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: June 30, 2023

or

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

Commission File Number 001-35280

VERICEL CORPORATION

(Exact name of registrant as specified in its charter)

Michigan	**94-3096597**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

64 Sidney Street
Cambridge, MA 02139
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(617) 588-5555**

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

Title of Class	**Trading Symbol(s)**	**Name of Each Exchange on Which Registered**
Common Stock (No par value)	VCEL	NASDAQ

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. o

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

As of July 27, 2023, 47,642,194 shares of Common Stock, no par value per share, were outstanding.

VERICEL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

VERICEL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, amounts in thousands)

	June 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 43,023	$ 51,067
Restricted cash	27,794	—
Short-term investments	54,808	68,471
Accounts receivable (net of allowance for doubtful accounts of $44 and $47, respectively)	38,319	46,539
Inventory	13,883	15,986
Other current assets	5,044	4,803
Total current assets	182,871	186,866
Property and equipment, net	23,408	15,837
Intangible assets, net	7,188	7,500
Right-of-use assets	75,063	41,535
Long-term investments	20,985	19,962
Other long-term assets	1,196	1,303
Total assets	$ 310,711	$ 273,003
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 14,401	$ 16,930
Accrued expenses	13,971	16,190
Current portion of operating lease liabilities	7,218	4,302
Other current liabilities	21	41
Total current liabilities	35,611	37,463
Operating lease liabilities	76,144	43,268
Other long-term liabilities	28	—
Total liabilities	111,783	80,731
COMMITMENTS AND CONTINGENCIES (Note 12)		
Shareholders' equity:		
Common stock, no par value; shares authorized — 75,000; shares issued and outstanding 47,616 and 47,253, respectively	612,059	593,245
Accumulated other comprehensive loss	(621)	(978)
Accumulated deficit	(412,510)	(399,995)
Total shareholders' equity	198,928	192,272
Total liabilities and shareholders' equity	$ 310,711	$ 273,003

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

VERICEL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, amounts in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Product sales, net	$ 45,922	$ 36,826	$ 86,939	$ 72,678
Other revenue	—	220	—	442
Total revenue	45,922	37,046	86,939	73,120
Cost of product sales	15,981	14,192	30,478	26,814
Gross profit	29,941	22,854	56,461	46,306
Research and development	5,253	4,792	10,465	9,652
Selling, general and administrative	30,649	27,144	60,134	53,009
Total operating expenses	35,902	31,936	70,599	62,661
Loss from operations	(5,961)	(9,082)	(14,138)	(16,355)
Other income (expense):				
Interest income	1,095	148	1,934	236
Interest expense	(149)	(20)	(294)	(38)
Other (expense) income	(5)	(9)	(17)	103
Total other income	941	119	1,623	301
Net loss	$ (5,020)	$ (8,963)	$ (12,515)	$ (16,054)
Net loss per common share:				
Basic and diluted	$ (0.11)	$ (0.19)	$ (0.26)	$ (0.34)
Weighted-average common shares outstanding:				
Basic and diluted	47,572	47,117	47,480	47,052

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

VERICEL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited, amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net loss	$ (5,020)	$ (8,963)	$ (12,515)	$ (16,054)
Other comprehensive loss:				
Unrealized gain (loss) on investments	15	(242)	357	(701)
Comprehensive loss	$ (5,005)	$ (9,205)	$ (12,158)	$ (16,755)

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

VERICEL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited, amounts in thousands)

	Common Stock		Accumulated Other Comprehensive Gain (Loss)	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount			
BALANCE, DECEMBER 31, 2022	47,253	$ 593,245	$ (978)	$ (399,995)	$ 192,272
Net loss	—	—	—	(7,495)	(7,495)
Stock-based compensation expense	—	8,731	—	—	8,731
Stock option exercises	132	2,009	—	—	2,009
Shares issued under the Employee Stock Purchase Plan	11	216	—	—	216
Issuance of stock for restricted stock unit vesting	183	—	—	—	—
Restricted stock withheld for employee tax remittance	(72)	(2,097)	—	—	(2,097)
Unrealized gain on investments	—	—	342	—	342
BALANCE, MARCH 31, 2023	47,507	$ 602,104	$ (636)	$ (407,490)	$ 193,978
Net loss	—	—	—	(5,020)	(5,020)
Stock-based compensation expense	—	8,761	—	—	8,761
Stock option exercises	68	889	—	—	889
Shares issued under the Employee Stock Purchase Plan	18	384	—	—	384
Issuance of stock for restricted stock unit vesting	26	—	—	—	—
Restricted stock withheld for employee tax remittance	(3)	(79)	—	—	(79)
Unrealized gain on investments	—	—	15	—	15
BALANCE, JUNE 30, 2023	47,616	$ 612,059	$ (621)	$ (412,510)	$ 198,928

	Common Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount			
BALANCE, DECEMBER 31, 2021	46,880	$ 553,902	$ (154)	$ (383,286)	$ 170,462
Net loss	—	—	—	(7,091)	(7,091)
Stock-based compensation expense	—	9,531	—	—	9,531
Stock option exercises	125	1,155	—	—	1,155
Shares issued under the Employee Stock Purchase Plan	9	310	—	—	310
Issuance of stock for restricted stock unit vesting	108	—	—	—	—
Restricted stock withheld for employee tax remittance	(41)	(1,423)	—	—	(1,423)
Unrealized loss on investments	—	—	(459)	—	(459)
BALANCE, MARCH 31, 2022	47,081	$ 563,475	$ (613)	$ (390,377)	$ 172,485
Net loss	—	—	—	(8,963)	(8,963)
Stock-based compensation expense	—	10,808	—	—	10,808
Stock option exercises	32	428	—	—	428
Shares issued under the Employee Stock Purchase Plan	10	318	—	—	318
Issuance of stock for restricted stock unit vesting	19	—	—	—	—
Restricted stock withheld for employee tax remittance	(1)	(18)	—	—	(18)
Unrealized loss on investments	—	—	(242)	—	(242)
BALANCE, JUNE 30, 2022	47,141	$ 575,011	$ (855)	$ (399,340)	$ 174,816

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

VERICEL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, amounts in thousands)

	Six Months Ended June 30,	
	2023	2022
Operating activities:		
Net loss	$ (12,515)	$ (16,054)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization expense	2,329	1,928
Stock-based compensation expense	17,492	20,339
Amortization of premiums and discounts on marketable securities	(504)	302
Amortization of debt issuance costs	108	—
Non-cash lease costs	2,466	2,155
Other	17	16
Changes in operating assets and liabilities:		
Inventory	2,103	(2,548)
Accounts receivable	8,220	3,773
Other current assets	(241)	(563)
Accounts payable	956	1,152
Accrued expenses	(2,219)	(1,912)
Operating lease liabilities	(184)	(1,977)
Other non-current assets and liabilities, net	28	—
Net cash provided by operating activities	18,056	6,611
Investing activities:		
Purchases of investments	(28,537)	(34,948)
Sales and maturities of investments	42,038	26,344
Expenditures for property and equipment	(5,609)	(5,062)
Purchases of intangible assets	(7,500)	—
Net cash provided by (used in) investing activities	392	(13,666)
Financing activities:		
Net proceeds from common stock issuance	3,498	2,211
Payments on employee's behalf for taxes related to vesting of restricted stock unit awards	(2,176)	(1,441)
Other	(20)	(18)
Net cash provided by financing activities	1,302	752
Net increase (decrease) in cash, cash equivalents, and restricted cash	19,750	(6,303)
Cash, cash equivalents, and restricted cash at beginning of period	51,067	68,541
Cash, cash equivalents, and restricted cash at end of period	$ 70,817	$ 62,238

VERICEL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Unaudited, amounts in thousands)

	Six Months Ended June 30,	
	2023	**2022**
Supplemental disclosure of cash flow information:		
Non-cash information:		
Right-of-use asset and lease liability recognized	$ 35,976	$ —
Additions to property and equipment included in accounts payable	4,321	869

	Six Months Ended June 30,	
	2023	**2022**
Reconciliation of amounts within the condensed consolidated balance sheets:		
Cash and cash equivalents	$ 43,023	$ 56,054
Restricted cash	27,794	6,184
Total cash, cash equivalents, and restricted cash at end of period	$ 70,817	$ 62,238

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

VERICEL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Vericel Corporation, a Michigan corporation (together with its consolidated subsidiaries referred to herein as the Company, or Vericel), was incorporated in March 1989 and began employee-based operations in 1991. The Company is a fully-integrated, commercial-stage biopharmaceutical company and is a leader in advanced therapies for the sports medicine and severe burn care markets. Vericel currently markets three commercial-stage products in the U.S., MACI®, Epicel® and NexoBrid®.

MACI (autologous cultured chondrocytes on porcine collagen membrane) is an autologous cellularized scaffold product indicated for the repair of symptomatic, single or multiple full-thickness cartilage defects of the knee with or without bone involvement in adults. Epicel (cultured epidermal autografts) is a permanent skin replacement for the treatment of adult and pediatric patients with deep-dermal or full-thickness burns comprising greater than or equal to 30 percent of total body surface area (“TBSA”). The Company also holds an exclusive license from MediWound Ltd. (“MediWound”) to commercialize NexoBrid (anacaulase-bcdb) in North America. On December 28, 2022, the U.S. Food and Drug Administration (“FDA”) approved a Biologics License Application (“BLA”) for NexoBrid, granting a license for commercial use in the U.S. NexoBrid is a topically-administered biological product containing proteolytic enzymes and is indicated for the removal of eschar in adults with deep partial-thickness and/or full thickness thermal burns. The Company operates its business primarily in the U.S. in one reportable segment - the research, product development, manufacture and distribution of cellular therapies and specialty biologics for use in the treatment of specific diseases.

