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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2024

or

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

FOR THE TRANSITION PERIOD FROM _________ to __________

COMMISSION FILE NUMBER 001-41364

TENON MEDICAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**45-5574718**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
104 Cooper Court Los Gatos, CA 95032	**(408) 649-5760**
(Address of principal executive offices) (Zip Code)	(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	TNON	The Nasdaq Stock Market LLC

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

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

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

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

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

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

As of May 14, 2024, the registrant had a total of 3,729,474 shares of its common stock, par value $0.001 per share, issued and outstanding.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends impacting the financial condition of our business. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements.

Forward-looking statements include all statements that are not historical facts. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "intend," "seek," "plan," "anticipate," "believe," "estimate," "project," "predict," "potential," "might," "forecast," "continue," or the negative of those terms, and similar expressions and comparable terminology intended to reference future periods. Forward-looking statements include, but are not limited to, statements about:

- Our ability to effectively operate our business segments;
- Our ability to manage our research, development, expansion, growth and operating expenses;
- Our ability to evaluate and measure our business, prospects and performance metrics;
- Our ability and our national distributor's ability to compete, directly and indirectly, and succeed in the highly competitive medical devices industry;
- Our ability to respond and adapt to changes in technology and customer behavior; and
- Our ability to protect our intellectual property and to develop, maintain and enhance a strong brand.

Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended or planned.

Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We cannot guarantee future results, levels of activity, performance or achievements. Accordingly, the forward-looking statements in this Quarterly Report on Form 10-Q should not be regarded as representations that the results or conditions described in such statements will occur or that our objectives and plans will be achieved, and we do not assume any responsibility for the accuracy or completeness of any of these forward-looking statements.

PART I – FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

Tenon Medical, Inc.
Condensed Consolidated Balance Sheets (Unaudited)
(In thousands, except share data)

	March 31, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 4,388	$ 2,428
Accounts receivable	571	518
Inventory	632	554
Prepaid expenses	360	389
Total current assets	5,951	3,889
Fixed assets, net	993	961
Deposits	51	51
Operating lease right-of-use asset	586	646
Deferred offering costs	439	798
TOTAL ASSETS	$ 8,020	$ 6,345
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 266	$ 433
Accrued expenses	941	808

Current portion of accrued commissions	792	470
Current portion of operating lease liability	263	256
Convertible notes payable and accrued interest, net of debt discount of $ 0 and $77 at March 31, 2024 and December 31, 2023, respectively	—	1,173
Total current liabilities	2,262	3,140
Accrued commissions, net of current portion	1,774	1,999
Operating lease liability, net of current portion	360	428
Total liabilities	4,396	5,567
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Series A convertible preferred stock, $ 0.001 par value; 4,500,000 shares authorized at March 31, 2024 and December 31, 2023; 256,968 and 0 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	3,300	—
Common stock, $0.001 par value; 130,000,000 shares authorized at March 31, 2024 and December 31, 2023; 3,726,974 and 2,600,311 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	4	3
Additional paid-in capital	58,969	55,894
Accumulated deficit	(58,649)	(55,073)
Accumulated other comprehensive loss	—	(46)
Total stockholders' equity	3,624	778
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 8,020	$ 6,345

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

Tenon Medical, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Revenue	$ 719	$ 433
Cost of revenue	249	480
Gross Profit (Loss)	470	(47)
Operating Expenses		
Research and development	669	834
Sales and marketing	1,381	2,026
General and administrative	1,926	1,979
Total Operating Expenses	3,976	4,839
Loss from Operations	(3,506)	(4,886)
Other (Expense) Income, net		
Gain on investments	27	56
Interest expense	(34)	—
Other expense	(63)	—
Total Other (Expense) Income, net	(70)	56
Net Loss	$ (3,576)	$ (4,830)
Net Loss Per Share of Common Stock		
Basic and diluted	$ (1.25)	$ (4.30)
Weighted Average Shares of Common Stock Outstanding		
Basic and diluted	2,853	1,124
Consolidated Statements of Comprehensive Loss:		
Net loss	$ (3,576)	$ (4,830)
Unrealized gain on investments	—	13
Foreign currency translation adjustment	46	(1)
Total Comprehensive Loss	$ (3,530)	$ (4,818)

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

Tenon Medical, Inc.
Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity
(Unaudited) (In thousands, except share data)

Three months ended March 31, 2024 and 2023:

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Capital	Deficit	Loss	Total
Balance at December 31, 2023	—	$ —	2,600,311	$ 3	$ 55,894	$ (55,073)	$ (46)	$ 778
Stock-based compensation expense	—	—	—	—	1,018	—	—	1,018
Issuance of common stock, net of issuance costs	—	—	1,123,439	1	1,803	—	—	1,804
Issuance of series A convertible preferred stock, net of issuance costs	256,968	3,300	—	—	254	—	—	3,554
Release of restricted stock units	—	—	3,224	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	—	46	46
Net loss	—	—	—	—	—	(3,576)	—	(3,576)
Balance at March 31, 2024	256,968	$ 3,300	3,726,974	$ 4	$ 58,969	$ (58,649)	$ —	$ 3,624
Balance at December 31, 2022	—	$ —	1,123,680	$ 1	$ 45,843	$ (39,492)	$ (100)	$ 6,252
Stock-based compensation expense	—	—	—	—	1,040	—	—	1,040
Release of restricted stock units	—	—	1,448	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	—	12	12
Net loss	—	—	—	—	—	(4,830)	—	(4,830)
Balance at March 31, 2023	—	$ —	1,125,128	$ 1	$ 46,883	$ (44,322)	$ (88)	$ 2,474

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

Tenon Medical, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2024	2023
Cash Flows from Operating Activities		
Net loss	$ (3,576)	$ (4,830)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	1,018	1,040
Depreciation and amortization	100	25
Provision for losses on accounts receivable	10	—
Amortization of operating right-of-use asset	60	55
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	(63)	(88)
Inventory	(78)	(1)
Prepaid expenses and other assets	29	(95)
Accounts payable	(167)	378
Accrued expenses	390	(6)
Operating lease liability	(61)	(54)
Net cash used in operating activities	(2,338)	(3,576)
Cash Flows from Investing Activities		
Sales of short-term investments	—	4,753
Purchases of property and equipment	(119)	(84)
Net cash (used in) provided by investing activities	(119)	4,669
Cash Flows from Financing Activities		
Proceeds from issuance of Series A Convertible Preferred Stock	2,437	—
Proceeds from issuance of common stock	1,934	—
Deferred offering costs	—	(42)
Net cash provided by (used in) financing activities	4,371	(42)
Effect of foreign currency translation on cash flow	46	(1)
Net Increase in Cash and Cash Equivalents	1,960	1,050
Cash and Cash Equivalents at Beginning of Period	2,428	2,129
Cash and Cash Equivalents at End of Period	$ 4,388	$ 3,179
Supplemental Disclosures of Cash Flow Information		

Non-cash investing and financing activities:

Preferred stock issued upon conversion of debt and accrued interest	$	1,186	—
Reclassification of deferred offering costs to additional paid-in capital	$	130	—

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

Notes to Condensed Consolidated Financial Statements
(unaudited) (in thousands, except share and per-share data)

1. Organization and Business

Nature of operations

Tenon Medical, Inc. (the "Company") was incorporated in the State of Delaware on June 19, 2012 and was headquartered in San Ramon, California until June 2021 when it relocated to Los Gatos, California. The Company is a medical device company that has developed The Catamaran™ SI Joint Fusion System ("the Catamaran System") that offers a novel, less invasive approach to the sacroiliac joint (the "SI Joint") using a single, robust, titanium implant for treatment of the most common types of SI Joint disorders that cause lower back pain. The Company received U.S. Food and Drug Administration ("FDA") clearance in 2018 for The Catamaran System and is currently focused on the U.S. market. Since the national launch of the Catamaran System in October 2022, the Company is focused on three commercial opportunities: 1) Primary SI Joint procedures, 2) Revision procedures of failed SI Joint implants and 3) SI Joint fusion adjunct to a spine fusion construct.

