the basis of one operating segment and one reportable segment. As a result, the chief operating decision maker, who is the Chief Executive Officer, reviews financial information presented on a consolidated basis for purposes of making operating decisions, allocating resources and evaluating financial performance.

The Company's revenue disaggregated by major product line consists of the following for the periods indicated:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net Sales				
Delivery Systems	\$ 27,613	\$ 51,043	\$ 98,605	\$ 161,986
Consumables	51,189	46,370	152,194	139,184
Total net sales	<u>\$ 78,802</u>	<u>\$ 97,413</u>	<u>\$ 250,799</u>	<u>\$ 301,170</u>

Net sales by geographic region were as follows for the periods indicated:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Americas	\$ 51,878	\$ 51,703	\$ 159,935	\$ 168,325
Asia-Pacific ("APAC")	10,829	24,657	36,436	63,525
Europe, the Middle East and Africa ("EMEA")	16,095	21,053	54,428	69,320
Total net sales	<u>\$ 78,802</u>	<u>\$ 97,413</u>	<u>\$ 250,799</u>	<u>\$ 301,170</u>

Note 3 — Balance Sheet Components

Inventories consist of the following as of the periods indicated:

(in thousands)	September 30, 2024	December 31, 2023
Raw materials	\$ 26,373	\$ 24,406
Finished goods	47,070	66,915
Total inventories	<u>\$ 73,443</u>	<u>\$ 91,321</u>

During the nine months ended September 30, 2024, the Company recognized \$22.7 million of inventory charges for discontinued, excess, obsolete inventory, including the write-down of Delivery System inventory to its net realizable value and the write-off of excess raw materials.

Accrued payroll-related expenses consist of the following as of the periods indicated:

(in thousands)	September 30, 2024	December 31, 2023
Accrued compensation and payroll taxes	\$ 9,358	\$ 10,458
Accrued sales commissions	4,937	7,565
Accrued benefits	2,248	4,005
Total accrued payroll-related expenses	<u>\$ 16,543</u>	<u>\$ 22,028</u>

Other accrued expenses consist of the following as of the periods indicated:

(in thousands)	September 30, 2024	December 31, 2023
Sales and VAT tax payables	\$ 5,404	\$ 4,971
Accrued interest	3,486	2,344
Royalty liabilities	3,424	3,914
Deferred revenue	3,263	450
Other	12,516	8,167
Total other accrued expenses	<u>\$ 28,093</u>	<u>\$ 19,846</u>

As of September 30, 2024 and December 31, 2023, the Company has approximately \$ 3 million and \$15 million, respectively, of non-trade receivables from certain of its manufacturing vendors resulting from the sale of components to these vendors who manufacture or assemble final products for the Company, which is included in prepaid expenses and other current assets on the Consolidated Balance Sheets. The Company purchases components directly from suppliers and do not reflect the sale of these components to the manufacturing vendors in net sales.

During the three months ended September 30, 2024, in connection with the Company's manufacturing optimization plans, the Company recorded approximately \$8 million of contract termination related costs, which was recorded within cost of sales on the Condensed Consolidated Statements of Comprehensive Income (Loss). As of September 30, 2024, the Company has accrued approximately \$2 million for the contract termination related costs, which was included in other accrued expenses on the Condensed Consolidated Balance Sheets.

As of September 30, 2024, total warranty reserve was approximately \$ 6 million, which was included in other accrued expenses on the Condensed Consolidated Balance Sheets. As of December 31, 2023, total warranty reserve was approximately \$ 6 million, of which approximately \$4 million was included in other accrued expenses and approximately \$2 million was included in other long-term liabilities on the Consolidated Balance Sheets.

As of September 30, 2024, the Company has approximately \$ 2 million in restricted cash held as collateral for the Company's credit cards.

Note 4 — Fair Value Measurements

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2024 and December 31, 2023, and indicate the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value.

The three levels of the fair value hierarchy are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Observable inputs other than Level 1 inputs. Examples of Level 2 inputs include quoted prices in active markets for similar assets or liabilities and quoted prices for identical assets or liabilities in markets that are not active.

Level 3: Unobservable inputs based on our assessment of the assumptions that market participants would use in pricing the asset or liability.

(in thousands)	As of September 30, 2024			
	Level 1	Level 2	Level 3	Total
Assets				
Cash, cash equivalents, and restricted cash:				
Money market funds	\$ 283,977	\$ —	\$ —	\$ 283,977
International treasuries	\$ —	\$ 7,569	\$ —	\$ 7,569
Liabilities				
Warrant liability — Private Placement Warrants	\$ —	\$ —	\$ 558	\$ 558

(in thousands)	As of December 31, 2023			
	Level 1	Level 2	Level 3	Total
Assets				
Cash, cash equivalents, and restricted cash:				
Money market funds	\$ 458,676	\$ —	\$ —	\$ 458,676
International treasuries	\$ —	\$ 3,777	\$ —	\$ 3,777
Liabilities				
Warrant liability — Private Placement Warrants	\$ —	\$ —	\$ 3,555	\$ 3,555

In October 2020, in connection with the consummation of Vesper Healthcare's initial public offering, the Company issued 9,333,333 warrants to purchase shares of the Company's Class A Common Stock at \$11.50 per share (the "Private Placement Warrants"), to BLS Investor Group LLC. As of September 30, 2024 and December 31, 2023, the Company had approximately 7 million Private Placement Warrants outstanding for which the fair value was determined using a Monte Carlo simulation.

Note 5 — Property and Equipment, net

Property and equipment, net consist of the following as of the periods indicated:

(in thousands)	Useful life (years)	September 30, 2024	December 31, 2023
	Shorter of remaining lease term or estimated useful life		
Leasehold improvements		\$ 12,215	\$ 12,323
Machinery and equipment	2-5	8,648	8,597
Furniture and fixtures	2-7	6,231	5,903
Computers and equipment	3-5	5,586	5,479
Tooling	5	1,305	887
Autos and trucks	5	207	242
Construction in progress		29	748
Total property and equipment		34,221	34,179
Less: accumulated depreciation and amortization		(26,587)	(19,953)
Property and equipment, net		\$ 7,634	\$ 14,226

Note 6 — Goodwill and Intangible Assets, net

Goodwill

The changes in the carrying value of goodwill for the nine months ended September 30, 2024 is as follows (in thousands):

December 31, 2023	\$ 125,818
Foreign currency translation impact	(363)
September 30, 2024	\$ 125,455

Intangible Assets, Net

The gross carrying amount and accumulated amortization of the Company's intangible assets, net, as of September 30, 2024 were as follows:

(in thousands)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Estimated Useful Life (Years)
Developed technology	\$ 91,629	\$ (72,658)	\$ 18,971	3 - 10
Capitalized software	22,178	(7,000)	15,178	3 - 5
Customer relationships	18,566	(13,767)	4,799	5 - 10
Trademarks	11,624	(5,982)	5,642	15
Non-compete agreement	5,871	(2,408)	3,463	3
Patents	3,629	(703)	2,926	3 - 19
Total intangible assets	\$ 153,497	\$ (102,518)	\$ 50,979	

The gross carrying amount and accumulated amortization of the Company's intangible assets, net, as of December 31, 2023 were as follows:

(in thousands)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Estimated Useful Life (Years)
Developed technology	\$ 91,629	\$ (64,453)	\$ 27,176	3 - 10
Capitalized software	18,423	(4,078)	14,345	3 - 5
Customer relationships	18,809	(11,317)	7,492	5 - 10
Trademarks	11,521	(5,367)	6,154	15
Non-compete agreement	5,878	(1,530)	4,348	3
Patents	3,132	(524)	2,608	3 - 19
Total intangible assets	\$ 149,392	\$ (87,269)	\$ 62,123	

Acquisition of Esthetic Medical, Inc. and Anacapa Aesthetics LLC

In February 2023, Edge Systems Intermediate, LLC, an indirect, wholly-owned subsidiary of the Company, acquired all of the outstanding shares of Esthetic Medical, Inc. ("EMI") in exchange for (i) a cash payment of \$11.8 million and (ii) 109,625 shares of Class A Common Stock of the Company (\$1.3 million). In addition, Dr. Lawrence Groop (the "Seller") is entitled to receive up to an additional \$ 3.2 million in contingent consideration based upon the achievement of certain conditions defined in the purchase agreement, of which \$1.9 million was considered probable as of the acquisition date. Applicable tax guidance was used to apply the simultaneous equation method to incrementally assign \$4.6 million to the book value of the intangible asset in excess of the purchase price. The Company accounted for this transaction as an asset acquisition and allocated substantially all of the purchase price and the tax basis difference totaling \$19.9 million to intangible assets, primarily related to developed technology.

In July 2023, EMI obtained clearance from the U.S. Food and Drug Administration that the SkinStylus Sterilock MicroSystem is cleared for use as a treatment to improve the appearance of facial acne scars in Fitzpatrick skin types I, II, and III in adults aged 22 years and older (the "Facial Indication Approval"). Obtaining the Facial Indication Approval triggered a \$1.3 million contingent payment made in July 2023 by the Company to the Seller, which was previously not considered probable of payment.

In March 2023, the Company acquired assets from Anacapa Aesthetics LLC and recognized approximately \$ 5 million of intangible assets, primarily related to non-compete agreements.

Note 7 — Long-Term Debt

Convertible Senior Notes

On September 14, 2021, the Company issued an aggregate of \$750.0 million in principal amount of its 1.25% Convertible Senior Notes due 2026 (the "Notes"). The Notes were issued pursuant to, and are governed by, an indenture dated as of September 14, 2021, between the Company and U.S. Bank National Association, as trustee (the "Indenture"). Pursuant to the purchase agreement between the Company and the initial purchasers of the Notes, the Company granted the initial purchasers an option to purchase, for settlement within a period of 13 days from, and including, the date the Notes were first issued, up to an additional \$100.0 million principal amount of Notes. The Notes issued on September 14, 2021 include the \$100.0 million principal amount of Notes issued pursuant to the full exercise by the initial purchasers of such option.