The Company is subject to risks common to companies in the life sciences industry including, but not limited to, development by the Company or its competitors of new technological innovations, dependence on key personnel, protection of proprietary technology, commercialization of existing and new products, and compliance with FDA regulations and approval requirements, as well as the ability to grow the Company’s business through appropriate commercial strategies.

COVID-19

On May 11, 2023, the U.S. Department of Health and Human Services announced the expiration of the federal Public Health Emergency for COVID-19. At this juncture, the pandemic’s effects on the Company’s business and results of operations have largely moderated and we have begun to see a return to more normal operations. Should a resurgence of COVID-19 occur, or new virus variants emerge, it could result in additional disruptions that could impact the Company’s business and operations in the future, including U.S. hospital or surgical center staffing shortages, periodic cancellation or delay of elective MACI surgical procedures, intermittent restrictions on the ability of Company personnel to travel and access customers for selling, marketing, training, case support and product development feedback, delays in approvals by regulatory bodies, delays in product development efforts, and additional government requirements or other incremental mitigation efforts that may further impact the Company’s capacity to manufacture, sell and support the use of its products.

The War in Ukraine

The ongoing war between Russia and Ukraine and the related sanctions and other penalties imposed by countries across the globe against Russia are continuing to create substantial uncertainty in the global economy and have contributed to heightened inflation and supply chain disruptions. While the Company does not have operations in Russia or Ukraine and does not have exposure to distributors, or third-party service providers in Russia or Ukraine, it is unable to predict the ultimate impact that these actions will have on the global economy or on its financial condition, results of operations, and cash flows as of the date of these condensed consolidated financial statements.

Liquidity

The accompanying condensed consolidated financial statements have been prepared on a basis which assumes that the Company will continue as a going concern and contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. As of June 30, 2023, the Company had an accumulated deficit of $412.5 million and had a net loss of $12.5 million during the six months ended June 30, 2023. The Company had cash and cash equivalents of $43.0 million and investments of $75.8 million as of June 30, 2023. The Company expects that cash from the sales of its products and existing cash, cash equivalents, investments, and available borrowing capacity will be sufficient to support the Company's current operations through at least 12 months from the issuance of these condensed consolidated financial statements. If revenues decline for a sustained period, the Company may need to access additional capital; however, the Company may not be able to obtain additional financing on acceptable terms or at all. The terms of any additional financing may adversely affect the holdings or the rights of the Company's shareholders.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash, cash equivalents and investments in marketable debt securities. The Company may maintain deposits in financial institutions in excess of the insurance coverage offered by the Federal Deposit Insurance Corporation, the loss of which could have a negative effect on our operations and liquidity. The Company believes that it is not exposed to significant credit risk as its deposits, including cash and cash equivalents, are held at multiple high credit quality financial institutions. The Company has not experienced any losses on these deposits; however no assurances can be provided that there will not be losses experienced in the future. The Company believes that the market risk arising from its holdings of these financial instruments is mitigated based on the fact that many of these securities are either government-backed or of high credit rating.

2. Basis of Presentation

The accompanying condensed consolidated financial statements of Vericel are unaudited and have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). The preparation of condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates, judgments, and assumptions that may affect the reported amounts of assets, liabilities, equity, revenue and expenses. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to such rules and regulations.

The financial statements reflect, in the opinion of management, all adjustments (consisting only of normal, recurring adjustments) necessary to state fairly the financial position and results of operations as of and for the periods indicated. The Company bases its estimates on historical experience and on various other assumptions that it believes are reasonable, the results of which form the basis for making judgments about the carrying values of assets, liabilities and equity and the amount of revenue and expenses.

The condensed consolidated balance sheet as of December 31, 2022 has been derived from the audited consolidated financial statements at that date, but does not include all the information and notes required by U.S. GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on February 23, 2023 ("Annual Report").

Recent Accounting Pronouncements

No new accounting standards were adopted during the six months ended June 30, 2023. The Company considers the applicability and impact of any recent Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"). Based on the assessment, the ASUs were determined to be either not applicable or are expected to have minimal impact on the Company's condensed consolidated financial statements.

3. Revenue

Revenue Recognition and Product Sales, Net

The Company recognizes product revenue from sales of MACI biopsy kits, MACI implants, Epicel grafts and NexoBrid following the five-step model in Accounting Standards Codification 606, *Revenue Recognition.*

MACI Biopsy Kits

MACI biopsy kits are sold directly to hospitals and ambulatory surgical centers based on contracted rates in an approved contract or sales order. The Company recognizes MACI kit revenue upon delivery of the biopsy kit, at which time the customer (the facility) is in control of the kit. The kit is used by the doctor to provide a sample of cartilage tissue to the Company, which can later be used to manufacture a MACI implant. The ordering of the kit does not obligate the Company to manufacture an implant nor does the receipt of the cartilage tissue by the Company from the customer following biopsy. The customer's order of an implant is separate from the process of ordering the biopsy kit. Therefore, the sale of the biopsy kit and any subsequent sale of an implant are distinct contracts and are accounted for separately.

MACI Implants

The Company contracts with two specialty pharmacies, Orsini Pharmaceutical Services, Inc. ("Orsini") and AllCare Plus Pharmacy, Inc. ("AllCare") to distribute MACI in a manner in which the Company retains the credit and collection risk from the end customer. The Company pays both specialty pharmacies a fee for each patient to whom MACI is dispensed. Both Orsini and AllCare perform collection activities to collect payment from customers. The Company engages a third party to provide services in connection with a patient support program to manage patient cases and to ensure complete and correct billing information is provided to the insurers and hospitals. In addition, the Company also sells MACI directly to DMS Pharmaceutical Group, Inc. ("DMS") for patients treated at military treatment facilities. The sales directly to DMS are made at a contracted rate.

Prior authorization and confirmation of coverage level by the patient's private insurance plan, hospital or government payer is a prerequisite to the shipment of product to a patient. The Company recognizes product revenue from sales of all MACI implants upon delivery at which time the customer obtains control of the implant and the claim is billable. The total consideration that the Company expects to collect in exchange for MACI implants (the "Transaction Price") may be fixed or variable. Direct sales to hospitals or distributors are recorded at a contracted price, and there are typically no forms of variable consideration.

When the Company sells MACI the patient is responsible for payment; however, the Company is typically reimbursed by a third-party insurer or government payer, subject to a patient co-pay amount. Reimbursements from third-party insurers and government payers vary by patient and payer and are based on either contracted rates, publicly available rates, fee schedules or past payer precedents. Net product revenue is recognized net of estimated contractual allowances, which considers historical collection experience from both the payer and patient, denial rates and the terms of the Company's contractual arrangements. The Company estimates expected collections for these transactions using the portfolio approach. The Company records a reduction to revenue at the time of sale for its estimate of the amount of consideration that will not be collected. In addition, potential credit risk exposure has been evaluated for the Company's accounts receivable in accordance with *ASC 326, Financial Instruments - Credit Losses*. The Company assesses risk and determines a loss percentage by pooling accounts receivable based on similar risk characteristics. The loss percentage is calculated through the use of forecasts that are based on current and historical economic and financial information. This loss percentage was applied to the accounts receivables as of June 30, 2023. The total allowance for uncollectible consideration as of June 30, 2023 and December 31, 2022 was $5.3 million and $6.1 million, respectively. Changes to the estimate of the amount of consideration that will not be collected could have a material impact on the revenue recognized. A 50 basis points change to the estimated uncollectible percentage could result in an approximately $0.3 million decrease or increase in the revenue recognized for the six months ended June 30, 2023.

Changes in estimates of the Transaction Price are recorded through revenue in the period in which such change occurs. Changes in estimates related to prior periods are shown in the Revenue by Product and Customer table below and relate primarily to changes in the initial expected reimbursement or collection expectation upon completion of the billing claims process for MACI implants that occurred in a prior year.

Epicel

The Company sells Epicel directly to hospitals and burn centers based on contracted rates stated in an approved contract or purchase order. Similar to MACI, there is no obligation to manufacture Epicel grafts upon receipt of a skin biopsy, and Vericel has no contractual right to receive payment until the product is delivered to the hospital. The Company recognizes product revenue from sales of Epicel upon delivery to the hospital, at which time the customer is in control of the Epicel grafts and the claim is billable to the hospital.

NexoBrid

The Company entered into exclusive license and supply agreements with MediWound in May 2019, pursuant to which MediWound will manufacture and supply NexoBrid on a unit price basis, which may be increased pursuant to the terms of the agreements. Additionally, beginning in 2020 the U.S. Biomedical Advanced Research and Development Authority ("BARDA") procured quantities of NexoBrid from MediWound, for use as a medical countermeasure in the event of a mass casualty emergency in the U.S. involving thermal burns. The initial, quarterly, procurement of NexoBrid by BARDA under its agreement with MediWound completed during the third quarter of 2022. The Company recognized revenue based on a percentage of gross profits for sales of NexoBrid to BARDA upon delivery, at which time BARDA was in control of the product. As of June 30, 2023, the Company did not hold a direct contract or distribution agreement with BARDA, or take title to the product procured by BARDA.