Principles of consolidation

The condensed consolidated financial statements of the Company for the first quarter of 2023 and as of December 31, 2023 include the accounts of its wholly-owned subsidiary, Tenon Technology AG ("TTAG"), a Swiss company. All intercompany balances and transactions have been eliminated in consolidation. The financial statements of TTAG are prepared for the same reporting period as the parent, using consistent accounting policies in all material respects. In the first quarter of 2024, TTAG was effectively dissolved and, as such, the financial statements for the first quarter of 2024 and as of March 31, 2024 only include the accounts of the Company.

2. Summary of Significant Accounting Principles

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). As permitted under these rules and regulations, the Company has condensed or omitted certain financial information and footnote disclosures normally included in its annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The condensed consolidated balance sheet as of December 31, 2023 has been derived from the Company's audited consolidated financial statements, which are included in its Annual Report on Form 10-K filed with the SEC on March 29, 2024.

These condensed consolidated financial statements have been prepared on the same basis as the Company's annual consolidated financial statements and, in management's opinion, reflect all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair presentation of its financial information. The interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year.

These unaudited condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company's audited consolidated financial statements as of and for the years ended December 31, 2023 and 2022 included in its Annual Report of Form 10-K filed with the SEC on March 29, 2024.

The Company's significant accounting policies are disclosed in the audited consolidated financial statements as of and for the years ended December 31, 2023 and 2022. There have been no material changes in the Company's significant accounting policies during the three months ended March 31, 2024.

Going concern uncertainty and liquidity requirements

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. There is substantial doubt about the Company's ability to continue as a going concern for one year after the date that these condensed consolidated financial statements are issued.

Since inception, the Company has incurred losses and negative cash flows from operations. Management expects to incur additional operating losses and negative cash flows from operations in the foreseeable future as the Company continues its product development programs and the commercialization of The Catamaran System. Based on the Company's expected level of revenues and expenditures, the Company believes that its existing cash and cash equivalents as of March 31, 2024 will not provide sufficient funds to enable it to meet its obligations for a period of at least twelve months from the date of the filing of these consolidated financial statements. The Company plans to raise the necessary additional capital through one or a combination of public or private equity offerings, debt financings, and collaborations. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Notice from Nasdaq

On May 7, 2024, the Company received a letter from the Nasdaq Listing Qualifications Staff of The Nasdaq Stock Market LLC ("Nasdaq") stating that for the 30 consecutive business day period between March 25, 2024 and May 6, 2024, the common stock of the Company had not maintained a minimum closing bid price of $1.00 per share required for continued listing on The Nasdaq Capital Market pursuant to Nasdaq Listing Rule 5550(a)(2) (the "Bid Price Rule"). Pursuant to Nasdaq Listing Rule 5810(c)(3)(A), the Company was provided an initial period of 180 calendar days, or until November 4, 2024 (the "Compliance Period"), to regain compliance with the Bid Price Rule.

If the Company does not regain compliance with the Bid Price Rule by November 4, 2024, the Company may be eligible for an additional 180-day period to regain compliance. To qualify, the Company would be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for The Nasdaq Capital Market, with the exception of the Bid Price Rule, and would need to provide written notice of its intention to cure the bid price deficiency during the second compliance period, by effecting a reverse stock split, if necessary.

If the Company cannot regain compliance during the Compliance Period or any subsequently granted compliance period, the common stock of the Company will be subject to delisting. At that time, the Company may appeal the delisting determination to a Nasdaq hearings panel.

The notice from Nasdaq has no immediate effect on the listing of the Company's common stock. The Company is currently evaluating its options for regaining compliance.

Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates made by management include, but are not limited to, realization of deferred tax assets, accrued liabilities, accrued commissions, incremental borrowing rate, obsolescence of inventory and stock-based compensation.

Reverse Stock Split

On November 2, 2023, the Company effected a 1-for-10 reverse stock split by filing an amendment to the Company's Amended and Restated Certificate of Incorporation, as amended, with the Delaware Secretary of State. The reverse stock split combined every ten shares of our common stock issued and outstanding immediately prior to effecting the reverse stock split into one share of common stock. No fractional shares were issued in connection with the reverse stock split. All historical share and per share amounts reflected throughout this document have been adjusted to reflect the reverse stock split. The authorized number of shares and the par value per share of the Company's common stock were not affected by the reverse stock split.

Income Taxes

The Company accounts for income taxes utilizing ASC 740, "Income Taxes". ASC 740 requires the measurement of deferred tax assets for deductible temporary differences and operating loss carry forwards, and of deferred tax liabilities for taxable temporary differences. Measurement of current and deferred tax liabilities and assets is based on provisions of enacted tax law. The effects of future changes in tax laws or rates are not included in the measurement. The Company recognizes the amount of taxes payable or refundable for the current year and recognizes deferred tax liabilities and assets for the expected future tax consequences of events and transactions that have been recognized in the Company's financial statements or tax returns. The Company currently has substantial net operating loss carry forwards. The Company has recorded a 100% valuation allowance against net deferred tax assets due to uncertainty of their ultimate realization. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Net loss per share

Basic net loss per share is based upon the weighted average number of common shares outstanding. Diluted net loss per share is based on the assumption that all potential common stock equivalents (convertible preferred stock, stock options, and warrants) are converted or exercised. The calculation of diluted net loss per share excludes potential common stock equivalents if the effect is anti-dilutive. The Company's weighted average common shares outstanding for basic and diluted are the same because the effect of the potential common stock equivalents is anti-dilutive.

The Company had the following dilutive common stock equivalents as of March 31, 2024 and 2023 which were excluded from the calculation because their effect was anti-dilutive:

	March 31, 2024	**March 31, 2023**
Outstanding restricted stock units	122,095	130,403
Outstanding stock options	93,515	97,434
Outstanding warrants	2,388,068	9,600
Common shares convertible from preferred stock	2,586,577	—
Total	5,190,255	237,437

Recent Accounting Pronouncements Not Yet Adopted

In November 2023, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update No. 2023-07, *Segment Reporting* (Topic 280): *Improvements to Reportable Segment Disclosures*, which increases the disclosures about reportable segments including more detailed information about a reportable segment's expenses. This guidance will be effective for the Company for the fiscal year ending December 31, 2024 and the interim periods thereafter, with early adoption permitted. The guidance will have no effect on the Company's results of operations as the changes are disclosure related. The Company has elected not to early adopt.