The following is a summary of the Company's Notes for the periods indicated:

(in thousands)	September 30, 2024	December 31, 2023
Notes due in 2026	\$ 557,700	\$ 750,000
Unamortized debt issuance costs	(6,289)	(11,628)
Net carrying value	\$ 551,411	\$ 738,372

During the three months ended September 30, 2024, there were no repurchases related to the Notes. During the nine months ended September 30, 2024, the Company repurchased \$192.3 million principal amount of the Notes for \$156.1 million and recognized a net gain of \$ 33.4 million, which includes \$2.8 million of unamortized debt issuance costs related to the repurchase. The net gain is included in other income, net in the Condensed Consolidated Statements of Comprehensive Income (Loss).

As of September 30, 2024 and December 31, 2023, the estimated fair value of the Notes was approximately \$ 461 million and \$558 million, respectively. The estimated fair value of the Notes was determined based on the actual bid price of the Notes on September 30, 2024 and December 31, 2023, and are classified as Level 2 within the fair value hierarchy.

Capped Call Transactions

On September 9, 2021, in connection with the pricing of the offering of Notes, the Company entered into privately negotiated capped call transactions (the "Base Capped Call Transactions") with Bank of Montreal, Credit Suisse Capital LLC, Deutsche Bank AG, London Branch, Goldman Sachs & Co. LLC, JPMorgan Chase Bank, National Association, Mizuho Markets Americas LLC and Wells Fargo Bank, National Association (collectively, the "Option Counterparties"). In addition, on September 10, 2021, in connection with the initial purchasers' exercise of their option to purchase additional Notes, the Company entered into additional capped call transactions (the "Additional Capped Call Transactions," and, together with the Base Capped Call Transactions, the "Capped Call Transactions") with each of the Option Counterparties. The Capped Call Transactions cover, subject to customary anti-dilution adjustments, the aggregate number of shares of the Company's Class A Common Stock that initially underlie the Notes, and are expected generally to reduce potential dilution to the Company's Class A Common Stock upon any conversion of Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap, based on the cap price of the Capped Call Transactions. The cap price of the Capped Call Transactions is initially \$47.94, which represents a premium of 100% over the last reported sale price of the Company's Class A Common Stock on September 9, 2021. The cost of the Capped Call Transactions was \$90.2 million.

The Capped Call Transactions are separate transactions, each between the Company and the applicable Option Counterparty, and are not part of the terms of the Notes and do not affect any holder's rights under the Notes or the Indenture. Holders of the Notes will not have any rights with respect to the Capped Call Transactions.

Amended and Restated Credit Facility

On November 14, 2022, the Company, as successor by assumption to Hydrafacial, a California limited liability company, entered into an Amended and Restated Credit Agreement (as it may be further amended, restated, supplemented or modified from time to time, the "Credit Agreement") with JPMorgan Chase Bank, N.A. (the "Administrative Agent"). The Credit Agreement provided the Company with a \$50.0 million revolving credit facility that had a maturity date of November 14, 2027.

On August 6, 2024, the Company prepaid all obligations and terminated all commitments, liabilities, and other obligations under the Credit Agreement. There were no material early termination penalties incurred in connection therewith, all outstanding obligations and commitments under the Credit Agreement were satisfied and terminated, and all related security interests and liens securing such obligations and commitments were released.

Note 8 — Income Taxes

The Company is required to calculate its interim income tax provision using the estimated annual effective tax rate ("AETR") method prescribed by Accounting Standards Codification ("ASC") 740-270, and as such, excludes losses in jurisdictions where the Company cannot benefit in computing its worldwide AETR. A separate AETR is computed and applied to ordinary losses in the U.S. jurisdiction as required by ASC 740-270-30-36(a). For the three and nine months ended September 30, 2024, the Company recorded foreign income tax expense of \$ 1.9 million and \$0.9 million, respectively, and U.S. income tax expense of zero. The Company's effective tax rate for the three months ended September 30, 2024 was affected by a mix of ordinary income in foreign jurisdictions that are tax-effected using a blended worldwide AETR of 30%, and ordinary loss in the U.S. jurisdiction that was tax-effected using a separate U.S. AETR of 0%. The separate U.S. AETR differed from the U.S. federal statutory tax rate of 21% due primarily to a full valuation allowance against the Company's U.S. deferred tax assets.

For the three and nine months ended September 30, 2023, the Company recorded income tax expense of \$3.5 million and income tax benefit of \$2.4 million, respectively. The estimated worldwide AETR differed from the U.S. federal statutory tax rate of 21% due primarily to income in foreign jurisdictions that are taxed at higher rates than the U.S. federal rate, a full valuation allowance against the Company's U.S. deferred tax assets, and the impact of accounting for business combination.

The Company has established a valuation allowance in the U.S. against its deferred tax assets because it is more likely than not that the deferred tax assets will not be realized. In determining whether deferred tax assets are realizable, the Company considers numerous factors including historical profitability, the amount of future taxable income and the existence of taxable temporary differences that can be used to realize deferred tax assets.

The Company applies ASC 740, the accounting standard addressing the accounting for uncertainty in income taxes, which prescribes rules for recognition, measurement and classification in the financial statements of tax positions taken or expected to be taken in a tax return. The Company has gross unrecognized tax benefits of \$1.4 million and \$1.1 million as of September 30, 2024 and December 31, 2023, respectively.

Note 9 — Share-Based Compensation

The Company has various stock compensation plans, which are more fully described in Part II, Item 8 "Financial Statements and Supplementary Data—Note 13 to the Consolidated Financial Statements—Equity-Based Compensation" in the Company's 2023 Annual Report on Form 10-K. Under the Beauty Health Company 2021 Incentive Award Plan, the Company may grant stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalents, other stock or cash-based awards to eligible service providers. Additionally, the Company maintains the Employee Stock Purchase Plan for employees located in the United States, whereby eligible employees can have up to 10% of their earnings withheld, subject to certain maximums, to be used to purchase shares of the Company's Class A Common Stock at certain purchase dates.

Share-based compensation expense was as follows for the periods indicated:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Cost of sales	\$ 193	\$ 471	\$ (81)	\$ 1,175
Selling and marketing	2,393	2,499	7,021	5,978
Research and development	168	465	216	829
General and administrative	4,958	4,750	13,690	12,304
Total share-based compensation	\$ 7,712	\$ 8,185	\$ 20,846	\$ 20,286

As of September 30, 2024, total unrecognized compensation expense related to unvested share-based compensation totaled \$ 38.2 million and is expected to be recognized over a weighted-average period of 1.8 years.

Note 10 — Commitments and Contingencies

Cartessa Aesthetics, LLC

On December 14, 2020, Hydrafacial filed a complaint (the "Cartessa Complaint") against Cartessa Aesthetics, LLC ("Cartessa") in the United States District Court for the Eastern District of New York (the "New York Court"), captioned Edge Systems LLC v. Cartessa Aesthetics, LLC, Case No. 1:20-cv-6082 (the "Cartessa Case"), for patent infringement arising from Cartessa's sale of Cartessa's hydrodermabrasion system that Hydrafacial alleged has infringed five of Hydrafacial's patents on its device. Hydrafacial narrowed its allegation in the Cartessa Complaint to assert infringement of just four of its patents. On September 15, 2022, the New York Court granted Hydrafacial's Motion for Summary Judgment of No Unclean Hands and denied Cartessa's Motion for Summary Judgment of non-infringement on three of the four patents-in-suit. On June 6, 2023, the New York Court granted Hydrafacial's Motion for Summary Judgment of No Invalidity of the fourth patent-in-suit and granted Cartessa's Motion for Summary Judgment of non-infringement of that same patent. The parties have agreed to dismiss the remaining claims without prejudice so that Hydrafacial can appeal the New York Court's grant of Cartessa's Motion for Summary Judgment.

On June 11, 2024, Hydrafacial filed a complaint against Cartessa and its foreign manufacturer, Eunsung Global Corp ("Eunsung"), in the United States International Trade Commission. A Notice of Institution of Investigation was issued on July 11, 2024, and the investigation was assigned investigation number 337-TA-1408 (the "ITC Cartessa Matter"). In the ITC Cartessa Matter, Hydrafacial has asserted that Cartessa and Eunsung infringe Hydrafacial's U.S. Patent No. 11,865,287, which relates to hydrodermabrasion systems but was not asserted in the Cartessa Case. Eunsung has consented to an exclusion order during the term of the Hydrafacial patent-in-suit. The ITC Cartessa Matter is in its early stages, and Hydrafacial continues to seek an exclusion order preventing importation or sale of Cartessa's hydrodermabrasion systems within the United States.

Medicreations LLC

On May 6, 2024, Hydrafacial filed a complaint against Medicreations LLC ("Medicreations") in the United States District Court for Nevada, Case Number 2:24-cv-00855 (the "Medicreations Case"), for patent infringement arising from Medicreations' sale of hydrodermabrasion systems that Hydrafacial alleged to have infringed twelve of Hydrafacial's patents. The Medicreations Case is in its early stages, and Hydrafacial is seeking monetary damages and plans to vigorously pursue its claims against Medicreations.

Sinclair Pharma US, Inc

On July 24, 2024, Hydrafacial filed a complaint against Sinclair Pharma US, Inc ("Sinclair"), and its distributor Viora, Inc ("Viora"), in the United States District Court for the Central District of California, Case No. 2:24-cv-06250 (the "Sinclair Case"), for patent infringement arising from Sinclair's sale of hydrodermabrasion systems that Hydrafacial alleged to have infringed five of Hydrafacial's patents on its device. The Sinclair Case is in its early stages. Hydrafacial is seeking monetary damages and plans to vigorously pursue its claims against Sinclair and Viora.