On May 9, 2023, MediWound announced BARDA's award of additional funding under the parties' existing agreement, $3 million of which will support the replacement of NexoBrid, previously procured for emergency response preparedness, which has since expired. Pursuant to the terms of the Company's license agreement with MediWound, the Company would recognize revenue based on a percentage of gross profits, minus a percentage of net sales, on any sales of NexoBrid directly to BARDA upon delivery, pursuant to this additional award.

Additionally, on December 28, 2022, the FDA approved a BLA for NexoBrid, granting a license for commercial use in the U.S. NexoBrid is a topically-administered biological product containing proteolytic enzymes and is indicated for the removal of eschar in adults with deep partial-thickness and/or full thickness thermal burns.

Revenue by Product and Customer

The following table and descriptions below show the products from which the Company generated its revenue for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
Revenue by product (in thousands)	**2023**	**2022**	**2023**	**2022**
MACI implants and kits				
Implants based on contracted rate sold through a specialty pharmacy [(a)]	$ 22,377	$ 15,714	$ 45,331	$ 31,009
Implants subject to third party reimbursement sold through a specialty pharmacy [(b)]	4,015	4,295	8,004	7,803
Implants sold direct based on contracted rates [(c)]	7,252	5,756	14,222	11,390
Implants sold direct subject to third-party reimbursement [(d)]	1,045	570	1,538	1,441
Biopsy kits - direct bill	528	545	1,062	1,066
Change in estimates related to prior periods [(e)]	1,119	1,733	369	1,898
Total MACI implants and kits	36,336	28,613	70,526	54,607
Epicel				
Direct bill (hospital)	9,586	8,213	16,413	18,071
NexoBrid revenue [(f)]	—	220	—	442
Total revenue	$ 45,922	$ 37,046	$ 86,939	$ 73,120

(a) Represents implants sold through Orsini and AllCare whereby such specialty pharmacies have a direct contract with the underlying insurance provider. The amount of reimbursement is based on contracted rates at the time of sale supported by the pharmacy's direct contracts.

(b) Represents implants sold through Orsini and AllCare whereby such specialty pharmacy does not have a direct contract with the underlying payer, and are subject to third-party reimbursement. The amount of reimbursement is established based on publicly available rates, fee schedules or past payer precedents.

(c) Represents implants sold directly from the Company to the facility based on a contract and known price agreed upon prior to the surgery date. Also represents direct sales under a contract to specialty distributor DMS.

(d) Represents implants sold directly from the Company to the facility based on a contract and known price agreed upon prior to the surgery date. The payment terms are subject to third-party reimbursement from an underlying insurance provider.

(e) Primarily represents changes in estimates related to implants sold through Orsini or AllCare and relate to changes to the initial expected reimbursement or collection expectations upon completion of the billing claims process. The change in estimates is a result of additional information, changes in collection expectations or actual cash collections received in the current period.

(f) Represents revenue based on a percentage of gross profits for sales of NexoBrid to BARDA, pursuant to the license agreement between the Company and MediWound (see Note 11).

4. Selected Balance Sheet Components

Inventory

Inventory consisted of the following:

(In thousands)	**June 30, 2023**	**December 31, 2022**
Raw materials	$ 12,847	$ 15,101
Work-in-process	863	832
Finished goods	173	53
Total inventory	$ 13,883	$ 15,986

Property and Equipment

Property and Equipment, net consisted of the following:

(In thousands)	June 30, 2023	December 31, 2022
Machinery and equipment	$ 5,544	$ 5,041
Furniture, fixtures and office equipment	1,710	1,710
Computer equipment and software	8,308	8,224
Leasehold improvements	14,896	13,689
Construction in process	13,148	5,438
Financing right-of-use lease	18	37
Total property and equipment, gross	43,624	34,139
Less accumulated depreciation	(20,216)	(18,302)
Total property and equipment, net	$ 23,408	$ 15,837

Depreciation expense for the three and six months ended June 30, 2023 was $1.0 million and $2.0 million, respectively, and $1.1 million and $1.9 million, respectively, for the same periods in 2022.

Intangible Assets

Intangible assets, net consisted of the following:

			June 30, 2023			December 31, 2022		
(In thousands)	Useful Life (in years)	Amortization Method	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
NexoBrid license	12	Straight-line	$ 7,500	$ (312)	$ 7,188	$ 7,500	$ —	$ 7,500

Amortization expense for the three and six months ended June 30, 2023 was $0.2 million and $0.3 million, respectively.

Future amortization expense of intangible assets as of June 30, 2023 is estimated to be as follows:

(In thousands)	Amount
Remainder of 2023	$ 313
2024	625
2025	625
2026	625
2027	625
Thereafter	4,375
Total	$ 7,188

Accrued Expenses

Accrued Expenses consisted of the following:

(In thousands)	June 30, 2023	December 31, 2022
Bonus-related compensation	$ 5,090	$ 7,132
Employee-related accruals	3,436	3,101
Insurance reimbursement-related liabilities	5,160	5,030
Other accrued expenses	285	927
Total accrued expenses	$ 13,971	$ 16,190

5. Leases

The Company leases facilities in Ann Arbor, Michigan and Cambridge, Massachusetts. The Ann Arbor facility includes office space, and the Cambridge facilities include clean rooms, laboratories for MACI and Epicel manufacturing, and office space. The Company also leases offsite warehouse space, and other computer-related equipment.

With respect to the Ann Arbor facility, in March 2023, the Company entered into an amendment to that lease extending its term until April 30, 2025. Monthly contractual payments are expected to range from $17,000 to $18,000.

On January 28, 2022, the Company entered into a lease agreement (the "Burlington Lease") to lease approximately 126,000 square feet of to-be-constructed manufacturing, laboratory and office space in Burlington, Massachusetts (the "Premises"). Once constructed, the Premises will serve as the Company's new corporate headquarters and primary manufacturing facility.

In April 2023, in connection with the Burlington Lease, the Company entered into a construction escrow agreement (the "Construction Escrow Agreement") with the facility's landlord and an escrow agent. Pursuant to the terms of the Construction Escrow Agreement, in April 2023, the Company began funding, into an escrow account maintained by the escrow agent, a portion of its share of tenant improvement construction costs at the facility, which are designated as restricted cash. At the same time, the facility's landlord began funding a portion of its tenant improvement allowance through a separate escrow account. To date, the Company has transferred into its escrow account 50% of its required cost amount, or approximately $28.3 million. The Company anticipates funding the remaining 50% of its required cost amount in late 2023 or early 2024.

The term of the Burlington Lease began on June 1, 2023, (the "Commencement Date"), when the Company gained control of and commenced tenant improvement work at the Premises. The Company's obligation to pay rent for the Premises will begin on the earlier of: 13 months from the Commencement Date; or the date on which the Company first occupies the Premises to conduct operations (the "Rent Commencement Date"). The initial term of the Lease is 144 months following the Rent Commencement Date. The Company has a one-time option to extend the term of the Lease for an additional 10 years, exercisable under certain conditions and at a market rate determined in accordance with the Burlington Lease.

The annual base rent of the Burlington Lease is initially $57 per square foot per year, subject to annual increases of 2.5%. Monthly contractual payments are expected to range from $0.6 million to $0.8 million. Additionally, the Company is responsible for reimbursing the landlord for the Company's share of the Premises' property taxes and certain other operating expenses. The Burlington Lease also provides for a tenant improvement allowance from the landlord in an amount equal to $200 per square foot of the Premises, or approximately $24.4 million. The tenant improvement allowance will be used towards the design and construction of the tenant improvements made to the Premises, subject to the terms set forth in the Burlington Lease.

The Company was not involved in the initial construction of the core and shell of the building. On June 1, 2023, the Company gained control of the Premises to begin construction of its tenant improvements. As such, the corresponding right-of-use asset and lease liability of $35.5 million was recorded on the Company's condensed consolidated balance sheet. As there was not an implicit rate within the lease available, the Company estimated the incremental borrowing rate of 7.7%, based on the rate of interest the Company would have to pay to borrow a similar amount on a collateralized basis over a similar term. The lease term of 13.1 years does not include the lease extension option, as the Company is not reasonably certain to exercise that option.

In January 2022, in connection with the execution of the Burlington Lease, the Company issued a letter of credit collateralized by cash deposits of approximately $6.0 million. Subsequent to the execution of the Revolving Credit Agreement on July 29, 2022 (see Note 8, "Revolving Credit Agreement" for further details), the letter of credit is issued under the sub-facility limit of the Revolving Credit Agreement. Such letter of credit shall be reduced to approximately $4.2 million and $1.8 million at the conclusion of the third and sixth lease years, respectively, provided certain conditions set forth in the Burlington Lease are satisfied.

For the three and six months ended June 30, 2023 and 2022, lease expense of less than $0.1 million was recorded related to short-term leases. For the three and six months ended June 30, 2023, the Company recognized $2.3 million and $4.0 million, respectively, of operating lease expense and $1.7 million and $3.5 million, respectively, for the same period in 2022. For the three and six months ended June 30, 2023 and 2022, the Company recognized less than $0.1 million of financing lease expense.