In December 2023, the FASB issued Accounting Standards Update 2023-09, "*Income Taxes* (Topic 740) - *Improvements to Income Tax Disclosures*", which requires additional tax disclosures about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. This guidance will be effective on a prospective basis, with the option to apply it retrospectively, for fiscal years beginning after December 15, 2024. We are currently evaluating the impact of adopting this new accounting guidance.

3. Fixed Assets, Net

Fixed assets, net, consisted of the following:

	March 31, 2024	**December 31, 2023**
Construction in progress	$ 721	$ 602
Catamaran tray sets	538	538
IT equipment	56	56
Leasehold improvements	15	15
Lab equipment	14	14
Office furniture	9	9

Fixed assets, gross	1,353	1,234
Less: accumulated depreciation	(360)	(273)
Fixed assets, net	$ 993	$ 961

Construction in progress is made up of reusable components that will become reusable Catamaran Tray Sets. Depreciation expense was approximately $87 and $25 for the three months ended March 31, 2024 and 2023, respectively.

4. Accrued Expenses

Accrued expenses consisted of the following:

	March 31, 2024	December 31, 2023
Accrued compensation	$ 422	$ 334
Other accrued expenses	519	474
Total accrued expenses	$ 941	$ 808

5. Debt

Convertible notes payable

In November 2023, the Company entered into Securities Purchase Agreements with certain investors (the "Investors"), pursuant to which the Company sold to the Investors a total of $1,250,000 in secured notes (the "Convertible Notes") and warrants to purchase 45,000 shares of the Company's common stock at an exercise price equal to $1.94 per share.

The Convertible Notes bear an interest rate of 10% per annum with a default rate of 12% per annum and have a maturity date of November 21, 2024. All principal and accrued interest is payable at maturity. At any time during the term of the Convertible Notes, the principal amount together with all accrued interest thereon (the "Prepayment Amount") may be paid in full, but not in part, by the Company. The Prepayment Amount may be paid by the Company in cash or by the issuance to the Investors of shares of Series A Preferred Stock, if prior to such payment with Series A Preferred Stock (i) certain stockholder proposals described in the Convertible Notes are approved by the Company's stockholders; and (ii) the Company has commitments from investors other than the Investors to purchase shares of Series A Preferred Stock with a stated value of at least $3,750,000. The Convertible Notes are secured by a first priority security interest in all of the assets of the Company. The warrants expire five years from the issuance date. The warrants contain a "cashless exercise" feature and contain anti-dilution rights on subsequent issuances of equity or equity equivalents.

On February 20, 2024, the Investors agreed to a complete prepayment of the Company's obligations under the Convertible Notes, including accrued interest, in exchange for 84,729 shares of Series A Preferred Stock and warrants to purchase 157,094 shares of our common stock at $1.2705 per share and the Convertible Notes were cancelled. See Note 7.

6. Leases

In June 2021, the Company entered into a facility lease agreement for its company headquarters in Los Gatos, California. This non-cancellable operating lease expires in June 2026. Operating lease costs for the facility lease were $73 and $73 for the three months ended March 31, 2024 and 2023, respectively.

Supplemental balance sheet information related to leases was as follows:

	March 31, 2024	December 31, 2023
Operating lease right-of-use assets	$ 586	$ 646
Operating lease liability, current	$ (263)	$ (256)
Operating lease liability, noncurrent	(360)	(428)
Total operating lease liabilities	$ (623)	$ (684)

Future maturities of operating lease liabilities as of March 31, 2024 were as follows:

2024	$ 228
2025	310
2026	144
Total lease payments	682
Less: imputed interest	(59)
Present value of operating lease liabilities	$ 623

Other information:

Cash paid for operating leases for the three months ended March 31, 2024	$ 74
Cash paid for operating leases for the three months ended March 31, 2023	$ 72
Remaining lease term - operating leases (in years)	2.25
Average discount rate - operating leases	8.0%

7. Stockholders' Equity

The Company's current Amended and Restated Certificate of Incorporation dated February 18, 2014 authorizes the issuance of 130,000,000 shares of common stock and 20,000,000 shares of preferred stock, both with a par value of $ 0.001 per share. With respect to the preferred stock, 4,500,000 shares are designated Series A Preferred Stock and 491,222 shares are designated Series B Preferred Stock.

At-the-Market Offering Program

On May 4, 2023, the Company entered into an Equity Distribution Agreement to establish an at-the-market offering program, under which the Company may sell from time to time, at its option, shares of its common stock having an aggregate gross sales price of $5.5 million. The Company is required to pay the Sales Agents a commission of 3% of the gross proceeds from the sale of shares and has also agreed to provide the Sales Agents with customary indemnification rights. During the three months ended March 31, 2024, 1,033,592 shares of the Company's common stock were sold under the program at a weighted-average price of $1.83 per share with aggregate proceeds, net of issuance costs, of $ 1,834. As of the date of this report, the Company may not sell additional shares under this program.

Equity Line of Credit

On July 24, 2023, the Company entered into a purchase agreement ("Purchase Agreement") with Lincoln Park Capital Fund, LLC ("Lincoln Park"), under which, subject to specified terms and conditions, the Company may sell to Lincoln Park up to $10 million of shares of common stock from time to time during the term of the Purchase Agreement. On September 22, 2023 (the "Commencement Date") and on May 10, 2024, the Company filed registration statements with the SEC covering the resale of shares of common stock issued to Lincoln Park under the Purchase Agreement.

Beginning on the Commencement Date and for a period of 24 months thereafter, under the terms and subject to the conditions of the Purchase Agreement, from time to time, at the Company's discretion, the Company has the right, but not the obligation, to sell to Lincoln Park, and Lincoln Park is obligated to purchase, up to $10 million of shares of common stock, subject to certain limitations set forth in the Purchase Agreement. Specifically, from time to time from and after the Commencement Date, the Company may, at its discretion, direct Lincoln Park to purchase on any single business day on which the closing price of its common stock on The Nasdaq Capital Market ("Nasdaq") is equal to or greater than $1.50 up to 10,000 shares of common stock (a "Regular Purchase"); provided, that the Company may direct Lincoln Park to purchase in a Regular Purchase (i) up to 12,500 shares of common stock, if the closing sale price of its common stock on Nasdaq on such business day is at least $15.00 per share and (ii) up to 15,000 shares of common stock, if the closing sale price of its common stock on Nasdaq on such business day is at least $25.00 per share. In no case, however, will Lincoln Park's commitment with respect to any single Regular Purchase exceed $500,000; provided, that the parties may mutually agree at any time to increase the maximum number of shares of common stock the Company may direct Lincoln Park to purchase in any single Regular Purchase to up to 100,000 shares or any number of shares that shall not exceed 4.99% of the then outstanding shares of common stock. The foregoing share amounts and per share prices will be adjusted for any reorganization, recapitalization, non-cash dividend, stock split, reverse stock split or other similar transaction occurring after the date of the Purchase Agreement with respect to our common stock. The purchase price per share for each such Regular Purchase will be based on prevailing market prices of the Company's common stock immediately preceding the time of sale, as determined under the Purchase Agreement.

During the three months ended March 31, 2024, 89,847 shares of the Company's common stock were sold under the program at a weighted-average price of $1.113 per share with aggregate net proceeds of $ 96.