On August 2, 2024, Hydrafacial filed a complaint against Sinclair, Aesthetic Management Partners, their foreign manufacturer, EMA Aesthetics, Ltd. ("EMA Aesthetics"), and H.R. Meditech ("H.R. Meditech") in the United States International Trade Commission. A Notice of Institution of Investigation was issued on September 10, 2024, and the investigation was assigned investigation number 337-TA-1416 (the "ITC Sinclair Matter"). In the ITC Sinclair Matter, Hydrafacial has asserted that Sinclair, Aesthetic Management Partners, EMA Aesthetics, and H.R. Meditech infringe Hydrafacial's U.S. Patent Nos. 11,865,287 and 9,550,052, which relate to hydrodermabrasion systems. The ITC Sinclair Matter is in its early stages, and Hydrafacial is seeking an exclusion order preventing importation or sale of each of the respondents' hydrodermabrasion systems within the United States.

Aesthetic Management Partners Inc.

On July 8, 2024, Hydrafacial filed a complaint against Aesthetic Management Partners Inc. ("Aesthetic Management Partners") in the United States District Court for the Western District of Tennessee, Case No. 2:24-cv-02480-JPM-TMP (the "AMP Case"), for patent infringement arising from Aesthetic Management Partners' sale of hydrodermabrasion systems that Hydrafacial alleged to have infringed five of Hydrafacial's patents on its device. The AMP Case is now stayed, and there will be no activity until the conclusion of the ITC Sinclair Matter. After conclusion of the ITC Sinclair Matter, Hydrafacial plans to reopen the AMP Case to seek monetary damages and plans to vigorously pursue its claims against Aesthetic Management Partners.

Medical Purchasing Resource, LLC

On June 4, 2024, Hydrafacial filed a complaint against Medical Purchasing Resource, LLC ("Medical Purchasing Resource") in the United States District Court for the Central District of California, Case No. 2:24-cv-4655 (the "MPR Case"), for trademark infringement, false designation of origin, unfair competition, tortious interference, and other causes of action relating to Hydrafacial's trademark rights. The MPR Case is in its early stages, and Hydrafacial is seeking monetary damages and plans to vigorously pursue its claims against Medical Purchasing Resource.

Luvo Medical Technologies Inc

On August 16, 2024, Hydrafacial filed a complaint against Luvo Medical Technologies Inc ("Luvo"), Healthcare Markets, Inc ("Healthcare Markets"), and their foreign manufacturer Eunsung in the United States District Court of Utah, Case No. 2:24-cv-00587 (the "Luvo Case"), for patent infringement arising from Healthcare Markets' sale of Luvo's hydrodermabrasion systems that Hydrafacial alleged to have infringed five of Hydrafacial's patents on its device. The Luvo Case is now stayed, and there will be no any activity until the conclusion of the ITC Luvo Matter. After conclusion of the ITC's investigation, Hydrafacial plans to reopen the Luvo Case to seek monetary damages and plans to vigorously pursue its claims against Luvo, Healthcare Markets, and Eunsung.

On August 7, 2024, Hydrafacial filed a complaint against Luvo, its distributor Healthcare Markets, Medical Purchasing Resource, eMIRAméd, and its manufacturer, MIRAmédtech, in the United States International Trade Commission. A Notice of Institution of Investigation was issued on September 16, 2024, and the investigation was assigned investigation number 337-TA-1417 (the "ITC Luvo Matter"). In the ITC Luvo Matter, Hydrafacial has asserted that Luvo, Healthcare Markets, Medical Purchasing Resource, and eMIRAméd USA, LLC ("eMIRAméd") infringe Hydrafacial's U.S. Patent No. 11,446,477, which is not asserted in the ITC Cartessa Matter or ITC Sinclair Matter, and relates to hydrodermabrasion systems. The ITC Luvo Matter is in its early stages, and Hydrafacial is seeking an exclusion order preventing importation or sale of each of the respondents' hydrodermabrasion systems within the United States.

eMIRAméd USA, LLC

On August 26, 2024, Hydrafacial filed a complaint against eMIRAméd USA, LLC ("eMIRAméd"), and its manufacturer MIRAmédtech UG ("MIRAmédtech"), in the United States District Court for the Central District of California, Case No. 2:24-cv-01865 (the "eMIRAméd Case"), for patent infringement arising from eMIRAméd's sale of hydrodermabrasion systems that Hydrafacial alleged to have infringed five of Hydrafacial's patents on its device. The eMIRAméd Case is in its early stages. Hydrafacial is seeking monetary damages and plans to vigorously pursue its claims against eMIRAméd and MIRAmédtech.

Securities Class Action

On November 16, 2023, a putative class action was filed in the United States District Court for the Central District of California against the Company, its then-current President and Chief Executive Officer, Andrew Stanleick, its former Chief Financial Officer, Liyuan Woo, and its current Chief Financial Officer, Michael Monahan. The complaint, styled Abduladhim A. Alghazwi, individually and on behalf of all others similarly situated, v. The Beauty Health Company, Andrew Stanleick, Liyuan Woo, and Michael Monahan, Case No. 2:23-cv-09733 (C.D. Ca.) (the "Securities Class Action"), asserts claims for violation of Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 10b-5 promulgated thereunder against all defendants (First Claim), and violation of Section 20(a) of the Exchange Act against the individual defendants (Second Claim). The complaint alleges that, between May 10, 2022 and November 13, 2023, defendants materially misled the investing public by publicly issuing false and/or misleading statements and/or omissions relating to Hydrafacial's business, operations, and prospects, specifically with respect to the performance of and demand for the Syndeo 1.0 and 2.0 devices. The relief sought in the complaint includes a request for compensatory damages suffered by the plaintiff and other members of the putative class for damages allegedly sustained as a result of the alleged securities violations.

On January 16, 2024, putative class members Jeff and Kevin Brown (the “Browns”), Priscilla and Martijn Dijkgraaf (the “Dijkgraafs”), and Joseph Jou filed three competing motions for appointment as lead plaintiff under the Private Securities Litigation Reform Act (“PSLRA”), 17 U.S.C. § 78u-4(a)(3). On January 31, 2024, Joseph Jou filed a notice of non-opposition to the Browns’ and Dijkgraafs’ motions for appointment as lead plaintiff. On May 2, 2024, the court granted the Dijkgraafs’ motion for appointment as lead plaintiff and approved the Dijkgraafs’ counsel, Hagens Berman, as lead counsel. On May 9, 2024, the parties submitted a joint stipulation to the court setting forth a proposed schedule for the filing of an amended complaint and defendants’ response thereto. The proposed schedule has not yet been approved by the court. On July 1, 2024, lead plaintiffs filed a consolidated amended class action complaint asserting the same causes of action as the original complaint. The Securities Class Action case is assigned to U.S. District Judge Sherilyn Peace Garnett. On September 30, 2024, the Company filed a motion to dismiss the consolidated amended class action complaint in its entirety. Plaintiffs’ opposition brief is due on November 22, 2024, the Company’s reply brief is due December 23, 2024, and the hearing on the motion is set for January 15, 2025.

The Company believes that the claims asserted in the Securities Class Action have no merit and intends to vigorously defend them. The Company is unable to reasonably estimate the possible loss or range of loss, if any, associated with these claims, and, accordingly, it has not accrued any liability associated with the Securities Class Action.

Consumer Class Action

On October 24, 2024, Jason Davalos, Sonia Davalos, and Sol Tan Tanning & Spa LLC (“Class Action Plaintiffs”), individually and on behalf of all others similarly situated, filed a putative class action complaint against Hydrafacial LLC d/b/a The Hydrafacial Company and The Beauty Health Company (collectively, the “Class Action Defendants”) for alleged violations of New York consumer fraud statutes, breach of contract, and common law breach of implied warranties (the “Consumer Class Action”). The case is captioned Jason Davalos, Sonia Davalos, Sol Tan Tanning & Spa LLC, on behalf of themselves and all others similarly situated v. Hydrafacial LLC dba The Hydrafacial Company, and The Beauty Health Company, Case No. 24-cv-8073 (S.D.N.Y.) (Caproni, J.) The complaint alleges that all three versions of the Syndeo machine (Syndeo 1.0, Syndeo 2.0, and Syndeo 3.0) were defective and did not perform in the manner in which it had been represented by Class Action Defendants. Class Action Plaintiffs claim that Class Action Defendants made various misrepresentations in its marketing and sales of the Syndeo machines and, rather than provide a refund to customers for the defective machines, replaced them with another Syndeo machine that exhibited the same defects. Class Action Plaintiffs purport to bring claims on behalf of themselves, and all other similarly situated purchasers within the United States, of Class Action Defendants’ Syndeo machines. The complaint asserts five causes of action: (1) violations of N.Y. G.B.L., § 349, the state consumer production statute; (2) violations of N.Y. G.B.L., § 350, the state’s false advertising statute; (3) breach of contract; (4) breach of the implied warranty of merchantability; and (5) breach of the implied warranty of fitness. The relief sought in the complaint includes monetary damages allegedly suffered by Class Action Plaintiffs and other members of the putative class as a result of Class Action Defendants’ alleged violations and breaches, including a trebling of any money damages award for alleged violations of N.Y. G.B.L., § 349 and § 350.

The Company believes that the claims asserted in the Consumer Class Action have no merit and Class Action Defendants intend to vigorously defend them. The Company is unable to reasonably estimate the possible loss or range of loss, if any, associated with these claims, and, accordingly, it has not accrued any liability associated with the Consumer Class Action.

Consolidated Derivative Action

On February 8, 2024, a derivative complaint was filed in the Delaware Court of Chancery against the Company's former President and Chief Executive Officer, Andrew Stanleick; its former Chief Financial Officer, Liyuan Woo, and current members of the Company's Board of Directors (the "Board of Directors"): Brenton Saunders, Marla Beck, Michael Capellas, Julius Few, Desiree Gruber, Michelle Kerrick, Brian Miller, and Doug Schillinger, with the Company as the nominal defendant. The complaint, styled Margie Elstein, derivatively on behalf of The Beauty Health Company v. Brenton Saunders, Marla Beck, Michael Capellas, Julius Few, Desiree Gruber, Michelle Kerrick, Brian Miller, Doug Schillinger, Andrew Stanleick, and Liyuan Woo, C.A. No. 2024-0114-LWW (Del. Ch.) (the "Elstein Derivative Action"), asserts a single claim for breach of fiduciary duty against the individual defendants based on the alleged disclosure of knowingly false information and/or the alleged failure to respond to red flags relating to Hydrafacial's business, operations, and prospects, specifically with respect to the performance of and demand for the Syndeo 1.0 and 2.0 devices. The plaintiff-stockholder further maintains that no demand was made upon the Company's Board of Directors prior to the initiation of the Elstein Derivative Action based on allegations that a majority of the Board of Directors was not disinterested or independent with respect to the fiduciary duty claim, such that demand should be excused as futile. The relief sought in the complaint includes a finding of demand futility, a finding that the individual defendants are liable for breaching their fiduciary duties (as current/former officers and directors), and an award of compensatory damages for harm suffered by the Company and its stockholders for harm allegedly sustained as a result of the alleged fiduciary duty violation.