Operating and finance lease assets and liabilities are as follows:

(In thousands)	Classification	June 30, 2023	December 31, 2022
Assets			
Operating	Right-of-use assets	$ 75,063	$ 41,535
Finance	Property and equipment, net	18	37
Total leased assets		$ 75,081	$ 41,572
Liabilities			
Current			
Operating	Current portion of operating lease liabilities	$ 7,218	$ 4,302
Finance	Other current liabilities	21	41
Non-current			
Operating	Operating lease liabilities	$ 76,144	$ 43,268
Total leased liabilities		$ 83,383	$ 47,611

Future minimum lease payments under non-cancellable leases as of June 30, 2023 are as follows:

(In thousands)	Operating Leases	Finance Leases	Total
Remainder of 2023	$ 3,576	$ 21	$ 3,597
2024	10,743	—	10,743
2025	13,677	—	13,677
2026	13,969	—	13,969
2027	14,351	—	14,351
Thereafter	103,229	—	103,229
Total lease payments	$ 159,545	$ 21	$ 159,566
Less: tenant improvement allowances	(25,167)	—	(25,167)
Less: interest	(51,016)	—	(51,016)
Total leased liabilities	$ 83,362	$ 21	$ 83,383

6. Investments

Marketable debt securities held by the Company are classified as available-for-sale pursuant to ASC 320, *Investments – Debt and Equity Securities*, and carried at fair value in the accompanying condensed consolidated balance sheets on a settlement date basis. The following tables summarize the gross unrealized gains and losses of the Company's marketable securities:

	June 30, 2023				
		Gross Unrealized			
(In thousands)	Amortized Cost	Gains	Losses	Credit Losses	Estimated Fair Value
Commercial paper	$ 12,494	$ —	$ (15)	$ —	$ 12,479
Corporate notes	43,864	—	(492)	—	43,372
U.S. government securities	2,476	—	(1)	—	2,475
U.S. government agency bonds	17,583	—	(116)	—	17,467
	$ 76,417	$ —	$ (624)	$ —	$ 75,793
Classified as:					
Short-term investments					$ 54,808
Long-term investments					20,985
					$ 75,793

(In thousands)	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Credit Losses	Estimated Fair Value
Commercial paper	$ 15,707	$ —	$ (101)	$ —	$ 15,606
Corporate notes	52,159	—	(831)	—	51,328
U.S. government agency bonds	21,545	—	(46)	—	21,499
	$ 89,411	$ —	$ (978)	$ —	$ 88,433
Classified as:					
Short-term investments					$ 68,471
Long-term investments					19,962
					$ 88,433

As of June 30, 2023 and December 31, 2022, all marketable securities held by the Company had remaining contractual maturities of three years or less. There have been no impairments of the Company's assets measured and carried at fair value during the three and six months ended June 30, 2023 and 2022.

7. Fair Value Measurements

The Company's fair value measurements are classified and disclosed in one of the following three categories:

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

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The commercial paper, corporate notes, U.S. government securities, and U.S. government agency bonds are classified as Level 2 as they were valued based upon quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. There were no transfers into or out of Level 3 from December 31, 2022 to June 30, 2023.

The following table summarizes the valuation of the Company's financial instruments that are measured at fair value on a recurring basis:

(In thousands)	June 30, 2023				December 31, 2022			
	Total	Fair value measurement category			Total	Fair value measurement category		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets:								
Money market funds	$ 7,620	$ 7,620	$ —	$ —	$ 1,262	$ 1,262	$ —	$ —
Commercial paper	12,479	—	12,479	—	15,606	—	15,606	—
Corporate notes	43,372	—	43,372	—	51,328	—	51,328	—
U.S. government securities [a]	22,382	—	22,382	—	—	—	—	—
U.S. government agency bonds [b]	17,467	—	17,467	—	27,976	—	27,976	—
	$ 103,320	$ 7,620	$ 95,700	$ —	$ 96,172	$ 1,262	$ 94,910	$ —

[a] Approximately $19.9 million of U.S. government securities had an original maturity of 90 days or less and were recorded as a cash equivalent as of June 30, 2023.

[b] Approximately $6.5 million of U.S. government agency bonds had an original maturity of 90 days or less and were recorded as a cash equivalent as of December 31, 2022.

The fair values of the cash equivalents and marketable securities are based on observable market prices. The Company's accounts receivables, accounts payable and accrued expenses are valued at cost, which approximates fair value.

8. Revolving Credit Agreement

On July 29, 2022, the Company, as borrower, entered into a $150.0 million five-year senior secured revolving credit agreement by and among the Company, the other loan parties thereto, the lenders party thereto, and JPMorgan Chase Bank, N.A., as the administrative agent (the "Revolving Credit Agreement"). The Revolving Credit Agreement includes a $15.0 million sub-facility for the issuance of letters of credit, of which the Company is utilizing approximately $6.2 million. Amounts available under the Revolving Credit Agreement are for the working capital needs and other general corporate purposes of the Company. The Company incurred and capitalized approximately $1.1 million of debt issuance costs related to the Revolving Credit Agreement.

Outstanding borrowings under the Revolving Credit Agreement bear interest, with pricing based from time to time at the Company's election at (i) the Secured Overnight Financing Rate ("SOFR") plus 0.10% plus a spread ranging from 1.25% to 2.50% as determined by the Company's Total Net Leverage Ratio (as defined in the Revolving Credit Agreement) or (ii) the alternative base rate (as defined in the Revolving Credit Agreement) plus a spread ranging from 0.25% to 1.50% as determined by the Company's Total Net Leverage Ratio. The Revolving Credit Agreement also includes a commitment fee, which ranges from 0.20% to 0.25% as determined by the Company's Total Net Leverage Ratio.

The Company is permitted to voluntarily prepay borrowings under the Revolving Credit Agreement, in whole or in part, without premium or penalty. On any business day on which the total amount of outstanding Revolving Loans (as defined in the Revolving Credit Agreement) and letters of credit exceeds the total Revolving Commitments (as defined in the Revolving Credit Agreement), the Company must prepay the Revolving Loans in an amount equal to such excess. As of June 30, 2023, there are no outstanding borrowings under the Revolving Credit Agreement.

The Revolving Credit Agreement contains a number of affirmative, negative, reporting and financial covenants, in each case subject to certain exceptions and materiality thresholds. The Revolving Credit Agreement requires the Company to be in quarterly compliance, measured on a trailing four quarter basis, with a financial covenant. The maximum Total Net Leverage Ratio (as defined in the Revolving Credit Agreement is 3.50 to 1.00. The Company may elect to increase the maximum Total Net Leverage Ratio to 4.00 to 1.00 for a period of four consecutive quarters in connection with a Permitted Acquisition (as defined in the Revolving Credit Agreement).

The Revolving Credit Agreement contains usual and customary restrictions on the ability of the Company and its subsidiaries to: (i) incur additional indebtedness (ii) create liens; (iii) consolidate, merge, sell or otherwise dispose of all, or substantially all, of its assets; (iv) sell certain assets; (v) pay dividends on, repurchase or make distributions in respect of capital stock or make other restricted payments; (vi) make certain investments; (vii) repay subordinated indebtedness prior to stated maturity; and (viii) enter into certain transactions with its affiliates.

Obligations under the Revolving Credit Agreement are secured by first priority liens over substantially all of the assets of Vericel Corporation, excluding certain subsidiaries (subject to customary exclusions set forth in the Revolving Credit Agreement and the other transaction documents).

9. Stock-Based Compensation

The Vericel Corporation 2022 Omnibus Incentive Plan ("2022 Plan") was approved on April 27, 2022, and provides incentives through the grant of stock options, stock appreciation rights, restricted stock awards and restricted stock units. The exercise price of stock options granted under the 2022 Plan shall not be less than the fair market value of the Company's common stock on the date of grant. The 2022 Plan replaced the 1992 Stock Option Plan, the 2001 Stock Option Plan, the Amended and Restated 2004 Equity Incentive Plan, the 2009 Second Amended and Restated Omnibus Incentive Plan, the 2017 Omnibus Incentive Plan, and the Amended and Restated 2019 Omnibus Incentive Plan (collectively the "Prior Plans"), and no new grants have been granted under the Prior Plans after approval of the 2022 Plan. However, the expiration or forfeiture of options previously granted under the Prior Plans will increase the number of shares available for issuance under the 2022 Plan.

Stock Compensation Expense

Non-cash stock-based compensation expense (service-based stock options, restricted stock units and employee stock purchase plan) is summarized in the following table:

(in thousands)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Cost of product sales	$ 796	$ 1,035	$ 1,681	$ 2,153
Research and development	993	1,520	1,970	2,870
Selling, general and administrative	6,972	8,253	13,841	15,316
Total non-cash stock-based compensation expense	$ 8,761	$ 10,808	$ 17,492	$ 20,339

Service-Based Stock Options

During the three and six months ended June 30, 2023, the Company granted service-based options to purchase common stock of 67,760 and 535,717, respectively, and 170,060 and 1,163,649, respectively, for the same periods in 2022. The weighted-average grant-date fair value of service-based options granted during the three and six months ended June 30, 2023 was $19.30 and $18.41 per option, respectively, and $19.25 and $20.74, respectively, for the same periods in 2022.

Restricted Stock Units

During the three and six months ended June 30, 2023, the Company granted 32,816 and 529,321 restricted stock units, respectively, and 39,746 and 382,768, respectively, for the same periods in 2022. The weighted-average grant-date fair value of restricted stock units granted during the three and six months ended June 30, 2023 was $32.16 and $29.97 per unit, respectively, and $31.94 and $34.65, respectively, for the same periods in 2022.