Series A Preferred Stock

On February 20, 2024, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain investors, pursuant to which the Company agreed to sell, issue and deliver to these investors, in a private placement offering (the "Offering"), a total of 172,239 shares of the Company's Series A Preferred Stock and warrants (the "Series A Warrants") to purchase 258,374 shares of common stock, par value $ 0.001 per share, of the Company ("Common Stock") at an exercise price equal to $1.2705 per share for an aggregate offering price of $ 2,605,000.

Additionally, on February 20, 2024, the Investors agreed to a complete prepayment of the Company's obligations under the Convertible Notes, including accrued interest, in exchange for 84,729 shares of Series A Preferred Stock and warrants to purchase 157,094 shares of our common stock at $ 1.2705 per share and the Convertible Notes were cancelled. The Series A Warrants are immediately exercisable and expire five years from the date of issuance.

The Series A Preferred Stock is convertible, at any time, at the option of the holder into shares of Common Stock. Each share of Series A Preferred Stock shall be convertible, at any time after the date of issuance, at the option of the holder thereof (or, upon a Required Conversion (as defined below), at the option of the Corporation), into that number of shares of Common Stock determined by dividing the Stated Value (as defined below) for such share of Series A Preferred Stock by the Conversion Price (as defined below). "Stated Value" means for any share of Series A Preferred Stock, an amount equal to the product of (x) $15.125 multiplied by (y) the sum of 1 plus the product of (A) 0.06 multiplied by (B) a fraction equal to the number of days that such share of Series A Preferred Stock has been issued divided by 365. "Conversion Price" means (i) for the shares of Series A Preferred Stock issued on the Closing Date, $1.5125 and (ii) for each share of Series A Preferred Stock issued thereafter, an amount equal to the greater of (x) $1.5125 and the average of the VWAPs for the 10 Trading Days prior the issuance date of such share of Series A Preferred Stock, in each case subject to adjustment as set forth herein. On any date that ten out of the last 15 daily VWAPs of the Common Stock is 250% higher than the Conversion Price on such date, then the Company will have the right to require 50% of the Preferred Stock to be converted into shares of Common Stock. Additionally, on and after the time on which the Company has $2.25 million in revenues in any single financial quarter, the Company will have the right to require 50% of the Preferred Stock to be converted into shares of Common Stock (a "Required Conversion"). No dividends are payable on the Series A Preferred Stock. The Series A Preferred Stock will vote together with the Common Stock on all matters other than as required by law; provided however that any additional shares underlying the Series A Preferred Stock as a result of the anti-dilution provision described below shall not vote on an "as converted" basis and shall only vote when issued upon conversion. Notwithstanding the foregoing, the vote of an individual holder of Series A Preferred Stock (and underlying Common Stock) shall be capped at 9.99% (or 4.99% if selected by the holder).

The Conversion Price is subject to anti-dilution adjustment as the result of any subdivision, combination of shares or recapitalization, stock dividends, stock splits and similar transactions affecting the Common Stock. In addition, the Series A Preferred Stock will have weighted average anti-dilution protection providing for adjustment of the Conversion Price in the event of issuance of, or commitments to issue, Common Stock for less than the Conversion Price then in effect immediately prior to such issue or sale (a "Dilutive Issuance"), subject to customary exceptions; provided however the anti-dilution for Dilutive Issuances shall not be operative until the stockholders of the Company have approved the terms of the Series A Preferred Stock. Upon any liquidation or winding up of the Company (a "Liquidation"), the holders of Series A Preferred Stock will be entitled to receive in preference to any other class or series of the Company's equity securities the greater of (i) the Stated Value plus accrued and unpaid dividends and (ii) what would be paid if the Series A Preferred Stock plus accrued and unpaid dividends had been converted into Common Stock. A consolidation or merger of the Company or sale or transfer of all or substantially all of its assets, or any transaction which results in the stockholders of the Company owning less than 50% of the equity or voting power of the surviving entity (excluding the issuance of Common Stock in any financing transaction unless more than 50% of the Company's shares are issued to one stockholder or a number of stockholders who act as a one group) shall be deemed a Liquidation (a "Deemed Liquidation") with respect to the shares of Series A Preferred Stock of any holder who opts to have such occurrence treated as a Deemed Liquidation; provided that if the liquidation preference payable on a Deemed Liquidation is less than 110% of the stated value of the Series A Preferred Stock, the dividend rate on any accrued and unpaid dividends payable with respect to such Deemed Liquidation will increase to 10%. All liquidation preferences payable in respect of a Deemed Liquidation will be payable in shares of Common Stock based on the closing price of the Common Stock on the date of such Deemed Liquidation. Consent of the majority of the holders will be required to (i) amend the Certificate of Incorporation or Bylaws of the Company so as to adversely alter the rights, preferences, privileges of the Series A Preferred Stock, (ii) create any new class of shares pari passu or senior to the Series A Preferred Stock or increase or decrease the number of authorized shares of Common Stock or preferred stock, (iii) pay or declare any dividend on Common Stock or other junior securities, or incur indebtedness in any single transaction in excess of $1 million or (iv) redeem, purchase or otherwise acquire any share or shares of preferred stock or Common Stock (other than (a) the repurchase of shares of Common Stock pursuant to a written benefit plan or employment or consulting agreement, or (b) the repurchase of any equity securities in connection with the Company's right of first offer with respect to those securities contained in any written agreement with the Company).

Voting rights

The holders of vested shares of common stock are entitled to vote on any matter submitted to a vote of the stockholders and each such holder is entitled to one vote per share of common stock held. The holders of Series A and Series B Preferred Stock are entitled to vote together with the common stock as a single class on any matter submitted to a vote of the stockholders. Holders of Series A and Series B Preferred Stock are entitled to the number of votes equal to the number of common stock issuable upon conversion of their respective Series A and Series B Preferred Stock at the time such shares are voted. The holders of a majority of the preferred stock had additional voting rights as specified in the Company's Amended and Restated Certificate of Incorporation, as amended.

Equity awards

In 2012, the Board of Directors of the Company (the "Board") approved the Tenon Medical, Inc. 2012 Equity Incentive Plan (the "2012 Plan"). The 2012 Plan provides for the issuance of common stock options, appreciation rights, and other awards to employees, directors, and consultants. Options issued under the 2012 Plan generally vest over a period of two to four years and have a 10-year expiration date. In April 2021, the Board increased the number of shares of common stock reserved for issuance under the 2012 Plan to 662,516. In July 2021, the Board increased the number of shares of common stock reserved for issuance under the 2012 Plan to 737,516. In August 2021, the Board increased the number of shares of common stock reserved for issuance under the 2012 Plan from 737,516 shares to 799,266 shares and approved the form of a 2022 Equity Incentive Plan.

On January 10, 2022 and February 2, 2022, the Board and stockholders, respectively, of the Company approved the Tenon Medical, Inc. 2022 Equity Incentive Plan (the "2022 Plan"), which was effective on April 25, 2022. The number of shares of common stock that may be subject to awards and sold under the 2022 Plan is equal to 1,600,000. Automatic annual increases in number of shares available for issuance under the 2022 Plan is equal to the least of (a) 1,100,000 shares, (b) 4% of the total number of shares of all classes of common stock outstanding on the last day of the immediately preceding fiscal year, or (c) such number determined by the 2022 Plan administrator no later than the last day of the immediately preceding fiscal year. Annual increases will continue until the tenth anniversary of the earlier of the Board or stockholder approval of the 2022 Plan, which is January 10, 2032. Upon the effective date of the 2022 Plan, the Board terminated the 2012 Plan such that no new equity awards will be issued by the 2012 Plan.