On May 1, 2024, a derivative complaint was filed in the Delaware Court of Chancery against the Company's former President and Chief Executive Officer, Andrew Stanleick; its former Chief Financial Officer, Liyuan Woo, and current members of the Company's Board of Directors: Brent Saunders, Marla Beck, Michael Capellas, Julius Few, Desiree Gruber, Michelle Kerrick, Brian Miller, and Doug Schillinger, with the Company as the nominal defendant. The complaint, styled Richard Montague, derivatively on behalf of The Beauty Health Company v. Andrew Stanleick, Liyuan Woo, Brent Saunders, Marla Beck, Michael Capellas, Julius Few, Desiree Gruber, Michelle Kerrick, Brian Miller, and Doug Schillinger, C.A. No. 2024-0463-LWW (Del. Ch.) (the "Montague Derivative Action"), asserts claims for (i) breach of fiduciary duty, (ii) gross mismanagement, (iii) waste of corporate assets, (iv) unjust enrichment, and (v) aiding and abetting against the individual defendants based on allegations that the individual defendants made materially false and/or misleading statements, as well as failing to disclose material adverse facts about the Company's business, operations, and prospects, specifically relating to the Syndeo 1.0 and 2.0 devices. The relief sought in the Montague Derivative Action includes (a) awarding damages for harm suffered by the Company allegedly sustained as a result of the individual defendants' alleged breach of fiduciary duties, gross mismanagement, waste of corporate assets, and unjust enrichment, (b) awarding damages for harm suffered by the Company allegedly sustained as a result of the Company's directors' alleged aiding and abetting of breaching their fiduciary duties, (c) directing the Company to reform and improve its corporate governance and internal procedures, to comply with its existing governance obligations and all applicable laws, and to protect its investors from a recurrence of the alleged damaging events, and (d) awarding the plaintiff-stockholder the costs and disbursements of the Montague Derivative Action, including reasonable attorneys' fees, accountants' and experts' fees, costs, and expenses.

On May 22, 2024, the parties to the Elstein Derivative Action and Montague Derivative Action submitted a Stipulation and Proposed Order Governing Consolidation, Appointment of Lead, and Deadline to Respond to Operative Complaint. On May 24, 2024, Vice Chancellor Will, who was assigned to both the Elstein Derivative Action and the Montague Derivative Action, entered the Stipulation and Order Governing Consolidation, Appointment of Lead, and Deadline to Respond to Operative Complaint (the "Consolidation Order"). Per the Consolidation Order, the Elstein Derivative Action and the Montague Derivative Action were consolidated into a single derivative action, styled In re The Beauty Health Company Consolidated Stockholder Derivative Litigation, C.A. No. 2024-0114-LWW (Del. Ch.) (the "Consolidated Derivative Action"). The Consolidation Order designated the law firms of Gainey McKenna & Egleston and Komlossy Law, P.A. as co-lead counsel for plaintiffs in the Consolidated Derivative Action, and designated the law firm of Cooch and Taylor, P.A. as Delaware counsel for plaintiffs in the Consolidated Derivative Action. Additionally, the Consolidation Order designated the complaint filed in the Elstein Derivative Action as the operative complaint for the Consolidated Derivative Action, further providing that defendants are not obligated to answer or otherwise respond to the complaint filed in the Montague Derivative Action. The Consolidation Order further provided that defendants shall answer or otherwise respond to the complaint filed in the Elstein Derivative Action by August 25, 2024. This response deadline was subsequently vacated, prior to plaintiffs' filing, on September 9, 2024, of their Verified Consolidated Amended Stockholder Derivative Complaint (the "Operative Complaint"). On September 16, 2024, defendants filed their Motion to Dismiss the Operative Complaint, or Alternatively, Stay the Proceedings (the "Motion to Dismiss"). A briefing schedule for the Motion to Dismiss has not yet been set.

The Company believes that the claims asserted in the Consolidated Derivative Action have no merit and intends to vigorously defend them. The Company is unable to reasonably estimate the possible loss or range of loss, if any, associated with these claims, and, accordingly, it has not accrued any liability associated with the Consolidated Derivative Action.

Securities and Exchange Commission (the "SEC") Subpoena

The Division of Enforcement of the SEC has issued a subpoena in connection with a formal order of investigation of the Company seeking documents and information from us. The Company is in the process of responding to the subpoena and intends to fully cooperate with the SEC investigation. We cannot predict the duration, scope, or outcome of this matter at this time.

Note 11 — Related-Party Transactions

Registration Rights Agreement

In connection with the consummation of the Business Combination, on May 4, 2021, the Company entered into that certain Amended and Restated Registration Rights Agreement (the "Registration Rights Agreement") with BLS Investor Group LLC and the Hydrafacial Stockholders.

Pursuant to the terms of the Registration Rights Agreement, (i) any outstanding shares of Class A Common Stock or any other equity securities (including the Private Placement Warrants and including shares of Class A Common Stock issued or issuable upon the exercise of any other equity security) of the Company held by BLS Investor Group LLC (the "Sponsor") or the Hydrafacial Stockholders (together, the "Restricted Stockholders") as of the date of the Registration Rights Agreement or thereafter acquired by a Restricted Stockholder (including the shares of Class A Common Stock issued upon conversion of the 11,500,000 shares of Class B common stock (the "Founder Shares") that were owned by the Sponsor and converted into shares of Class A Common Stock in connection with the Business Combination and upon exercise of any Private Placement Warrants) and shares of Class A Common Stock issued as earn-out shares to the Hydrafacial Stockholders and (ii) any other equity security of the Company issued or issuable with respect to any such share of Class A Common Stock by way of a stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise will be entitled to registration rights.

The Registration Rights Agreement provides that the Company will, within 60 days after the consummation of the Business Combination, file with the SEC a shelf registration statement registering the resale of the shares of Class A Common Stock held by the Restricted Stockholders and will use its reasonable best efforts to have such registration statement declared effective as soon as practicable after the filing thereof, but in no event later than 60 days following the filing deadline. The Company filed such registration statement on July 19, 2021 and it was declared effective by the SEC on July 26, 2021. The Hydrafacial Stockholders are entitled to make up to an aggregate of two demands for registration, excluding short form demands, that the Company register shares of Class A Common Stock held by these parties. In addition, the Restricted Stockholders have certain "piggy-back" registration rights. The Company will bear the expenses incurred in connection with the filing of any registration statements filed pursuant to the terms of the Registration Rights Agreement. The Company and the Restricted Stockholders agree in the Registration Rights Agreement to provide customary indemnification in connection with any offerings of Class A Common Stock effected pursuant to the terms of the Registration Rights Agreement.

Pursuant to the Registration Rights Agreement, the Sponsor agreed to restrictions on the transfer of its securities issued in the Company's initial public offering, which (i) in the case of the Founder Shares is one year after the completion of the Business Combination unless (A) the closing price of the Class A Common Stock equals or exceeds \$12.00 per share for 20 days out of any 30-trading-day period commencing at least 150 days following the Closing of the Business Combination or (B) the Company completes a liquidation, merger, capital stock exchange, reorganization or other similar transaction that results in all of the Company's stockholders having the right to exchange their shares of Class A Common Stock for cash, securities or other property, and (ii) in the case of the Private Placement Warrants and the respective Class A Common Stock underlying the Private Placement Warrants is 30 days after the completion of the Business Combination. The Sponsor and its permitted transferees will also be required, subject to the terms and conditions in the Registration Rights Agreement, not to transfer their Private Placement Warrants (as defined in the Registration Rights Agreement) or shares of Class A Common Stock issuable upon the exercise thereof for 30 days following the Closing.

Investor Rights Agreement

In connection with the consummation of the Business Combination, on May 4, 2021, the Company and LCP Edge Holdco, LLC entered into that certain Investor Rights Agreement (the "Investor Rights Agreement"). Pursuant to the Investor Rights Agreement, LCP has the right to designate a number of directors for appointment or election to the Company's Board of Directors as follows: (i) one director for so long as LCP holds at least 10% of the outstanding Class A Common Stock, (ii) two directors for so long as LCP holds at least 15% of the outstanding Class A Common Stock, and (iii) three directors for so long as LCP holds at least 40% of the outstanding Class A Common Stock. Pursuant to the Investor Rights Agreement, for so long as LCP holds at least 10% of the outstanding Class A Common Stock, LCP will be entitled to have at least one of its designees represented on the compensation committee and nominating committee and corporate governance committee of the Company's Board of Directors.

Note 12 — Stockholders' Equity

Common Stock

The Company is authorized to issue 320,000,000 shares of Class A Common Stock, par value of \$ 0.0001 per share. Holders of Class A Common Stock are entitled to one vote for each share. As of September 30, 2024 and December 31, 2023, there were 124,111,434 and 122,899,002, respectively, of Class A Common Stock issued and outstanding. The Company has not declared or paid any dividends with respect to its Class A Common Stock.

Common Stock Repurchases

On September 12, 2023, the Company's Board of Directors approved a share repurchase program authorizing the Company to repurchase up to \$100.0 million of the Company's Class A Common Stock. Under the share repurchase program, repurchases can be made from time to time using a variety of methods, which may include open market purchases, privately negotiated transactions, transactions structured through investment banking institutions, or a combination of the foregoing. Under this share repurchase program, for the year ended December 31, 2023, the Company repurchased and retired 10.4 million shares for \$30.2 million excluding taxes. During the three and nine months ended September 30, 2024, the Company did not repurchase any shares of its Class A Common Stock.