10. Net Loss Per Common Share

A summary of net loss per common share is presented below:

(Amounts in thousands, except per share amounts)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Net loss	$ (5,020)	$ (8,963)	$ (12,515)	$ (16,054)
Basic weighted-average common shares outstanding	47,572	47,117	47,480	47,052
Effect of dilutive stock options and restricted stock units	—	—	—	—
Diluted weighted-average common shares outstanding	47,572	47,117	47,480	47,052
Basic loss per common share	$ (0.11)	$ (0.19)	$ (0.26)	$ (0.34)
Diluted loss per common share	$ (0.11)	$ (0.19)	$ (0.26)	$ (0.34)
Anti-dilutive shares excluded from diluted net loss per common share:				
Stock options	6,876	6,586	6,876	6,586
Restricted stock units	939	636	939	636

11. NexoBrid License and Supply Agreements

On May 6, 2019, the Company entered into exclusive license and supply agreements with MediWound to commercialize NexoBrid in North America. The FDA subsequently approved a Biologics License Application ("BLA") for the product on December 28, 2022. NexoBrid is a topically-administered biological product, which contains proteolytic enzymes and is indicated for the removal of eschar in adults with deep partial-thickness and/or full thickness thermal burns.

Pursuant to the terms of the license agreement, following the FDA approval of NexoBrid, MediWound transferred the BLA to Vericel effective February 20, 2023. Both MediWound and Vericel, under the supervision of a Central Steering Committee comprised of members of both companies will continue to guide the development of NexoBrid in North America (the "Central Steering Committee"). NexoBrid is approved in the European Union ("EU") and other international markets and has been designated as an orphan biologic in the U.S., EU and other international markets.

In May 2019, the Company paid MediWound $17.5 million in consideration for the license, which was recorded as research and development expense during 2019. Pursuant to the terms of the license agreement, in February 2023, the Company tendered to MediWound a $7.5 million regulatory milestone payment following the FDA's BLA approval of NexoBrid on December 28, 2022. The Company recorded the $7.5 million milestone payment for the licensing rights to commercially sell NexoBrid in the U.S., as an intangible asset (see Note 4, "Selected Balance Sheet Components" for further details).

The Company is additionally obligated to pay MediWound up to $125.0 million, which is contingent upon meeting certain sales milestones. The first sales milestone payment of $7.5 million would be triggered when annual net sales of NexoBrid or improvements to it in North America exceed $75.0 million. As of June 30, 2023, the sales milestone payments are not yet probable and therefore, not recorded as a liability. The Company also will pay MediWound tiered royalties on net sales ranging from mid-high single-digit to mid-teen percentages, subject to customary reductions. Pursuant to the terms of the Company's supply agreement with MediWound, MediWound will manufacture NexoBrid for the Company on a unit price basis, which may be increased pursuant to the terms of the supply agreement. MediWound is obligated to supply the Company with NexoBrid for sale in North America on an exclusive basis for the first five years of the term of the supply agreement. Under the supply agreement, the Company possesses the option to extend the initial term of the agreement by an additional 24 months, which it did in May 2022. Under the supply agreement, the Company is permitted to establish an alternate source of supply in certain circumstances, including the event of a supply failure.

Additionally, beginning in 2020 BARDA procured quantities of NexoBrid from MediWound for use as a medical countermeasure in the event of a mass casualty emergency in the U.S. involving thermal burns. The initial, quarterly, procurement of NexoBrid by BARDA under its agreement with MediWound completed during the third quarter of 2022. As a part of BARDA's commitment to procure NexoBrid, the Company has received a percentage of gross profit for sales directly to BARDA. As of June 30, 2023, the Company did not hold a direct contract or distribution agreement with BARDA, or take title to the product procured by BARDA.

On May 9, 2023, MediWound announced BARDA's award of additional funding under the parties' existing agreement, $3 million of which will support the replacement of NexoBrid, previously procured for emergency response preparedness, which has since expired. Pursuant to the terms of the Company's license agreement with MediWound, the Company will recognize revenue based on a percentage of gross profits, minus a percentage of net sales, on any sales of NexoBrid directly to BARDA, upon delivery, pursuant to this additional award.

12. Commitments and Contingencies

From time to time, the Company could be a party to various legal proceedings arising in the ordinary course of business. The costs and outcome of litigation, regulatory, investigatory or other proceedings cannot be predicted with certainty, and some lawsuits, claims, actions or proceedings may be disposed of unfavorably to the Company and could have a material adverse effect on the Company's results of operations or financial condition. In addition, intellectual property disputes often have a risk of injunctive relief which, if imposed against the Company, could materially and adversely affect its financial condition or results of operations. If a matter is both probable to result in a material liability and the amount of loss can be reasonably estimated, the Company estimates and discloses the possible material loss or range of loss. If such loss is not probable or cannot be reasonably estimated, a liability is not recorded in its condensed consolidated financial statements.

As of June 30, 2023, the Company has no material ongoing litigation in which the Company was a party or any material ongoing regulatory or other proceedings and had no knowledge of any investigations by government or regulatory authorities in which the Company is a target that could have a material adverse effect on its current business.

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

Overview

Vericel Corporation is a fully-integrated, commercial-stage biopharmaceutical company and a leader in advanced therapies for the sports medicine and severe burn care markets. We currently market two U.S. Food and Drug Administration ("FDA") approved autologous cell therapy products and one FDA-approved specialty biologic product in the U.S. MACI® is an autologous cellularized scaffold product indicated for the repair of symptomatic, single or multiple full-thickness cartilage defects of the knee with or without bone involvement in adults. Epicel® is a permanent skin replacement Humanitarian Use Device ("HUD") for the treatment of adult and pediatric patients with deep-dermal or full-thickness burns comprising greater than or equal to 30 percent of total body surface area ("TBSA"). We also hold an exclusive license from MediWound Ltd. ("MediWound") for North American rights to NexoBrid® (anacaulase-bcdb). On December 28, 2022, the FDA approved a Biologics License Application ("BLA") for NexoBrid, granting a license for commercial use in the U.S. NexoBrid is a topically-administered biological product containing proteolytic enzymes and is indicated for the removal of eschar in adults with deep partial-thickness and/or full thickness thermal burns. Following NexoBrid's approval, we are conducting cross-functional commercial launch activities for the product, including education, training and engagement activities and the deployment of additional NexoBrid account managers. We have received the first lot of NexoBrid finished product from MediWound for the U.S. commercial market, which currently is warehoused at our third-party logistics distributor. Although this NexoBrid finished product has met all required release criteria for distribution in the U.S., we are unable to release this product into the commercial channel at this time due to a deviation associated with a third-party testing lab used during MediWound's manufacturing process. A detailed risk assessment has concluded that the deviation presents no incremental risk to the finished product's quality and safety and we are actively engaged with MediWound and the FDA to address this matter. Although future manufacturing of NexoBrid for the U.S. market will not be impacted because the at-issue test will be conducted directly by MediWound, absent the FDA allowing the commercial release of the finished product affected by the deviation, we expect to begin commercial sales of future NexoBrid lots during the first quarter of 2024. The FDA's evaluation of the deviation will not affect the $3 million committed by BARDA for the replacement of NexoBrid previously procured for emergency response preparedness, which has since expired.

COVID-19

On May 11, 2023, the U.S. Department of Health and Human Services announced the expiration of the federal Public Health Emergency for COVID-19. At this juncture, the pandemic's effects on our business and results of operations have largely moderated and we have begun to see a return to more normal operations. Should a resurgence of COVID-19 occur, or new virus variants emerge, it could result in additional disruptions that could impact our business and operations in the future, including U.S. hospital or surgical center staffing shortages, periodic cancellation or delay of elective MACI surgical procedures, intermittent restrictions on the ability of our personnel to travel and access customers for selling, marketing, training, case support and product development feedback, delays in approvals by regulatory bodies, delays in product development efforts, and additional government requirements or other incremental mitigation efforts that may further impact our capacity to manufacture, sell and support the use of our products.

The War in Ukraine

The ongoing war between Russia and Ukraine and the related sanctions and other penalties imposed by countries across the globe against Russia are continuing to create substantial uncertainty in the global economy and have contributed to heightened inflation and supply chain disruptions. While we do not have operations in Russia or Ukraine and do not have exposure to distributors, or third-party service providers in Russia or Ukraine, we are unable to predict the ultimate impact that these actions will have on the global economy or on our financial condition, results of operations, and cash flows as of the date of these condensed consolidated financial statements.

Manufacturing

We have a cell manufacturing facility in Cambridge, Massachusetts, which is used for U.S. manufacturing and distribution of MACI and Epicel. The manufacturing process for NexoBrid is conducted by MediWound, primarily at manufacturing locations in Israel. Certain raw materials utilized in NexoBrid's manufacture, including the supply of the active ingredient bromelain, are obtained from Taiwan.

On July 1, 2023, we renewed our long-term supply agreement with Matricel GmbH ("Matricel") for the supply of ACI-Maix collagen membranes used in the manufacture of MACI (the "Matricel Supply Agreement"). In the event Matricel is unable to supply the membranes, we may license the technology and procure the membranes from another source. The Matricel Supply Agreement provides that Matricel shall supply the ACI-Maix membranes exclusively to us during the term of the agreement. The Matricel Supply Agreement is effective until December 31, 2030, with an option to extend its term for three additional years to December 31, 2033. Thereafter, the Matricel Supply Agreement may be renewed for additional three-year periods.