A summary of the Company's stock option and restricted stock unit activity under its plans is as follows:

	Number of Shares Subject to Outstanding Stock Options	**Weighted Average Exercise Price per Share**	**Number of Outstanding Restricted Stock Units**	**Weighted Average Grant Date Fair Value per Unit**
Outstanding at December 31, 2023	102,089	$ 42.54	76,916	$ 69.50
Granted	2,000	$ 1.21	50,903	$ 1.21
Released	—	—	(3,224)	$ 27.50
Forfeited	(10,574)	$ 22.63	(2,500)	$ 2.91
Outstanding at March 31, 2024	93,515	$ 43.91	122,095	$ 43.50

The following table sets forth stock-based compensation expense recognized for the three months ended March 31, 2024 and 2023:

	Three months ended March 31,	
	2024	**2023**
Research and development	$ 367	$ 372
Sales and marketing	43	58
General, and administrative	608	610
Total stock-based compensation expense	$ 1,018	$ 1,040

At March 31, 2024, there were 101,669 shares available for issuance under the 2022 Plan.

Warrants

In April 2022, in association with the Company's initial public offering, the Company granted to The Benchmark Company, LLC and Valuable Capital Limited warrants to purchase a total of 9,600 shares of the Company's common stock. The warrants were immediately exercisable at an exercise price of $50.00 per share and expire on the fifth anniversary of the commencement of sales under the IPO. The fair value of the warrants on the grant date was $27.50 per warrant, which was calculated using a Black-Scholes option valuation model with an expected term of 5.00 years, expected volatility of 62.55%, dividend yield of 0%, and risk-free interest rate of 2.92%. The Company recorded the fair value of these warrants of approximately $ 264 as an issuance cost to additional paid-in capital in 2022.

In June 2023, in connection with a registered offering of stock, the Company issued warrants to purchase a total of 2,000,000 shares of the Company's common stock (the "Offering Warrants"). The Offering Warrants were exercisable upon issuance and will expire five years from the date of issuance. Per the terms of the Offering Warrants, the exercise price of the Offering Warrants reset on July 16, 2023, to $3.146 per share. The fair value of the Offering

Warrants on the grant date was approximately $3,164, or $1.58 per warrant, which was calculated using a Monte-Carlo simulation to estimate the final exercise price, which is considered a Level 3 fair value measurement, using as inputs; the starting value of $3.00 per share, the Company's VWAP on June 16; an assumed daily distribution of returns; a mean daily return of 5.18%; a short-term annual volatility of 100% and a standard deviation of 6.3%. The model used Black-Scholes to then calculate the estimated fair value of the Offering Warrants, using an estimated time to maturity of 4.9 years, a risk-free interest rate of 3.99% and a long-term volatility of 60%.

In November 2023, in connection with the issuance of the Convertible Notes, the Company issued warrants to purchase a total of 45,000 shares of the Company's common stock at an exercise price equal to $1.94 per share. The warrants expire five years from the issuance date. The fair value of the warrants on the grant date was $1.29 per warrant, which was calculated using a Black-Scholes option valuation model with an expected term of 5.00 years, expected volatility of 68.89%, dividend yield of 0%, and risk-free interest rate of 4.41%. The Company recorded the fair value of these warrants of approximately $58 as an issuance cost to additional paid-in capital in 2023.

On February 20, 2024, in connection with the Purchase Agreement, the Company issued the Series A Warrants to purchase a total of 415,468 shares of the Company's common stock at an exercise price equal to $1.2705 per share. The Series A Warrants are immediately exercisable and expire five years from the date of issuance. The fair value of the Series A Warrants on the grant date was $0.61 per warrant, which was calculated using a Black-Scholes option valuation model with an expected term of 5.00 years, expected volatility of 68.24%, dividend yield of 0%, and risk-free interest rate of 4.3%. The Company recorded the fair value of these warrants of approximately $254 to additional paid-in capital in 2024.

8. Commitments and Contingencies

Sales Representative Agreement

In April 2020, the Company entered into an Exclusive Sales Representative Agreement, under which the counterparty to the agreement (the "Representative") received exclusive rights to market, promote, and distribute The Catamaran System in the United States and Puerto Rico. The agreement is for an initial period of five years, and automatically renews for an additional five years unless written notice is given by either party prior to April 27, 2023. The agreement provides for a bonus to be paid to the Representative upon an acquisition or IPO. In May 2021, the Company entered into an Amended and Restated Exclusive Sales Representative Agreement (the "Restated Sales Agreement"). In connection with the amended agreement, the Company paid $500 cash and issued 53,757 shares of common stock to the Representative, for which the Company recorded a combined total of approximately $880 as sales and marketing expense. In addition, the Representative received anti-dilution protections to maintain ownership of 3.0% of the fully diluted equity of the Company through the date of an initial public offering. In October 2021, the Company issued 4,445 shares of common stock with a fair value of approximately $333 to the Representative in accordance with the anti-dilution provision. In April 2022, the Company issued 31,235 shares of common stock to the Representative in accordance with the anti-dilution provision, fully satisfying the Company's obligations.

The Restated Sales Agreement restructured the calculation of the bonus paid to the Representative upon an acquisition, removed the bonus payable upon an IPO, and allows the Company to terminate the Restated Sales Agreement as long as the bonus paid to the Representative is at least $6,000.

On October 6, 2022, the Company entered into the Terminating Amended and Restated Exclusive Sales Representative Agreement (the "Termination Agreement") with the Representative, which terminated the Restated Sales Agreement. In accordance with the Termination Agreement, (i) the Company paid the Representative $1,000 in cash; and (ii) the Company agreed to pay the Representative (a) $ 85 per month during the six months after the date of the Termination Agreement in return for efforts by the Representative to transition operations to the Company, (b) 20% of net sales of the product sold in the United States and Puerto Rico until December 31, 2023 and (c) after December 31, 2023, 10% of net sales until such time as the aggregate amount paid to the Representative under this clause (c) and clause (b) above equal $3,600. In the event of an acquisition of the Company, the Company will pay the Representative $3,600 less previous amounts paid pursuant to clause (b) and clause (c) above. The Company recorded a charge of $ 1,000 for the payment to the Representative in the fourth quarter of 2022 and expensed the $85 per month charges as incurred over the six-month period. For payments under clause (b) and clause (c) above, the Company estimated the fair value of the liability using level 3 hierarchy inputs based on a Monte Carlo simulation of future revenues with a 25% quarterly estimated standard deviation of growth rates and a 10% probability of dissolution, discounted at an estimated discount rate of 15.4%. Based on the Company's fair value analysis, a total of $ 2,611 was charged to sales and marketing expense in the consolidated statements of operations and comprehensive loss and recorded as accrued commissions in the consolidated balance sheets. A reconciliation of the liability under clause (b) and clause (c) for the three months ended March 31, 2024 is as follows:

Balance at January 1, 2024	$	2,377
Amounts paid during 2024		(98)
Accretion		149
Balance at March 31, 2024	$	2,428

Per the terms of the Termination Agreement, the Company ultimately expects to expense $ 3,600 under clause (b) and clause (c).