Preferred Stock

The Company is authorized to issue 1,000,000 shares of preferred stock with a par value of \$ 0.0001 per share with such designations, voting and other rights and preferences as may be determined from time to time by the Company's Board of Directors. At September 30, 2024 and December 31, 2023, there were no shares of preferred stock issued or outstanding.

Note 13 — Net Loss Attributable to Common Stockholders

The following table sets forth the calculation of both basic and diluted net loss per share as follows for the periods indicated:

(in thousands, except share and per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net loss available to common stockholders - basic	\$ (18,291)	\$ (73,818)	\$ (18,768)	\$ (90,713)
Adjustments related to the Notes ⁽¹⁾	—	—	(25,186)	—
Net loss available to common stockholders - diluted	\$ (18,291)	\$ (73,818)	\$ (43,954)	\$ (90,713)
Weighted average common stock outstanding - basic	124,057,602	132,896,626	123,630,811	132,679,547
Effect of dilutive shares:				
Notes	—	—	19,036,398	—
Weighted average common stock outstanding - diluted	124,057,602	132,896,626	142,667,209	132,679,547
Basic net loss per share:	\$ (0.15)	\$ (0.56)	\$ (0.15)	\$ (0.68)
Dilutive net loss per share:	\$ (0.15)	\$ (0.56)	\$ (0.31)	\$ (0.68)

⁽¹⁾ For the nine months ended September 30, 2024, the adjustments related to the Notes include the net gain on repurchase offset by interest expense and amortization of debt issuance costs related to the Company's Notes (net of taxes).

The following shares have been excluded from the calculation of the weighted average diluted shares outstanding as the effect would have been anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Notes	17,559,686	23,614,425	—	23,614,425
Restricted Stock Units	7,827,861	4,471,807	7,827,861	4,471,807
Stock Options	3,571,820	3,776,720	3,571,820	3,776,720
Performance-based Restricted Stock Units	2,302,162	1,890,862	2,302,162	1,890,862

For the three and nine months ended September 30, 2024 and 2023, income and shares related to the Private Placement Warrants were excluded from the calculation of diluted net loss per share of Class A Common Stock because their effect would be anti-dilutive.

Note 14 — New Accounting Pronouncements

In November 2023, the Financial Standards Accounting Board ("FASB") issued Accounting Standards Update 2023-07 "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" which expands annual and interim disclosure requirements for reportable segments, primarily through enhanced disclosures about significant segment expenses. ASU 2023-07 is effective for annual periods beginning January 1, 2024, and for interim periods beginning January 1, 2025, with early adoption permitted. The Company is currently evaluating the potential effect that the updated standard will have on its financial statement disclosures.

In December 2023, the FASB issued ASU 2023-09 "Income Taxes (Topic 740): Improvements to Income Tax Disclosures" to expand the disclosure requirements for income taxes, specifically related to the rate reconciliation and income taxes paid. ASU 2023-09 is effective for annual periods beginning January 1, 2025, with early adoption permitted. The Company is currently evaluating the potential effect that the updated standard will have on its financial statement disclosures.

In March 2024, the FASB issued ASU 2024-02 "Codification Improvements—Amendments to Remove References to the Concepts Statements." ASU 2024-02 amends the FASB Accounting Standards Codification to remove references to various FASB Concept Statements. The amendments are considered to be codification improvements only and are effective for annual periods beginning January 1, 2025, with early adoption permitted. Adoption of ASU 2024-02 is not expected to have a material impact to our consolidated financial statements or related disclosures.

Note 15 — Syndeo Program

To stand behind its commitment to its customers and protect the Company's brand reputation, in October 2023, the Company's management decided that, with respect to Syndeo devices, the Company would only market and sell Syndeo 3.0 devices. The Company provided, at no cost to the customer, the option of (i) a technician upgrade to their Syndeo 1.0 or 2.0 devices to 3.0 standards in the field; or (ii) a replacement Syndeo 3.0 device for their existing device (the "Syndeo Program"). Additionally, the Company extended the customer's warranty by one year for each system from the date it was either brought to the 3.0 standards or the customer received a Syndeo 3.0 device. As of September 30, 2024, the Syndeo Program is complete.

As of December 31, 2023, the Company accrued costs of \$ 21.0 million, primarily for the estimated cost to remediate, upgrade or exchange the remaining Syndeo 1.0 and 2.0 builds.

The following table summarizes the Syndeo Program usage for the three and nine months ended September 30, 2024 (in thousands):

Program liability as of December 31, 2023	\$	21,009
Usage		(12,695)
Program liability as of March 31, 2024	\$	8,314
Usage		(7,402)
Program liability as of June 30, 2024	\$	912
Usage		(912)
Program liability as of September 30, 2024	\$	—

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

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q for the three months ended September 30, 2024 (the "Quarterly Report on Form 10-Q") contains "forward looking statements" within the meaning of the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. When used in this Quarterly Report on Form 10-Q, the words "estimates," "projected," "expects," "anticipates," "forecasts," "plans," "intends," "believes," "seeks," "may," "will," "should," "future," "propose" and variations of these words or similar expressions (or the negative versions of such words or expressions) are intended to identify forward-looking statements.

These forward-looking statements are not guarantees of future performance, conditions or results, and involve a number of known and unknown risks, uncertainties, assumptions and other important factors, many of which are outside the Company's control, that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified below and those discussed in the section titled Risk Factors of this filing and our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 filed with the Securities and Exchange Commission (the "SEC") on March 12, 2024 (the "Annual Report on Form 10-K").

Important factors, among others, that may affect actual results or outcomes include the inability to recognize the anticipated benefits of the business combination consummated on May 4, 2021 pursuant to a certain Agreement and Plan of Merger entered into by and among the Company and other parties (the "Business Combination"); costs related to the Business Combination; the Company's availability of cash for debt service and exposure to risk of default under debt obligations; the Company's ability to manage growth; the Company's ability to execute its business plan; potential litigation involving the Company; changes in applicable laws or regulations; and the possibility that the Company may be adversely affected by other economic, business, and/or competitive factors. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and also with our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K.

Unless the context otherwise requires, references to the "Company", "Hydrafacial", "we", "us", and "our" in this section are intended to mean the business and operations of The Beauty Health Company and its consolidated subsidiaries.

Company Overview

The Beauty Health Company is a global category-creating company delivering skin health experiences that help consumers reinvent their relationship with their skin, bodies and self-confidence. The Company and its subsidiaries design, develop, manufacture, market, and sell esthetic technologies and products. The Company's brands are pioneers: Hydrafacial in hydradermabrasion; SkinStylus in microneedling; and Keravive in scalp health. Together, with its powerful global community of estheticians, partners and consumers, the Company is personalizing skin health for all ages, genders, skin tones, and skin types.

Business and Macroeconomic Conditions

During the three and nine months ended September 30, 2024, we continued to execute against our plan to expand our footprint by selling and placing our patented hydradermabrasion delivery systems ("Delivery Systems") worldwide, drive consumables, which consist of single-use tips, solutions, serums and other consumables used to provide a hydrafacial treatment that cleanses, extracts, and hydrates the skin (collectively "Consumables"), invest in our community of providers, partners, and consumers, drive brand awareness, and optimize our global infrastructure. Although we believe we can be successful in our current operating environment, various factors may impact our business in unpredictable ways such as:

- Disruptions in transportation and other supply chain related constraints, such as labor strife in the transportation industry;
- Global economic conditions, including inflation, recession, changes in foreign currency exchange rates, higher interest rates, and other changes in economic conditions; and
- Ongoing issues related to new and older models of Hydrafacial's current generation Delivery System, Syndeo, and our actions to remediate such ongoing issues. The Company provided, at no cost to the customer, the option of (i) a technician upgrade to their Syndeo 1.0 or 2.0 devices to 3.0 standards in the field; or (ii) a replacement Syndeo 3.0 device for their existing device (the "Syndeo Program"). The Company executed replacements under the Syndeo Program and continues to address customer cases under warranty. As of September 30, 2024, the Syndeo Program is complete.

We may be able to offset cost pressures through increasing the selling prices of some of our products, increasing value engineering efforts to optimize product costs, increasing the diversification of our suppliers and supplier contracts, increasing natural foreign currency hedging, as applicable, and reducing discretionary spending. However, our pricing actions could have an adverse impact on demand, and may in turn, cause our providers to halt or decrease Delivery Systems and/or Consumables spending, and our actions may not be sufficient to cover unexpected increased costs that we may experience.

Business and macroeconomic factors may also negatively impact, in the short-term or long-term, the global economy, the beauty health industry, our providers and their budgets with us, our business, the Company's brand reputation, financial condition, and results of operations. We remain attentive to these business and macroeconomic conditions that may materially impact our business, and we continue to explore and implement reporting and quality management systems and risk mitigation strategies so that the Company can remain agile in responding to changing circumstances.

Comparison of Three Months Ended September 30, 2024 to Three Months Ended September 30, 2023

The following tables set forth our consolidated results of operations in dollars and as a percentage of net sales for the periods presented. The period-to-period comparisons of our historical results are not necessarily indicative of the results that may be expected in the future. The results of operations data for the three months ended September 30, 2024 and September 30, 2023, have been derived from the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Amounts and percentages may not foot due to rounding.