Product Portfolio

Our marketed products include two FDA-approved autologous cell therapies: MACI, a third-generation autologous cellularized scaffold product indicated for the repair of symptomatic, single or multiple full-thickness cartilage defects of the knee with or without bone involvement in adults; and Epicel, a permanent skin replacement for the treatment of adult and pediatric patients with deep-dermal or full-thickness burns comprising greater than or equal to 30 percent TBSA. Both autologous cell therapy products are currently manufactured and marketed in the U.S. Our product portfolio also includes a FDA-approved specialty biologic, NexoBrid, which is a topically-administered biological orphan product containing proteolytic enzymes that is indicated for eschar removal in adults with deep partial-thickness and/or full-thickness burns. We have entered into exclusive license and supply agreements with MediWound to commercialize NexoBrid in North America.

MACI

MACI is a third-generation autologous chondrocyte implantation ("ACI") product indicated for the repair of symptomatic, single or multiple full-thickness cartilage defects of the knee with or without bone involvement in adults.

Our target audiences are orthopedic surgeons who self-identify and/or have formal specialty training in sports medicine, and a subpopulation of general orthopedic surgeons who perform a high volume of cartilage repair procedures involving the knee. As of the date of this report, we employ approximately 75 MACI sales representatives to enable the sales force to reach our target audience. The team is divided into geographic regions, each managed by a Regional Manager and led by a Vice President of National MACI Sales. Most private payers have a medical policy that covers treatment with MACI with the top 30 largest commercial payers having a formal medical policy for MACI or ACI in general. With respect to private commercial payers that have not yet approved a medical policy for MACI, we often obtain approval on a case-by-case basis.

MACI is currently implanted into the patient's cartilage defect through an open surgical procedure. We are currently evaluating the potential for the arthroscopic delivery of MACI to the cartilage defect – a procedure in which a surgeon can evaluate, prepare and treat the cartilage defect under direct arthroscopic visualization using specialized instruments delivered through a number of smaller incisions or portals. The arthroscopic delivery of MACI could increase the ease of MACI's use for physicians and reduce both the length of the procedure as well as procedure-induced trauma, ultimately resulting in a reduction of a patient's post-operative pain and accelerating a patient's recovery. We have designed and are currently developing novel and specialized instruments to be used in and help facilitate such a procedure. We have recently discussed with the FDA a non-clinical regulatory strategy to support the potential inclusion of arthroscopic delivery in MACI's approved labeling. Specifically, following a Type C meeting with the FDA, we submitted a protocol for a MACI arthroscopic delivery human factors validation study and are on track to initiate the study during the third quarter of 2023.

We also are evaluating the feasibility and potential market opportunity involved in delivering MACI treatment to patients suffering from cartilage damage in the ankle. We believe that this potential lifecycle enhancement and indication expansion for MACI will require conducting an additional randomized clinical trial concerning the product's use in the ankle. Earlier this year, we conducted pre-IND interactions with the FDA concerning our clinical development program for MACI to treat cartilage injuries in the ankle, and based on feedback from the FDA, our team is actively working to finalize our non-clinical testing and propose a clinical development plan/protocol to FDA for review.

Epicel

Epicel is a permanent skin replacement for deep-dermal or full-thickness burns comprising greater than or equal to 30 percent TBSA. Epicel is regulated by the Center for Biologics Evaluation and Research ("CBER") of the FDA under medical device authorities, and is the only FDA-approved cultured epidermal autograft product available for large total surface area burns in both adult and pediatric patients. Epicel was designated as a HUD in 1998 and a Humanitarian Device Exemption ("HDE") application for the product was submitted in 1999. HUDs are devices that are intended for diseases or conditions that affect fewer than 8,000 individuals annually in the U.S. Under an HDE approval, a HUD cannot be sold for an amount that exceeds the cost of research and development, fabrication and distribution unless certain conditions are met. A HUD is eligible to be sold for profit after receiving HDE approval if the device meets certain eligibility criteria, including where the device is intended for the treatment of a disease or condition that occurs in pediatric patients and such device is labeled for use in pediatric patients. If the FDA determines that a HUD meets the eligibility criteria, the HUD is permitted to be sold for profit so long as the number of devices distributed in any calendar year does not exceed the Annual Distribution Number ("ADN"). The ADN is defined as the number of devices reasonably needed to treat a population of 8,000 individuals per year in the U.S.

On February 18, 2016, the FDA approved our HDE supplement to revise the labeled indications of use for Epicel to specifically include pediatric patients. The revised product label also now specifies that the probable benefit of Epicel, mainly related to survival, was demonstrated in two Epicel clinical experience databases and a physician-sponsored study comparing outcomes in patients with large burns treated with Epicel relative to standard care. Because of the change in the label to specifically include use in pediatric patients, Epicel is no longer subject to the HDE profit restrictions. In conjunction with adding the pediatric labeling and meeting the pediatric eligibility criteria, the FDA has determined the ADN number for Epicel to be 360,400 which is approximately 40 times larger than the volume of grafts sold in 2022. As of the date of this report, our burn care field force consists of individual sales and clinical representatives that regularly engage with our target audience. The team is divided into geographic regions, each managed by a Regional Manager and led by a Vice President of National Burn Care Sales.

NexoBrid

Our portfolio of commercial-stage products now includes NexoBrid (anacaulase-bcdb), a topically-administered biological product containing proteolytic enzymes. The FDA approved NexoBrid on December 28, 2022, and the product is indicated for the removal of eschar in adults with deep partial-thickness and/or full thickness thermal burns. We have entered into exclusive license and supply agreements with MediWound to commercialize NexoBrid in North America.

NexoBrid is approved in the European Union ("EU") and other international markets and has been designated as an orphan biologic in the U.S., EU and other international markets. NexoBrid has the potential to change the standard of care for eschar removal with respect to hospitalized burn patients and treat a significant addressable market in the U.S. With respect to NexoBrid, of the approximately 40,000 burn patients that are hospitalized in the U.S. each year, the majority, over 30,000, have thermal burns and will likely require some level of eschar removal. NexoBrid's FDA approval expands our burn care franchise's total addressable market, which will permit us to treat a significantly larger segment of hospitalized burn patients than with Epicel alone. The expansion of our target addressable market supports a broader commercial footprint, and we believe that this may help drive both increased NexoBrid use as well as increased Epicel awareness throughout the burn care space. With NexoBrid's approval, our cross-functional commercial launch activities for the product are underway, including education, training, and engagement activities.

The manufacturing process for NexoBrid is conducted by MediWound, primarily at manufacturing locations in Israel. Certain raw materials utilized in NexoBrid's manufacture, including the supply of the active ingredient bromelain are obtained from Taiwan. We have received the first lot of NexoBrid finished product from MediWound for the U.S. commercial market, which currently is warehoused at our third-party logistics distributor. Although this NexoBrid finished product has met all required release criteria for distribution in the U.S., we are unable to release this product into the commercial channel at this time due to a deviation associated with a third-party testing lab used during MediWound's manufacturing process. A detailed risk assessment has concluded that the deviation presents no incremental risk to the finished product's quality and safety and we are actively engaged with MediWound and the FDA to address this matter. Although future manufacturing of NexoBrid for the U.S. market will not be impacted because the at-issue test will be conducted directly by MediWound, absent the FDA allowing the commercial release of the finished product affected by the deviation, we expect to begin commercial sales of future NexoBrid lots during the first quarter of 2024. The FDA's evaluation of the deviation will not affect the $3 million committed by BARDA for the replacement of NexoBrid previously procured for emergency response preparedness, which has since expired.

Results of Operations

The following is a summary of our condensed consolidated results of operations:

	Three Months Ended June 30,				Six Months Ended June 30,			
(In thousands)	2023	2022	Change $	Change %	2023	2022	Change $	Change %
Total revenue	$ 45,922	$ 37,046	$ 8,876	24.0 %	$ 86,939	$ 73,120	$ 13,819	18.9 %
Cost of product sales	15,981	14,192	1,789	12.6 %	30,478	26,814	3,664	13.7 %
Gross profit	29,941	22,854	7,087	31.0 %	56,461	46,306	10,155	21.9 %
Research and development	5,253	4,792	461	9.6 %	10,465	9,652	813	8.4 %
Selling, general and administrative	30,649	27,144	3,505	12.9 %	60,134	53,009	7,125	13.4 %
Total operating expenses	35,902	31,936	3,966	12.4 %	70,599	62,661	7,938	12.7 %
Loss from operations	(5,961)	(9,082)	3,121	(34.4)%	(14,138)	(16,355)	2,217	(13.6)%
Total other income	941	119	822	690.8 %	1,623	301	1,322	439.2 %
Net loss	$ (5,020)	$ (8,963)	$ 3,943	(44.0)%	$ (12,515)	$ (16,054)	$ 3,539	(22.0)%

Comparison of the Periods Ended June 30, 2023 and 2022

Total Revenue

Revenue by product is as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
(In thousands)	2023	2022	Change $	Change %	2023	2022	Change $	Change %
MACI	$ 36,336	$ 28,613	$ 7,723	27.0 %	$ 70,526	$ 54,607	$ 15,919	29.2 %
Epicel	9,586	8,213	1,373	16.7 %	16,413	18,071	(1,658)	(9.2)%
NexoBrid	—	220	(220)	(100.0)%	—	442	(442)	(100.0)%
Total revenue	$ 45,922	$ 37,046	$ 8,876	24.0 %	$ 86,939	$ 73,120	$ 13,819	18.9 %

Total revenue increase for the three and six months ended June 30, 2023 compared to the same periods in 2022, was driven primarily by higher MACI volume and price growth.