Simultaneously with the execution of the Termination Agreement, the Company entered into a Consulting Agreement dated October 6, 2022, with the Representative (the "Consulting Agreement"). Under the terms and conditions of the Consulting Agreement, the Representative is tasked with organizing, recruiting, training, and coordinating the Company's Clinical Specialist program, Physician Education program and Sales Education program as more specifically described in the Consulting Agreement.

The term of the Consulting Agreement was from October 6, 2022, until October 5, 2023, when it terminated in accordance with the terms of the Consulting Agreement. In consideration for the services to be provided, the Company paid the Representative a base consulting fee of $700 per year, payable in monthly instalments, along with additional compensation of $62.5 per quarter, if certain sales targets were met, for four quarters; along with any travel and related out-of-pocket expenses incurred by the Representative in connection with the performance of the services.

Litigation

In the normal course of business, the Company may possibly be named as a defendant in various lawsuits.

9. Concentrations of Risk

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents.

The Company maintains cash balances at financial institutions located in California. Accounts at the U.S. financial institutions are secured by the Federal Deposit Insurance Corporation. At times, balances may exceed federally insured limits. The Company has not experienced any losses in such accounts. Management believes that the Company is not exposed to any significant credit risk with respect to its cash and cash equivalents.

The Company grants unsecured credit to its customers based on an evaluation of the customer's financial condition and a cash deposit is generally not required. Management believes its credit policies do not result in significant adverse risk and historically has not experienced significant credit-related losses.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and the other information set forth in our Annual Report of Form 10-K for the year ended December 31, 2023, filed with the Securities and Exchange Commission on March 29, 2024. In addition to historical financial information, this discussion and analysis contains forward-looking statements that reflect our plans, estimates and beliefs. You should not place undue reliance on these forward-looking statements, which involve risks and uncertainties. As a result of many factors, including but not limited to those set forth under "Risk Factors" in our Annual Report of Form 10-K filed with the Securities and Exchange Commission on March 29, 2024, our actual results may differ materially from those anticipated in these forward-looking statements. See "Cautionary Statement Regarding Forward-Looking Statements."

Overview

Tenon Medical, Inc., a medical device company formed in 2012, has developed a proprietary, U.S. Food and Drug Administration ("FDA") approved surgical implant-system, which we call The Catamaran™ SI Joint Fusion System ("The Catamaran System"). The Catamaran System offers a novel, less invasive inferior-posterior approach to the sacroiliac joint ("SI Joint") using a single, robust titanium implant to treat SI Joint dysfunction that often causes severe lower back pain. The system features the Catamaran™ Fixation Device which passes through both the axial and sagittal planes of the ilium and sacrum, transfixing the SI Joint along its longitudinal axis. Published clinical studies have shown that 15% to 30% of all chronic lower back pain is associated with the SI Joint.

With an entry similar to the SI Joint injection, the surgical approach is direct to the joint. The angle and trajectory of the inferior-posterior approach is designed to point away from critical neural and vascular structures and into the strongest cortical bone. Joined by a patented osteotome bridge, the implant design consists of two hollow fenestrated pontoons with an open framework to facilitate bony in-growth through the SI Joint. One pontoon fixates into the ilium and the other into the sacrum. The osteotome is designed to disrupt the articular portion of the joint to help facilitate a fusion response.

Our initial clinical results indicate that the Catamaran System implant is promoting fusion across the joint as evidenced by computerized tomography (CT) scans which is the gold standard widely accepted by the clinical community. We had our national launch of The Catamaran System in October 2022 and are building a sales and marketing infrastructure to market our product and address the greatly underserved market opportunity that exists.

We believe that the implant design and procedure we have developed, along with the 2D and 3D protocols for proper implantation will be received well by the clinician community who have been looking for a next generation device.

We have incurred net losses since our inception in 2012. As of March 31, 2024, we had an accumulated deficit of approximately $58.6 million. To date, we have financed our operations primarily through an initial public offering, private placements of equity securities, certain debt-related financing arrangements, and sales of our product. We have devoted substantially all of our resources to research and development, regulatory matters and sales and marketing of our product.

2024 Series A Offering

On February 20, 2024, we entered into a Securities Purchase Agreement (the "Series A Purchase Agreement") with certain investors (the "Series A Investors"), pursuant to which the Company agreed to sell, issue and deliver to the Series A Investors, in a private placement offering (the "Series A Offering"), a total of 172,239 shares of the Company's Series A Preferred Stock (the "Series A Preferred Stock") and warrants (the "Warrants") to purchase 258,374 shares of our common stock, par value $0.001 per share, of the Company, at an exercise price equal to $1.2705 per share for an aggregate offering price of $2,605,000. Under the Series A Purchase Agreement, each Series A Investor paid $15.125 for each share of Series A Preferred Stock and along with their shares of Series A Preferred Stock, received Warrants equal to 15% of the number of shares of our common stock initially underlying such shares of Series A Preferred Stock. In connection with the offering of the Series A Preferred Stock the Company exchanged the Notes (as defined below) for 84,729 shares of Series A Preferred Stock and Series A Warrants to purchase 157,094 shares of our common stock. There are a total of 256,968 shares of Series A Preferred Stock outstanding as of May 10, 2024.

Reverse Stock Split

On November 2, 2023, the Company effected a 1-for-10 reverse stock split by filing an amendment to the Company's Amended and Restated Certificate of Incorporation, as amended, with the Delaware Secretary of State. The reverse stock split combined every ten shares of our common stock issued and outstanding immediately prior to effecting the reverse stock split into one share of common stock. No fractional shares were issued in connection with the reverse stock split. All historical share and per share amounts reflected throughout this document have been adjusted to reflect the reverse stock split. The authorized number of shares and the par value per share of the Company's common stock were not affected by the reverse stock split.

Components of Results of Operations

Revenue

We derive substantially all our revenue from sales of The Catamaran System to a limited number of clinicians. Revenue from sales of The Catamaran System fluctuates based on volume of cases (procedures performed), discounts, and the number of implants used for a particular patient. Similar to other orthopedic companies, our revenue can also fluctuate from quarter to quarter due to a variety of factors, including reimbursement, changes in independent sales representatives and physician activities.

Cost of Goods Sold, Gross Profit, and Gross Margin

We utilize contract manufacturers for production of The Catamaran System implants and Catamaran Tray Sets. Cost of goods sold consists primarily of costs of the components of The Catamaran System implants and instruments, quality inspection, packaging, scrap and inventory obsolescence, as well as distribution-related expenses such as logistics and shipping costs. We anticipate that our cost of goods sold will increase in absolute dollars as case levels increase.

Our gross margins have been and will continue to be affected by a variety of factors, including the cost to have our product manufactured for us, pricing pressure from increasing competition, and the factors described above impacting our revenue.

Operating Expenses

Our operating expenses consist of sales and marketing, research and development, and general and administrative expenses. Personnel costs are the most significant component of operating expenses and consist of consulting expenses, salaries, sales commissions and other cash and stock-based compensation related expenses. We expect operating expenses to increase in absolute dollars as we continue to invest and grow our business.