(in millions)	Three Months Ended September 30,			
	2024	% of Net Sales	2023	% of Net Sales
Net sales	\$ 78.8	100.0 %	\$ 97.4	100.0 %
Cost of sales	38.2	48.4	110.0	112.9
Gross profit (loss)	40.6	51.6	(12.6)	(12.9)
Operating expenses				
Selling and marketing	27.6	35.0	30.7	31.5
Research and development	1.1	1.4	1.8	1.9
General and administrative	33.4	42.4	37.0	38.0
Total operating expenses	62.2	78.9	69.5	71.4
Loss from operations	(21.5)	(27.3)	(82.1)	(84.3)
Interest expense	2.5	3.1	3.4	3.5
Interest income	(4.9)	(6.2)	(6.8)	(6.9)
Other income, net	(0.1)	(0.1)	(4.9)	(5.0)
Change in fair value of warrant liabilities	(0.4)	(0.5)	(5.9)	(6.0)
Foreign currency transaction (gain) loss, net	(2.3)	(2.9)	2.3	2.3
Loss before provision for income taxes	(16.3)	(20.7)	(70.3)	(72.2)
Income tax expense	1.9	2.5	3.5	3.6
Net loss	\$ (18.3)	(23.2)%	\$ (73.8)	(75.8)%

Net Sales

(in millions)	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
Net sales				
Delivery Systems	\$ 27.6	\$ 51.0	\$ (23.4)	(45.9) %
Consumables	51.2	46.4	4.8	10.4 %
Total net sales	\$ 78.8	\$ 97.4	\$ (18.6)	(19.1) %
Percentage of net sales	Three Months Ended September 30,			
	2024	2023		
Delivery Systems	35.0%	52.4%		
Consumables	65.0%	47.6%		
Total	100.0%	100.0%		

Total net sales for the three months ended September 30, 2024 decreased \$18.6 million, or 19.1%, compared to the three months ended September 30, 2023. Delivery Systems net sales for the three months ended September 30, 2024 decreased \$23.4 million, or 45.9%, compared to the three months ended September 30, 2023, with decreases across all regions. The decrease in Delivery Systems net sales reflects a challenging year-over-year comparison due to the prior year international launch of Syndeo, which included net sales from the trade-up program. Delivery Systems net sales were also negatively impacted globally by unfavorable macroeconomic and credit conditions and as the Company works to strengthen customer confidence in Syndeo.

Consumables net sales for the three months ended September 30, 2024 increased \$4.8 million, or 10.4%, compared to the three months ended September 30, 2023. The increase in Consumables net sales was primarily attributable to increased placements of Delivery Systems and the adjoining consumption of Consumables during the three months ended September 30, 2024.

Cost of Sales, Gross Profit (Loss), and Gross Margin

(in millions)	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
Cost of sales	\$ 38.2	\$ 110.0	\$ (71.8)	(65.3)%
Gross profit (loss)	\$ 40.6	\$ (12.6)	\$ 53.2	N/M
Gross margin	51.6 %	(12.9) %		

N/M - Not meaningful

Cost of sales for the three months ended September 30, 2024 decreased \$71.8 million, compared to the three months ended September 30, 2023 primarily due to the absence of charges and inventory write-downs associated with the Syndeo Program of \$63.1 million in 2023, and lower net sales, inventory related charges and product costs, partially offset by approximately \$8 million of manufacturing optimization related costs incurred during the three months ended September 30, 2024. Gross margin increased to 51.6% for the three months ended September 30, 2024 from (12.9)% for the three months ended September 30, 2023 primarily due to prior year's charges and inventory write-downs associated with the Syndeo Program and lower inventory related charges and product costs, partially offset by the manufacturing optimization related costs.

Operating Expenses

Selling and Marketing

(in millions)	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
Selling and marketing	\$ 27.6	\$ 30.7	\$ (3.1)	(10.1) %
As a percentage of net sales	35.0 %	31.5 %		

Selling and marketing expense for the three months ended September 30, 2024 decreased \$3.1 million, or 10.1%, compared to the three months ended September 30, 2023. The decrease is primarily driven by lower sales commission expense, personnel-related expenses, and marketing tradeshows and event expenses.

Research and Development

(in millions)	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
Research and development	\$ 1.1	\$ 1.8	\$ (0.7)	(39.7) %
As a percentage of net sales	1.4 %	1.9 %		

Research and development expense for the three months ended September 30, 2024 decreased \$0.7 million, or 39.7%, compared to the three months ended September 30, 2023. The decrease is primarily driven by lower personnel-related expenses, including share-based compensation expense.

General and Administrative

(in millions)	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
General and administrative	\$ 33.4	\$ 37.0	\$ (3.5)	(9.6) %
As a percentage of net sales	42.4 %	38.0 %		

General and administrative expense for the three months ended September 30, 2024 decreased \$3.5 million, or 9.6%, compared to the three months ended September 30, 2023. The decrease is primarily driven by lower losses on sale of assets and personnel-related expenses, partially offset by higher provision for estimated credit losses.

Interest Income, Change in Fair Value of Warrant Liabilities, and Other Income, Net

(in millions)	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
Interest income	\$ (4.9)	\$ (6.8)	\$ 1.9	(27.8) %
Change in fair value of warrant liabilities	\$ (0.4)	\$ (5.9)	\$ 5.4	(92.9) %
Other income, net	\$ (0.1)	\$ (4.9)	\$ 4.8	(98.6) %

Interest income for the three months ended September 30, 2024 decreased \$1.9 million compared to the three months ended September 30, 2023 primarily due to lower average invested balances during the three months ended September 30, 2024.

During the three months ended September 30, 2024, the Company recognized income of \$0.4 million related to the change in the fair value of the warrant liabilities, a decrease of \$5.4 million, as compared to income of \$5.9 million for the three months ended September 30, 2023, driven primarily by the fluctuation of the price of the Company's Class A common stock (the "Class A Common Stock").

Other income, net for the three months ended September 30, 2024 decreased \$4.8 million compared to the three months ended September 30, 2023 primarily due to \$4.9 million received for the Employee Retention Credit under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") during the three months ended September 30, 2023.

Comparison of Nine Months Ended September 30, 2024 to Nine Months Ended September 30, 2023

The following tables set forth our consolidated results of operations in dollars and as a percentage of net sales for the periods presented. The period-to-period comparisons of our historical results are not necessarily indicative of the results that may be expected in the future. The results of operations data for the nine months ended September 30, 2024 and September 30, 2023 have been derived from the condensed consolidated financial statements included elsewhere in this Form 10-Q. Amounts and percentages may not foot due to rounding.

(in millions)	Nine Months Ended September 30,			
	2024	% of Net Sales	2023	% of Net Sales
Net sales	\$ 250.8	100.0 %	\$ 301.2	100.0 %
Cost of sales	120.8	48.2	191.7	63.7
Gross profit	130.0	51.8	109.4	36.3
Operating expenses				
Selling and marketing	91.8	36.6	112.5	37.3
Research and development	5.1	2.0	7.1	2.3
General and administrative	93.7	37.4	102.5	34.0
Total operating expenses	190.6	76.0	222.0	73.7
Loss from operations	(60.6)	(24.2)	(112.6)	(37.4)
Interest expense	7.9	3.2	10.3	3.4
Interest income	(14.4)	(5.8)	(16.8)	(5.6)
Other income, net	(33.5)	(13.3)	(5.3)	(1.8)
Change in fair value of warrant liabilities	(3.0)	(1.2)	(8.4)	(2.8)
Foreign currency transaction loss, net	0.2	0.1	0.7	0.2
Loss before provision for income taxes	(17.8)	(7.1)	(93.1)	(30.9)
Income tax expense (benefit)	0.9	0.4	(2.4)	(0.8)
Net loss	\$ (18.8)	(7.5)%	\$ (90.7)	(30.1)%

Net Sales

(in millions)	Nine Months Ended September 30,		Change	
	2024	2023	Amount	%
Net sales				
Delivery Systems	\$ 98.6	\$ 162.0	\$ (63.4)	(39.1) %
Consumables	152.2	139.2	13.0	9.3 %
Total net sales	\$ 250.8	\$ 301.2	\$ (50.4)	(16.7) %
Percentage of net sales	Nine Months Ended September 30,			
	2024	2023		
Delivery Systems	39.3%	53.8%		
Consumables	60.7%	46.2%		
Total	100.0%	100.0%		

Total net sales for the nine months ended September 30, 2024 decreased \$50.4 million, or 16.7%, compared to the nine months ended September 30, 2023. Delivery System net sales for the nine months ended September 30, 2024 decreased \$63.4 million, or 39.1%, compared to the nine months ended September 30, 2023, with decreases across all regions. The decrease in Delivery Systems net sales reflects a challenging year-over-year comparison due to the prior year international launch of Syndeo, which included net sales from the trade-up program. Delivery Systems net sales were also negatively impacted globally by unfavorable macroeconomic and credit conditions and as the Company works to strengthen customer confidence in Syndeo.

Consumables net sales for the nine months ended September 30, 2024 increased \$13.0 million, or 9.3%, compared to the nine months ended September 30, 2023. The increase in Consumables net sales was primarily attributable to increased placements of Delivery Systems and the adjoining consumption of Consumables during the nine months ended September 30, 2024.

Cost of Sales, Gross Profit, and Gross Margin

(in millions)	Nine Months Ended September 30,		Change	
	2024	2023	Amount	%
Cost of sales	\$ 120.8	\$ 191.7	\$ (70.9)	(37.0)%
Gross profit	\$ 130.0	\$ 109.4	\$ 20.5	18.8%
Gross margin	51.8 %	36.3 %		

Cost of sales for the nine months ended September 30, 2024 decreased \$70.9 million, compared to the nine months ended September 30, 2023 primarily due to the absence of charges and inventory write-downs associated with the Syndeo Program of \$63.1 million in 2023 and lower net sales, partially offset by higher inventory related charges and approximately \$8 million of manufacturing optimization related costs incurred in 2024. Cost of sales for the nine months ended September 30, 2024 include \$22.7 million of inventory charges for discontinued, excess, obsolete inventory, including the write-down of Delivery System inventory to its net realizable value and the write-off of excess raw materials. Gross margin increased to 51.8% for the nine months ended September 30, 2024 from 36.3% for the nine months ended September 30, 2023 primarily due to prior year's charges and inventory write-downs associated with the Syndeo Program, partially offset by higher inventory related charges and the manufacturing optimization related costs.