Seasonality. As a result of the uncertainty and other impacts of the COVID-19 pandemic and the resulting shifts of timing in some revenue, our historically observable seasonality of revenues has been impacted or obscured in 2022 and 2023 and potentially beyond. At this juncture the pandemic's effects on our business and results of operations have largely moderated, although there continues to be a level of uncertainty whether MACI seasonality will return to pre-pandemic patterns. In the last five years through 2022, MACI sales volumes from the first through the fourth quarter on average represented 20% (18%-21% range), 21% (16%-24% range), 24% (21%-26% range) and 35% (33%-38% range) respectively, of total annual volumes. Historically, MACI orders are normally stronger in the fourth quarter due to several factors including the satisfaction by patients of insurance deductible limits and the time of year patients prefer to start rehabilitation. Due to the low incidence and variable occurrence of severe burns, Epicel revenue has inherent variability from quarter-to-quarter and does not exhibit significant seasonality.

Gross Profit

Gross profit increase for the three and six months ended June 30, 2023, compared to the same periods in 2022, was driven by higher MACI volume and price growth, which more than offset higher employee costs, raw material price increases and higher external storage and manufacturing facility costs.

Research and Development Expenses

The following table summarizes research and development expenses, which include materials, professional fees and an allocation of employee-related salary and fringe benefit costs for our research and development projects:

	Three Months Ended June 30,				Six Months Ended June 30,			
(In thousands)	**2023**	**2022**	**Change $**	**Change %**	**2023**	**2022**	**Change $**	**Change %**
MACI	$ 3,319	$ 2,972	$ 347	11.7 %	$ 6,392	$ 5,961	$ 431	7.2 %
Epicel	914	1,238	(324)	(26.2)%	2,085	2,458	(373)	(15.2)%
NexoBrid	1,020	582	438	75.3 %	1,988	1,233	755	61.2 %
Total research and development expenses	$ 5,253	$ 4,792	$ 461	9.6 %	$ 10,465	$ 9,652	$ 813	8.4 %

Research and development expenses increased for the three and six months ended June 30, 2023 compared to the same periods in 2022, primarily due to lower reimbursement of expenses from MediWound related to NexoBrid BLA resubmission that occurred in 2022 and MACI arthroscopic program costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended June 30, 2023 were $30.6 million, compared to $27.1 million for the same period in 2022. The increase in selling, general and administrative expenses was primarily due to higher marketing expenses, external costs and lease expense associated with the Burlington Lease.

Selling, general and administrative expenses for the six months ended June 30, 2023 were $60.1 million, compared to $53.0 million for the same period in 2022. The increase in selling, general and administrative expenses was primarily due to higher headcount and employee expenses, additional travel and in-person events across the commercial organization, and an increase in marketing and external expenses, which were partially offset by lower stock-based compensation expenses.

Total Other Income

The change in other income for the three and six months ended June 30, 2023, compared to the same periods in 2022 was due primarily to fluctuations in the rates of return on our investments in various marketable debt securities slightly offset by interest expense related to our Revolving Credit Agreement.

Stock-based Compensation Expense

Non-cash stock-based compensation expense is summarized in the following table:

	Three Months Ended June 30,				Six Months Ended June 30,			
(In thousands)	**2023**	**2022**	**Change $**	**Change %**	**2023**	**2022**	**Change $**	**Change %**
Cost of product sales	$ 796	$ 1,035	$ (239)	(23.1)%	$ 1,681	$ 2,153	$ (472)	(21.9)%
Research and development	993	1,520	(527)	(34.7)%	1,970	2,870	(900)	(31.4)%
Selling, general and administrative	6,972	8,253	(1,281)	(15.5)%	13,841	15,316	(1,475)	(9.6)%
Total non-cash stock-based compensation expense	$ 8,761	$ 10,808	$ (2,047)	(18.9)%	$ 17,492	$ 20,339	$ (2,847)	(14.0)%

The decrease in stock-based compensation expense for the three and six months ended June 30, 2023, compared to the same periods in 2022, was due primarily to fluctuations in stock prices and the mix of service-based options and restricted stock units, which impacts the fair value of the options and restricted stock units awarded and the expense recognized in the period.

Liquidity and Capital Resources

Cash Flows

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

	Six Months Ended June 30,	
(In thousands)	**2023**	**2022**
Net cash provided by operating activities	$ 18,056	$ 6,611
Net cash provided by (used in) investing activities	392	(13,666)
Net cash provided by financing activities	1,302	752
Net increase (decrease) in cash, cash equivalents, and restricted cash	$ 19,750	$ (6,303)

Net Cash Provided by Operating Activities

Our cash, cash equivalents and restricted cash totaled $70.8 million, short-term investments totaled $54.8 million and long-term investments totaled $21.0 million as of June 30, 2023. The $18.1 million of cash provided by operations during the six months ended June 30, 2023 was primarily the result of non-cash charges of $17.5 million related to stock-based compensation expense, $2.5 million of operating lease amortization and $2.3 million in depreciation and amortization expense, offset by a net loss of $12.5 million and a net increase of $8.7 million related to movements in our working capital accounts. The overall increase in cash from our working capital accounts was primarily driven by a decrease in accounts receivable due to cash collections and receipts of tenant improvement allowances, offset by a decrease in accrued expenses due to timing of payments.

Our cash, cash equivalents and restricted cash totaled $62.2 million, short-term investments totaled $44.6 million and long-term investments totaled $23.7 million as of June 30, 2022. The $6.6 million of cash provided by operations during the six months ended June 30, 2022 was primarily the result of non-cash charges of $20.3 million related to stock-based compensation expense, $2.2 million of operating lease amortization, $1.9 million in depreciation and amortization expense, offset by a net loss of $16.1 million and a net decrease of $2.1 million related to movements in our working capital accounts. The overall decrease in cash from our working capital accounts was primarily driven by a decrease in accrued expenses due to timing of payments, a decrease in operating lease liabilities, and an increase in inventory due to increased production needs, offset by a decrease in accounts receivable due to cash collections.

Net Cash Provided By (Used In) Investing Activities

Net cash provided by investing activities during the six months ended June 30, 2023 was the result of $42.0 million of investment sales and maturities, offset by $28.5 million in investment purchases, a $7.5 million regulatory milestone payment to MediWound resulting from the FDA's approval of the NexoBrid BLA, and $5.6 million of property and equipment purchases primarily for manufacturing upgrades and construction in process related to the Burlington Lease.

Net cash used in investing activities during the six months ended June 30, 2022 was the result of $34.9 million in investments purchases and $5.1 million of property and equipment purchases primarily for manufacturing upgrades and leasehold improvements, offset by $26.3 million of investment sales and maturities.

Net Cash Provided by Financing Activities

Net cash provided by financing activities during the six months ended June 30, 2023 was the result of net proceeds from the exercise of stock options and purchases under the employee stock purchase plan of $3.5 million, partially offset by the payment of employee withholding taxes related to the vesting of restricted stock units of $2.2 million.

Net cash provided by financing activities during the six months ended June 30, 2022 was primarily the result of net proceeds from the exercise of stock options and purchases under the employee stock purchase plan of $2.2 million partially offset by payments of employee withholding taxes related to the vesting of restricted stock units of $1.4 million.

Liquidity

Since our acquisition of MACI and Epicel in 2014, our primary focus has been to invest in our existing commercial business with the goal of growing revenue. We have raised significant funds in order to advance and complete our product development and product life-cycle management programs and to market and commercialize our products, including NexoBrid. To date, we have financed our operations primarily through cash received through MACI and Epicel sales, debt, and public and private sales of our equity securities. We may finance our operations through the sales of equity securities, revolver borrowings or other debt financings, in addition to cash generated from operations.

We believe that our current cash on hand, cash equivalents, investments, and available borrowing capacity will be sufficient to support our current operations through at least 12 months from the issuance of the condensed consolidated financial statements included in this report. Although the effects of the COVID-19 pandemic have largely moderated in recent months, our business and operations may be adversely affected in the future if conditions were to worsen. Our actual cash requirements may differ from projections and will depend on many factors, including the level and pace of future research and development efforts, the scope and results of ongoing and potential clinical trials, the costs involved in filing, prosecuting and enforcing patents, the need for additional manufacturing capacity, competing technological and market developments, global macroeconomic conditions, costs associated with possible acquisitions or development of complementary business activities, and the cost to market our products.

As of June 30, 2023, we were not party to any off-balance sheet arrangements.

Sources of Capital

On August 27, 2021, we entered into a Sales Agreement with Leerink Partners (f/k/a SVB Leerink LLC), as sales agent, pursuant to which we may offer and sell up to $200.0 million of shares of our common stock, no par value per share (“ATM Shares”). The ATM Shares to be offered and sold under the Sales Agreement will be issued and sold pursuant to an automatically effective shelf registration statement on Form S-3ASR (File No. 333-259119) filed by us on August 27, 2021, which expires three years from the filing date. We also filed a prospectus supplement relating to the offering and sale of the ATM Shares on August 27, 2021. We are not obligated to make any sales of ATM Shares, and Leerink Partners is not required to sell any specific number or dollar amount of the ATM Shares under the Sales Agreement. As of June 30, 2023, we have sold no shares pursuant to the Sales Agreement.

On July 29, 2022, we entered into a $150.0 million five-year senior secured revolving credit agreement by and among the Company, the other loan parties thereto, the lenders party thereto, and JPMorgan Chase Bank, N.A., as the administrative agent (the “Revolving Credit Agreement”). We have no immediate plans to borrow under the Revolving Credit Agreement, but we may use the facility for working capital needs and other general corporate purposes. As of June 30, 2023, there are no outstanding borrowings under the Revolving Credit Agreement, and we are in compliance with all applicable covenant requirements. See Note 8, “Revolving Credit Agreement” in the accompanying condensed consolidated financial statements for further details.