Sales and Marketing Expenses

Sales and marketing expenses primarily consist of independent sales representative training and commissions in addition to salaries and stock-based compensation expense. Starting in May 2021, commissions to our national distributor have been based on a percentage of sales and we anticipate that these commissions will make up a significant portion of our sales and marketing expenses. We expect our sales and marketing expenses to increase in absolute dollars with the commercial launch of The Catamaran System resulting in higher commissions and salaries, increased clinician and sales representative training, and the start of clinical studies to gain wider clinician adoption of The Catamaran System. Our sales and marketing expenses may fluctuate from period to period due to timing of sales and marketing activities related to the commercial launch of our product.

Research and Development Expenses

Our research and development expenses primarily consist of engineering, product development, regulatory expenses, and consulting services, outside prototyping services, outside research activities, materials, and other costs associated with development of our product. Research and development expenses also include related personnel and consultants' compensation and stock-based compensation expense. We expense research and development costs as they are incurred. We expect research and development expense to increase in absolute dollars as we improve The Catamaran System, develop new products, add research and development personnel, and undergo clinical activities that may be required for regulatory clearances of future products.

General and Administrative Expenses

General and administrative expenses primarily consist of salaries, consultants' compensation, stock-based compensation expense, and other costs for finance, accounting, legal, compliance, and administrative matters. We expect our general and administrative expenses to increase in absolute dollars as we add personnel and information technology infrastructure to support the growth of our business. We also expect to incur additional general and administrative expenses as a result of operating as a public company, including but not limited to: expenses related to compliance with the rules and regulations of the Securities and Exchange Commission and those of The Nasdaq Stock Market LLC on which our securities are traded; additional insurance expenses; investor relations activities; and other administrative and professional services. While we expect the general and administrative expenses to increase in absolute dollars, we anticipate that it will decrease as a percentage of revenue over time.

Gain on Investments, Interest Expense and Other Income (Expense), Net

Gain on investments consists of interest income and realized gains and losses from the sale of our investments in money market and corporate debt securities. Interest expense is related to borrowings. Other income and expenses have not been significant to date.

Results of Operations

The following table sets forth our results of operations for the periods presented (in thousands):

	Three Months Ended March 31,	
Consolidated Statements of Operations Data:	**2024**	**2023**
Revenue	$ 719	$ 433
Cost of goods sold	249	480
Gross profit (loss)	470	(47)
Operating expenses:		
Research and development	669	834
Sales and marketing	1,381	2,026
General and administrative	1,926	1,979
Total operating expenses	3,976	4,839
Loss from operations	(3,506)	(4,886)
Interest and other income (expense), net:		
Gain on investments	27	56
Interest expense	(34)	—
Other income (expense)	(63)	—
Net loss	$ (3,576)	$ (4,830)

The following table sets forth our results of operations as a percentage of revenue:

	Three Months Ended March 31,	
Consolidated Statements of Operations Data:	**2024**	**2023**
Revenue	100%	100%
Cost of goods sold	35	111
Gross profit (loss)	65	(11)
Operating expenses:		
Research and development	93	193
Sales and marketing	192	468

General and administrative	268	457
Total operating expenses	553	1,118
Loss from operations	(488)	(1,128)
Interest and other income (expense), net:		
Gain on investments	4	13
Interest expense	(5)	—
Other expense	(9)	—
Net loss	(497)%	(1,115)%

Comparison of the Three Months Ended March 31, 2024 and 2023 (in thousands, except percentages)

Revenue, Cost of Goods Sold, Gross Profit, and Gross Margin

	Three Months Ended March 31,			
	2024	2023	$ Change	% Change
Revenue	$ 719	$ 433	$ 286	66%
Cost of goods sold	249	480	(231)	(48)%
Gross profit (loss)	$ 470	$ (47)	$ 517	(1,100)%
Gross profit (loss) percentage	65%	(11)%		

Revenue. The increase in revenue for the three months ended March 31, 2024 as compared to the same period in 2023 was primarily due to increases of 42% in the number of surgical procedures in which the Catamaran System was used.

Cost of Goods Sold, Gross Profit, and Gross Margin. The change in cost of goods sold for the three months ended March 31, 2024 as compared to the same period in 2023 was due to a 42% increase in the number of surgical procedures performed. Gross profit (loss) and gross margin percentage improved due to higher revenue associated with the increase in the number of surgical procedures, operating leverage created due to lower relative fixed costs and the absorption of more production overhead costs into our standard cost.

Operating Expenses

	Three Months Ended March 31,			
	2024	2023	$ Change	% Change
Research and development	$ 669	$ 834	$ (165)	(20)%
Sales and marketing	1,381	2,026	(645)	(32)%
General and administrative	1,926	1,979	(53)	(3)%
Total operating expenses	$ 3,976	$ 4,839	$ (863)	(18)%

Research and Development Expenses. Research and development expenses for the three months ended March 31, 2024 decreased as compared to 2023 primarily due to decreased professional fees ($110), payroll expenses ($82) and stock-based compensation ($5).

Sales and Marketing Expenses. Sales and marketing expenses for the three months ended March 31, 2024 decreased as compared to the same period in 2023 primarily due to SpineSource transition fees in 2023 ($430), decreased payroll and employee expenses ($147) and consulting and professional fees ($53) partially offset by increased commission expense ($45).

General and Administrative Expenses. General and administrative expenses for the three months ended March 31, 2024 increased as compared to the same period in 2023 primarily due to decreased professional service fees ($159) and stock-based compensation ($3), partially offset by increased insurance costs ($98) and payroll and employee expenses ($11).

Gain on Investments, Interest Expense and Other Income (Expense), Net

Gain on investments for the three months ended March 31, 2024 decreased approximately $29 as compared to the three months ended March 31, 2023 due to interest on our investments in money market and corporate debt securities. We did not have significant investments in corporate debt securities during the first three months of 2024. Interest expense for the three months ended March 31, 2024 related to our convertible debt. Other expense, net was related to foreign exchange losses on the liquidation of our Swiss subsidiary.

Liquidity and Capital Resources

As of March 31, 2024, we had cash and cash equivalents of $4.4 million. Since inception, we have financed our operations through private placements of preferred stock, debt financing arrangements, our initial public offering, additional stock offerings and the sale of our products. As of March 31, 2024, we had no outstanding debt.

As of March 31, 2024, we had an accumulated deficit of $58.6 million and expect to incur additional losses in the future. We have not achieved positive cash flow from operations to date. Based upon our current operating plan, our existing cash and cash equivalents will not be sufficient to fund our operating expenses and working capital requirements through at least the next 12 months from the date these consolidated financial statements were available to be released. We plan to raise the necessary additional capital through one or a combination of public or private equity offerings, debt financings, and collaborations. We continue to face challenges and uncertainties and, as a result, our available capital resources may be consumed more rapidly than currently expected due to (a) the uncertainty of future revenues from The Catamaran System; (b) changes we may make to the business that affect ongoing operating expenses; (c) changes we may make in our business strategy; (d) regulatory developments affecting our existing products; (e) changes we may make in our research and development spending plans; and (f) other items affecting our forecasted level of expenditures and use of cash resources.