Operating Expenses

Selling and Marketing

(in millions)	Nine Months Ended September 30,		Change	
	2024	2023	Amount	%
Selling and marketing	\$ 91.8	\$ 112.5	\$ (20.7)	(18.4) %
As a percentage of net sales	36.6 %	37.3 %		

Selling and marketing expense for the nine months ended September 30, 2024 decreased \$20.7 million, or 18.4%, compared to the nine months ended September 30, 2023. The decrease is primarily driven by lower personnel-related expenses, including sales commission expense and lower marketing related spend.

Research and Development

(in millions)	Nine Months Ended September 30,		Change	
	2024	2023	Amount	%
Research and development	\$ 5.1	\$ 7.1	\$ (2.0)	(28.1) %
As a percentage of net sales	2.0 %	2.3 %		

Research and development expense for the nine months ended September 30, 2024 decreased \$2.0 million, or 28.1%, compared to the nine months ended September 30, 2023. The decrease is primarily driven by lower personnel-related expenses, including share-based compensation expense.

General and Administrative

(in millions)	Nine Months Ended September 30,		Change	
	2024	2023	Amount	%
General and administrative	\$ 93.7	\$ 102.5	\$ (8.8)	(8.5) %
As a percentage of net sales	37.4 %	34.0 %		

General and administrative expense for the nine months ended September 30, 2024 decreased \$8.8 million, or 8.5%, compared to the nine months ended September 30, 2023. The decrease is primarily driven by lower personnel-related expenses, losses on the sale of assets, and software expenses, partially offset by higher provision for estimated credit losses.

Interest Income, Change in Fair Value of Warrant Liabilities, and Other Income, Net

(in millions)	Nine Months Ended September 30,		Change			
	2024	2023	Amount		%	
Interest income	\$ (14.4)	\$ (16.8)	\$ 2.4		(14.0)	%
Change in fair value of warrant liabilities	\$ (3.0)	\$ (8.4)	\$ 5.4		(64.2)	%
Other income, net	\$ (33.5)	\$ (5.3)	\$ (28.1)			N/M

N/M - Not meaningful

Interest income for the nine months ended September 30, 2024 decreased \$2.4 million compared to the nine months ended September 30, 2023 primarily due to lower average invested balances during the nine months ended September 30, 2024.

During the nine months ended September 30, 2024, the Company recognized income of \$3.0 million related to the change in the fair value of the warrant liabilities, a decrease of \$5.4 million, as compared to income of \$8.4 million for the nine months ended September 30, 2023, driven primarily by the fluctuation of the price of the Class A Common Stock.

Other income, net for the nine months ended September 30, 2024 increased \$28.1 million compared to the nine months ended September 30, 2023 primarily due to a net gain of \$33.4 million related to the repurchase of the Company's 1.25% Convertible Senior Notes due 2026 (the "Notes"). During the nine months ended September 30, 2023, the Company received \$4.9 million for the Employee Retention Credit under the CARES Act.

Liquidity and Capital Resources

Our primary sources of capital have been (i) cash flow from operating activities, (ii) net proceeds received from the consummation of the Business Combination, (iii) net proceeds received from the Notes, and (iv) net proceeds received from the exercise of public and private placement warrants. As of September 30, 2024, we had cash, cash equivalents, and restricted cash of approximately \$358.9 million.

Our operating cash flows result primarily from cash received from sales of Delivery Systems and Consumables, offset primarily by cash payments made for products and services, employee compensation, payment processing and related transaction costs, operating leases, marketing expenses, and interest payments on our long-term obligations. Cash received from our customers and other activities generally corresponds to our net sales.

Our sources of liquidity and cash flows are used to fund ongoing operations, research and development projects for new products, services, and technologies, and provide ongoing support services for our providers and customers, including liabilities associated with the recently completed Syndeo Program. As part of our business strategy, we occasionally evaluate potential acquisitions of businesses and products and technologies. Accordingly, a portion of our available cash may be used at any time for the acquisition of complementary products, services, or businesses. Such potential transactions may require substantial capital resources, which may require us to seek additional debt or equity financing. We cannot assure you that we will be able to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into our current operations, or expand into new markets. Furthermore, we cannot provide assurances that additional financing will be available to us in any required time frame and on commercially reasonable terms, if at all.

Based on our sources of capital, management believes that we have sufficient liquidity to satisfy our anticipated working capital requirements for our ongoing operations and obligations for at least the next 12 months. However, we will continue to evaluate our capital expenditure needs based upon factors including but not limited to our rate of revenue growth, potential acquisitions, the timing and amount of spending on research and development, growth in sales and marketing activities, the timing of new product launches, timing and investments needed for international expansion, the continuing market acceptance of the Company's products and services, expansion, and overall economic conditions.

We may, from time to time, seek to redeem or repurchase our outstanding debt or equity securities through cash purchases and/or exchanges for equity or debt, in open-market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will be upon such terms and at such prices as we may determine, and will depend on prevailing market conditions, our liquidity requirements, contractual restrictions, and other factors. For information regarding the Company's repurchases of its Notes during the first and second quarter of 2024, see Note 7, Long-Term Debt, to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

If cash generated from operations is insufficient to satisfy our capital requirements, we may have to sell additional equity or debt securities or obtain expanded credit facilities to fund our operating expenses. The sale of additional equity would result in additional dilution to our stockholders. Also, the incurrence of additional debt financing would result in debt service obligations and the instruments governing such debt could provide for operating and financing covenants that would restrict our operations. In the event such additional capital is needed in the future, there can be no assurance that such capital will be available to us, or, if available, that it will be in amounts and on terms acceptable to us. If we cannot raise additional funds when we need or want them, our operations and prospects could be negatively affected. However, if cash flows from operations become insufficient to continue operations at the current level, and if no additional capital were obtained, then management would restructure the Company in a way to preserve our business while maintaining expenses within operating cash flows.

Convertible Senior Notes

On September 14, 2021, the Company issued an aggregate of \$750.0 million in principal amount of its Notes. The Notes were issued pursuant to, and are governed by, an indenture dated as of September 14, 2021, between the Company and U.S. Bank National Association, as trustee (the "Indenture"). Pursuant to the purchase agreement between the Company and the initial purchasers of the Notes, the Company granted the initial purchasers an option to purchase, for settlement within a period of 13 days from, and including, the date the Notes were first issued, up to an additional \$100.0 million principal amount of Notes. The Notes issued on September 14, 2021 include the \$100.0 million principal amount of Notes issued pursuant to the full exercise by the initial purchasers of such option.

During the three months ended September 30, 2024, there were no repurchases related to the Notes. During the nine months ended September 30, 2024, the Company repurchased \$192.3 million principal amount of the Notes for \$156.1 million.

Capped Call Transactions

On September 9, 2021, in connection with the pricing of the offering of Notes, the Company entered into privately negotiated capped call transactions (the "Base Capped Call Transactions") with the Bank of Montreal, Credit Suisse Capital LLC, Deutsche Bank AG, London Branch, Goldman Sachs & Co. LLC, JPMorgan Chase Bank, National Association, Mizuho Markets Americas LLC and Wells Fargo Bank, National Association (collectively, the "Option Counterparties"). In addition, on September 10, 2021, in connection with the initial purchasers' exercise of their option to purchase additional Notes, the Company entered into additional capped call transactions (the "Additional Capped Call Transactions", and together with the Base Capped Call Transactions, the "Capped Call Transactions") with each of the Option Counterparties. The Capped Call Transactions cover, subject to customary anti-dilution adjustments, the aggregate number of shares of the Company's Class A Common Stock that initially underlie the Notes, and are expected generally to reduce potential dilution to the Company's Class A Common Stock upon any conversion of Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap, based on the cap price of the Capped Call Transactions. The cap price of the Capped Call Transactions is initially \$47.94, which represents a premium of 100% over the last reported sale price of the Company's Class A Common Stock on September 9, 2021. The cost of the Capped Call Transactions was \$90.2 million.

The Capped Call Transactions are separate transactions, each between the Company and the applicable option counterparty, and are not part of the terms of the Notes and do not affect any holder's rights under the Notes or the Indenture. Holders of the Notes will not have any rights with respect to the Capped Call Transactions.

Amended and Restated Credit Agreement

On November 14, 2022, the Company, as successor by assumption to Hydrafacial, a California limited liability company, entered into an Amended and Restated Credit Agreement (as it may be further amended, restated, supplemented or modified from time to time, the "Credit Agreement") with JPMorgan Chase Bank, N.A. (the "Administrative Agent"). The Credit Agreement provided the Company with a \$50.0 million revolving credit facility that had a maturity date of November 14, 2027.

On August 6, 2024, the Company prepaid all obligations and terminated all commitments, liabilities, and other obligations under the Credit Agreement. There were no material early termination penalties incurred in connection therewith, all outstanding obligations and commitments under the Credit Agreement were satisfied and terminated, and all related security interests and liens securing such obligations and commitments were released.

Known Trends or Uncertainties

The majority of our customers operate within the medical industry (dermatologists and plastic surgeons), esthetician industry, and beauty retail industry. Although we have not seen any significant reduction in revenues to date due to consolidations, we have seen some consolidation in these industries during economic downturns. These consolidations have not had a negative effect on our total net sales; however, should consolidations and downsizing in the industries continue to occur, those events could adversely impact our revenues and earnings going forward.

In addition, we continue to face macro-economic challenges such as the possibility of recession or financial market instability, and the impact of any governmental actions on the economy. These factors may adversely impact consumers, business, and government spending as well as our customers' ability to pay for our products and services on an ongoing basis.

If economic and social conditions or the degree of uncertainty or volatility worsen, or the adverse conditions previously described are further prolonged, our revenues could be adversely affected. Macro-economic challenges and credit conditions have negatively impacted our revenues in 2024. We are continuing to monitor these and other risks that may affect our business so that we can respond appropriately. Negative trends in our financial performance or financial condition may result in a sustained decline in our stock price, which may result in a triggering event necessitating an interim goodwill impairment assessment and potential goodwill impairment.