On February 20, 2024, we entered into the Series A Purchase Agreement with certain investors, pursuant to which we agreed to sell, issue and deliver to these investors, in a private placement offering, a total of 172,239 shares of our Series A Preferred Stock and warrants to purchase 258,374 shares of our common stock, par value $0.001 per share, at an exercise price equal to $1.2705 per share for an aggregate offering price of $2,605,000. Additionally, on February 20, 2024, the Series A Investors agreed to a complete prepayment of our obligations under convertible notes (the “Convertible Notes”), including accrued interest, in exchange for 84,729 shares of Series A Preferred Stock and warrants to purchase 157,094 shares of our common stock at $1.2705 per share and the Convertible Notes were canceled. The Series A Warrants are immediately exercisable and expire five years from the date of issuance. There are a total of 256,968 shares of Series A Preferred Stock outstanding as of May 14, 2024.

As we attempt to raise additional capital to fund our operations, funding may not be available to us on acceptable terms, or at all. If we are unable to obtain adequate financing when needed, we may have to delay, reduce the scope of or suspend one or more of our sales and marketing efforts, research and development activities, or other operations. We may seek to raise any necessary additional capital through a combination of public or private equity offerings, debt financings, and collaborations. If we do raise additional capital through public or private equity offerings, the ownership interest of our existing stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect our stockholders’ rights. If we raise additional capital through debt financing, we may be subject to covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures, or declaring dividends. If we are unable to raise capital, we will need to delay, reduce, or terminate planned activities to reduce costs. Doing so will likely harm our ability to execute our business plans. Due to the uncertainty in our ability to raise capital, management believes that there is substantial doubt in our ability to continue as a going concern for the next twelve months from the issuance of these consolidated financial statements.

Cash Flows (in thousands, except percentages)

The following table sets forth the primary sources and uses of cash for each of the periods presented below:

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	$ Change	% Change
Net cash (used in) provided by:				
Operating activities	$ (2,338)	$ (3,576)	$ 1,238	(35)%
Investing activities	(119)	4,669	(4,788)	(103)%
Financing activities	4,371	(42)	4,413	(10,507)%
Effect of foreign currency translation on cash flow	46	(1)	47	(4,700)%
Net increase in cash and cash equivalents	$ 1,960	$ 1,050	$ 910	87%

The decrease in net cash used in operating activities for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023 was primarily attributable to our decreased net loss of $1.3 million, adjusted for decreases in non-cash stock-based compensation expenses ($22), in addition to increased accounts payable ($545), partially offset by decreases in accrued expenses ($396).

Cash provided by investing activities for the three months ended March 31, 2024 consisted primarily purchases of property and equipment ($119). Cash provided by investing activities for the three months ended March 31, 2023 consisted primarily of the net sales of short-term investments ($4,753) to fund our operations, partially offset by purchases of property and equipment ($84).

Cash provided by financing activities for the three months ended March 31, 2024 consisted primarily of proceeds from the issuance of Series A Convertible Preferred Stock ($2,437) and from the issuance of common stock ($1,934). Cash used in financing activities for the three months ended March 31, 2023 consisted primarily of spending for deferred offering costs.

Critical Accounting Policies, Significant Judgments, and Use of Estimates

Our management’s discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported results of operations during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from three other sources. Actual results could differ from these estimates under different assumptions or conditions. For the three months ended March 31, 2024, there were no significant changes to our existing critical accounting policies from those disclosed on our Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

As of March 31, 2024, and December 31, 2023, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Not required under Regulation S-K for “smaller reporting companies.”

ITEM 4. Controls and Procedures. Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms promulgated by the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Because of the inherent limitations to the effectiveness of any system of disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been prevented or detected on a timely basis. Even disclosure controls and procedures determined to be effective can only provide reasonable assurance that their objectives are achieved.

As of March 31, 2024, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and President and Chief Financial Officer concluded that our disclosure controls and procedures are not effective at the reasonable assurance level.

Our size has prevented us from being able to employ sufficient resources to enable us to have an adequate level of supervision and segregation of duties. Therefore, it is difficult to effectively segregate accounting duties which comprises a material weakness in internal controls. This lack of segregation of duties leads management to conclude that the Company's disclosure controls and procedures are not effective to give reasonable assurance that the information required to be disclosed in reports that the Company files under the Exchange Act is recorded, processed, summarized and reported as and when required.

To the extent reasonably possible given our limited resources, we intend to take measures to cure the aforementioned weaknesses, including, but not limited to, increasing the capacity of our qualified financial personnel to ensure that accounting policies and procedures are consistent across the organization and that we have adequate control over our Exchange Act reporting disclosures.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control procedures over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our fiscal quarter ended March 31, 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 PROCEDINGS

None.

ITEM 1A. RISK FACTORS

As a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, and in item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this item. In any event, there have been no material changes in our risk factors as previously disclosed in our Annual Report on Form 10-K filed with the U.S. Securities and Securities Exchange Commission ("SEC") on March 29, 2024.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(A) Unregistered Sales of Equity Securities

None.

(B) Use of Proceeds

Not applicable.

(C) Issuer Purchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description
3.1#	Series A Certificate of Designations, filed in Delaware on February 20, 2024.
10.1#	Form of Securities Purchase Agreement.
10.2#	Form of Warrant.
31.1*	Rule 13a-14(a)/15d-14(a) Certification of the President and Chief Executive Officer of Tenon Medical, Inc.

31.2*	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer of Tenon Medical, Inc.
32.1**	Section 1350 Certification of the President and Chief Executive Officer of Tenon Medical, Inc.
32.2**	Section 1350 Certification of the Chief Financial Officer of Tenon Medical, Inc.
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

\# Incorporated by reference to the same exhibit number in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 22, 2024.

* Filed herewith

** Exhibits 32.1 and 32.2 are being furnished and shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall such exhibits be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as otherwise specifically stated in such filing.

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.

TENON MEDICAL, INC.

Dated: May 15, 2024

/s/ Steven M. Foster
Steven M. Foster
Chief Executive Officer and President, Director
(Principal Executive Officer)

Dated: May 15, 2024

/s/ Steven Van Dick
Steven Van Dick
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECTUIVE OFFICER
PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven Foster, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tenon Medical, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: May 15, 2024

/s/ Steven Foster

Name: Steven Foster
Title: Chief Executive Officer and President
(Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Steven Van Dick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tenon Medical, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: May 15, 2024

/s/ Steven Van Dick
Name: Steven Van Dick
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Steven Foster, the Chief Executive Officer of Tenon Medical, Inc. (the "Company"), hereby certify, that, to my knowledge:

1. The Quarterly Report on Form 10-Q for the period ended March 31, 2024 (the "Report") of the Company fully complies with the requirements of Section 13(a) and 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.

Dated: May 15, 2024

/s/ Steven Foster
Name: Steven Foster
Title: Chief Executive Officer and President
(Principal Executive Officer)

Exhibit 32.2

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Steven Van Dick, the Chief Financial Officer of Tenon Medical, Inc. (the "Company"), hereby certify, that, to my knowledge:

1. The Quarterly Report on Form 10-Q for the period ended March 31, 2024 (the "Report") of the Company fully complies with the requirements of Section 13(a)/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.

Dated: May 15, 2024

/s/ Steven Van Dick

Name: Steven Van Dick
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)