Discontinuation of Trade-up Program in 2024

The Company has historically accepted Delivery Systems in trade-up transactions with the intent to refurbish and resell such Delivery Systems received from the customer. During the nine months ended September 30, 2023 and the year ended December 31, 2023, the Company recognized approximately \$12 million and \$17 million, respectively, of revenue based on the estimated fair value of such Delivery Systems. While the Company still expects to resell Delivery Systems previously received in trade-up transactions, starting in 2024, the Company discontinued the use of trade-up transactions and the ensuing revenue recognition for noncash consideration.

Cash Flows

The following table summarizes the activities from our statements of cash flows. Amounts may not foot due to rounding.

(Dollars in millions)	Nine Months Ended September 30,	
	2024	2023
Cash, cash equivalents, and restricted cash at beginning of period	\$ 523.0	\$ 568.2
Operating activities:		
Net loss	(18.8)	(90.7)
Non-cash adjustments	51.6	82.2
Changes in working capital	(33.2)	35.5
Net cash (used for) provided by operating activities	(0.3)	26.9
Net cash used for investing activities	(5.9)	(29.3)
Net cash used for financing activities	(157.6)	(6.1)
Net change in cash, cash equivalents, and restricted cash	(163.8)	(8.5)
Effect of foreign currency translation	(0.3)	(0.2)
Cash, cash equivalents, and restricted cash at end of period	\$ 358.9	\$ 559.4

Operating Activities

Net cash used for operating activities for the nine months ended September 30, 2024 was \$0.3 million, as compared to net cash provided by operating activities of \$26.9 million for the nine months ended September 30, 2023. The change in cash used for operating activities was primarily related to higher working capital usage and changes in net loss and non-cash adjustments. The current year net loss and non-cash adjustments include a net gain of \$33.4 million related to the repurchase of the Company's Notes. The prior year net loss and non-cash adjustments, and changes in working capital include the impact of the Syndeo Program charges.

Investing Activities

Net cash used for investing activities for the nine months ended September 30, 2024 was \$5.9 million, as compared to \$29.3 million for the nine months ended September 30, 2023. The change in cash used for investing activities was primarily related to prior year's asset acquisitions of Esthetic Medical Inc. and Anacapa Aesthetics LLC for \$18.5 million.

Financing Activities

Net cash used for financing activities for the nine months ended September 30, 2024 was \$157.6 million, as compared to \$6.1 million for the nine months ended September 30, 2023. The change in cash used for financing activities was primarily related to the repurchase of \$192.3 million principal amount of the Company's Notes at a weighted-average price equal to 81% for \$156.1 million.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. In preparing the consolidated financial statements, we make estimates and judgments that affect the reported amounts of assets, liabilities, stockholders' equity/deficit, revenue, expenses, and related disclosures. We re-evaluate our estimates on an on-going basis. Our estimates are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Because of the uncertainty inherent in these matters, actual results may differ from these estimates and could differ based upon other assumptions or conditions.

There have been no changes to our critical accounting policies since our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

Recent Accounting Pronouncements

See Part I, Item 1 "Financial Statements—Note 14 to the Consolidated Financial Statements—New Accounting Pronouncements" of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risks relating to our operations result primarily from changes in interest rates, foreign currency, and inflation risk. There were no material changes to our market risks disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company conducted an evaluation, under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the design and operation of its disclosure controls and procedures as defined in Rules 13a-15(e) and 15-d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this Quarterly Report on Form 10-Q. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation, the Company's principal executive officer and principal financial officer have concluded that, as a result of the material weakness in our internal control over financial reporting related to the Company's inventory process as described in Part II, Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2023 (the "Inventory Material Weakness"), the Company's disclosure controls and procedures were not effective as of September 30, 2024.

Remediation Plan for Material Weakness

The Company, with oversight from its Audit Committee, is in the process of implementing measures designed to ensure that control deficiencies contributing to the material weakness are remediated, such that these controls are designed, implemented, and operating effectively. The remediation plan includes, but is not limited to, the following:

- hiring additional personnel, both internal and external, with the necessary experience and skill to manage supply chain and inventory operations ; and
- enhancing controls, including the implementation of manual or automated processes over the physical existence of inventory, identification of excess and obsolete inventory, and authorization of inventory pricing and purchase arrangements.

Although the Company believes that these actions will remediate the material weakness, additional time is required to test such actions and to complete the design, implementation, and review its controls to demonstrate the effectiveness of the Company's remediation efforts. The material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in the Exchange Act) that occurred during the three months ended September 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II— OTHER INFORMATION

Item 1. Legal Proceedings.

For a description of our material pending legal proceedings, see Note 10, Commitments and Contingencies, to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q .

Item 1A. Risk Factors.

Please carefully consider the information set forth in this Quarterly Report on Form 10-Q and the risk factors discussed in Part I, "Item 1A. Risk Factors" in the Annual Report on Form 10-K, which could materially affect our business, financial condition, or future results. The risks described in our Annual Report on Form 10-K, as well as additional risks and uncertainties not presently known to us or that we currently deem immaterial, could materially and adversely affect our business, results of operations, and financial condition, which in turn could materially and adversely affect the trading price of shares of our Class A Common Stock. As of the date of this Quarterly Report on Form 10-Q, there have been no material updates or changes with respect to the risk factors previously disclosed in our Annual Report on Form 10-K.

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

Unregistered Sales of Equity Securities

During the three months ended September 30, 2024, the Company did not issue any shares of its Class A Common Stock or other equity securities that were not registered under the Securities Act of 1933, as amended.

Purchase of Equity Securities by Issuer and Affiliated Purchasers

During the three months ended September 30, 2024, the Company and its affiliated purchasers did not make any purchases of the Company's equity securities.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

Rule 10b5-1 Trading Plans

During the three months ended September 30, 2024, no director or officer of the Company adopted, modified, or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

EXHIBIT INDEX

No.	Description of Exhibit	Form	File No.	Exhibit	Filing Date	Filed Herewith
<u>2.1</u>	<u>Agreement and Plan of Merger, dated as of December 8, 2020, by and among Vesper Healthcare Acquisition Corp., Hydrate Merger Sub I, Inc., Hydrate Merger Sub II, LLC, LCP Edge Intermediate, Inc. and LCP Edge Holdco, LLC, in its capacity as the Stockholders' Representative</u>	8-K	001-39565	2.1	December 9, 2020	
<u>3.1</u>	<u>Second Amended and Restated Certificate of Incorporation of The Beauty Health Company</u>	8-K	001-39565	3.1	May 10, 2021	
<u>3.2</u>	<u>Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation of The Beauty Health Company</u>	8-K	001-39565	3.1	June 11, 2024	
<u>3.3</u>	<u>Second Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation of The Beauty Health Company</u>	8-K	001-39565	3.2	June 11, 2024	
<u>3.4</u>	<u>Amended and Restated Bylaws of The Beauty Health Company</u>	8-K	001-39565	3.2	May 10, 2021	
<u>4.1</u>	<u>Indenture, dated as of September 14, 2021, between The Beauty Health Company and U.S. Bank National Association, as trustee</u>	8-K	001-39565	4.1	September 14, 2021	
<u>4.2</u>	<u>Form of certificate representing the 1.25% Convertible Senior Notes due 2026 (included as Exhibit A to Exhibit 4.1)</u>	8-K	001-39565	4.2	September 14, 2021	
<u>4.3</u>	<u>Warrant Agreement, dated September 29, 2020, between the Company and Continental Stock Transfer & Trust Company, as warrant agent</u>	8-K	001-39565	4.1	October 5, 2020	
<u>4.4</u>	<u>Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934</u>	10-K	001-39565	4.4	March 1, 2022	
<u>10.1#</u>	<u>Bonus Opportunity Letter, dated August 6, 2024, for Michael Monahan</u>	10-Q	001-39565	10.5	August 8, 2024	
<u>10.2 †</u>	<u>Separation and Transition Agreement, dated November 11, 2024, by and between Hydrafacial LLC and Daniel Watson</u>	8-K/A	001-39565	10.1	November 12, 2024	
<u>31.1</u>	<u>Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>					X
<u>31.2</u>	<u>Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>					X
<u>32.1*</u>	<u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>					X
<u>32.2*</u>	<u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>					X

EXHIBIT INDEX

No.	Description of Exhibit	Form	File No.	Exhibit	Filing Date	Filed Herewith
101.INS**	Inline XBRL Instance Document					X
101.SCH**	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB**	Inline XBRL Taxonomy Extension Labels Linkbase Document					X
101.PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104**	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101 attachments)					

* These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

** The XBRL related information in Exhibit 101 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

† Confidential portions of this exhibit were redacted pursuant to Item 601(b)(10) of Regulation S-K, and the Company agrees to furnish to the SEC a copy of any omitted schedule and/or exhibit upon request.

Management contract or compensatory plan or arrangement.

SIGNATURES

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

THE BEAUTY HEALTH COMPANY

Date: November 12, 2024

By: /s/ Marla Beck

Name: Marla Beck

Title: Chief Executive Officer

(Principal Executive Officer)

Date: November 12, 2024

By: /s/ Michael Monahan

Name: Michael Monahan

Title: Chief Financial Officer

(Principal Accounting Officer and Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS
ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Marla Beck, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Beauty Health Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2024

/s/ Marla Beck

Marla Beck

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS
ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael Monahan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Beauty Health Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2024

/s/ Michael Monahan

Michael Monahan

Chief Financial Officer

(Principal Accounting and Financial Officer)

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

In connection with the Quarterly Report of The Beauty Health Company (the "Company") on Form 10-Q for the quarterly period ended September 30, 2024, as filed with the Securities and Exchange Commission (the "Report"), I, Marla Beck, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by §906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2024

/s/ Marla Beck

Marla Beck

Chief Executive Officer

(Principal Executive Officer)

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

In connection with the Quarterly Report of The Beauty Health Company (the "Company") on Form 10-Q for the quarterly period ended September 30, 2024, as filed with the Securities and Exchange Commission (the "Report"), I, Michael Monahan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by §906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2024

/s/ Michael Monahan

Michael Monahan

Chief Financial Officer

(Principal Accounting and Financial Officer)