Contractual Obligations and Commitments

The disclosure of our contractual obligations and commitments is set forth in the heading “Management’s Discussion and Analysis of Financial Conditions and Results of Operations - Contractual Obligations” in our Annual Report on Form 10-K for the year ended December 31, 2022. There have been no material changes, outside of the ordinary course of business, to our contractual obligations and commitments since December 31, 2022, except as noted below.

In April 2023, in connection with the Burlington Lease, we entered into a construction escrow agreement (the “Construction Escrow Agreement”) with the facility’s landlord and an escrow agent. Pursuant to the terms of the Construction Escrow Agreement, in April 2023 we began funding into an escrow account maintained by the escrow agent a portion of our share of tenant improvement construction costs at the facility, which will be designated as restricted cash. At the same time, the facility’s landlord began funding a portion of its tenant improvement allowance through a separate escrow account. To date, we have transferred into our escrow account 50% of our required cost amount, or approximately $28.3 million. We anticipate funding the remaining 50% of our required cost amount in late 2023 or early 2024. Additionally, and in order to support the expansion of our autologous cell manufacturing operations at the new facility in Burlington, we plan to invest in the acquisition and installation of certain specialized manufacturing and laboratory equipment.

On July 1, 2023, we renewed our long-term supply agreement with Matricel for the supply of ACI-Maix collagen membranes used in the manufacture of MACI. Under the terms of the Matricel Supply Agreement, we have committed to annual minimum purchase values totaling approximately €12.5 million over the eight-year term.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect our reported assets, liabilities, revenues, expenses, and related disclosures. Actual results may differ materially from these estimates under different assumptions and conditions.

There have been no material changes to our critical accounting policies and estimates in the six months ended June 30, 2023. For further information, refer to our summary of significant accounting policies and estimates in our Annual Report on Form 10-K filed for the year ended December 31, 2022.

Cautionary Note Regarding Forward-Looking Statements

This report, including the documents incorporated by reference herein, contains certain statements that describe our management's beliefs concerning future business conditions, plans and prospects, growth opportunities and the outlook for our business based upon information currently available. Such statements are "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, and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). Wherever possible, we have identified these forward-looking statements by words such as "will," "may," "anticipates," "believes," "intends," "estimates," "expects," "plans," "projects," "trends," "opportunity," "current," "intention," "position," "assume," "potential," "outlook," "remain," "continue," "maintain," "sustain," "seek," "target," "achieve," "continuing," "ongoing," and similar words or phrases, or future or conditional verbs such as "would," "should," "could," "may," or similar expressions. Among the factors that could cause actual results to differ materially from those set forth in the forward-looking statements include, but are not limited to, uncertainties associated with our expectations regarding future revenue, growth in revenue, market penetration for MACI®, Epicel®, and NexoBrid®, growth in profit, gross margins and operating margins, the ability to continue to scale our manufacturing operations to meet the demand for our cell therapy products, including the timely completion of a new headquarters and manufacturing facility in Burlington, Massachusetts, the ability to achieve or sustain profitability, the expected target surgeon audience, potential fluctuations in sales and volumes and our results of operations over the course of the year, timing and conduct of clinical trial and product development activities, timing and likelihood of the FDA's potential approval of the arthroscopic delivery of MACI to the knee or the use of MACI to treat cartilage defects in the ankle, the estimate of the commercial growth potential of our products and product candidates, competitive developments, changes in third-party coverage and reimbursement, the ultimate timing of the commercial launch of NexoBrid in the United States, physician and burn center adoption of NexoBrid, supply chain disruptions, regulatory decisions or other events affecting MediWound Ltd.'s ability to manufacture and supply NexoBrid to meet customer demand, negative impacts on the global economy and capital markets resulting from the conflict in Ukraine, adverse developments affecting financial institutions, companies in the financial services industry or the financial services industry generally, global geopolitical tensions or record inflation and potential future impacts on our business or the economy generally stemming from a resurgence of COVID-19 or another similar public health emergency. These forward-looking statements are based upon assumptions our management believes are reasonable. Such forward-looking statements are subject to risks and uncertainties, which could cause our actual results, performance and achievements to differ materially from those expressed in, or implied by, these statements, including, among others, the risks and uncertainties listed in our Annual Report under "Part I, Item 1A Risk Factors" and the risk listed in this Quarterly Report under "Part I, Item 1A Risk Factors."

Because our forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control or are subject to change, actual results could be materially different and any or all of our forward-looking statements may turn out to be wrong. Forward-looking statements speak only as of the date made and can be affected by assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in our Annual Report on Form 10-K will be important in determining future results. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. Consequently, we cannot assure you that our expectations or forecasts expressed in such forward-looking statements will be achieved. Except as required by law, we undertake no obligation to publicly update any of our forward-looking or other statements, whether as a result of new information, future events, or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, see Part II, Item 7A. “Quantitative and Qualitative Disclosures About Market Risk,” of our Annual Report on Form 10-K for the year ended December 31, 2022. Our exposures to market risk have not changed materially since December 31, 2022.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer (its Certifying Officers), evaluated the effectiveness of the Company’s disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on the evaluation as of June 30, 2023, the Company’s Certifying Officers concluded that the Company’s disclosure controls and procedures were effective.

The Company has established disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to management of the Company, with the participation of its Certifying Officers, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the three months ended June 30, 2023, there were no material changes made in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act).

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are currently not party to any material legal proceedings, although from time to time we may become involved in disputes in connection with the operation of our business.

Item 1A. Risk Factors

Factors that could cause the Company’s actual results to differ materially from those in this Quarterly Report are any of the risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the SEC on February 23, 2023. Any of these factors could result in a significant or material adverse effect on our results of operations or financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations. As of the date of this Quarterly Report on Form 10-Q, there have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, except as follows.

Adverse developments affecting financial institutions, companies in the financial services industry or the financial services industry generally, such as actual events or concerns involving liquidity, defaults or non-performance, could adversely affect our operations and liquidity.

Actual events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions or other companies in the financial services industry or the financial services industry generally, or concerns or rumors about any events of these kinds, have in the past and may in the future lead to market-wide liquidity problems.

We maintain cash and investments that are held in a number of investment and deposit accounts at leading financial institutions. The amounts held in the deposit accounts are in excess of the insurance coverage offered by the U.S. Department of Treasury, Federal Deposit Insurance Corporation ("FDIC"), and we may in the future, continue to have assets held at financial institutions that exceed the insurance coverage offered by the FDIC, the loss of which would have a severe negative effect on our operations and liquidity. Uncertainty and liquidity concerns in the broader financial services industry remain. Inflation and rapid increases in interest rates have led to a decline in the trading value of previously issued government securities with interest rates below current market interest rates.

Our access to our cash and cash equivalents in amounts adequate to finance our operations could be significantly impaired if the financial institutions with which we have arrangements directly face liquidity constraints or failures. In addition, investor concerns regarding the U.S. or international financial systems could result in less favorable commercial financing terms thereby making it more difficult for us to acquire financing on acceptable terms or at all. Any material decline in available funding or our ability to access our cash and cash equivalents could adversely impact our ability to meet our operating expenses, result in breaches of our contractual obligations or result in violations of federal or state wage and hour laws, any of which could have material adverse impacts on our operations and liquidity. Furthermore, should our customers have relationships with financial institutions that fail, this may result in a delay of collecting outstanding receivables, which could have a material adverse effect on our business.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Rule 10b5-1 Trading Plans

During the fiscal quarter ended June 30, 2023, none of the Company's directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement."

Item 6. Exhibits

The Exhibits listed in the Exhibit Index are filed as a part of this Quarterly Report on Form 10-Q.

EXHIBIT INDEX

Exhibit Number	Description of Exhibits	Incorporated by Reference			
		Form	File Number	Exhibit	Filing Date
3.1	Restated Articles of Incorporation of the Company.	8-K	000-22025	4.1	December 17, 2009
3.2	Certificate of Amendment to Restated Articles of Incorporation of the Company dated February 9, 2010.	S-1	333-160044	3.2	March 31, 2010
3.3	Certificate of Amendment to Restated Articles of Incorporation of the Company dated March 22, 2011.	8-K	000-22025	3.1	March 25, 2011
3.4	Certificate of Amendment to the Restated Articles of Incorporation of the Company, dated November 21, 2014.	8-K	001-35280	3.1	November 24, 2014
3.5	Amended and restated bylaws.	8-K	000-22025	3.1	November 12, 2010
4.1	Description of Capital Stock.	10-K	001-35280	4.5	February 25, 2020
10.1#*	Vericel Corporation Deferred Compensation Plan				
10.2*	Vericel Corporation 2022 Omnibus Incentive Plan Restricted Stock Unit Award (Deferred) Agreement for Non-Employee Directors				
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS*	Inline XBRL Instance Document				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document				
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)				

Management contract or compensatory plan or arrangement covering executive officers or directors of Vericel.
* Filed herewith.

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.

Date: August 2, 2023

VERICEL CORPORATION

/s/ DOMINICK C. COLANGELO

Dominick C. Colangelo
President and Chief Executive Officer
(Principal Executive Officer)

/s/ JOSEPH A. MARA

Joseph A. Mara
Chief Financial Officer
(Principal Financial Officer)

VERICEL CORPORATION
DEFERRED COMPENSATION PLAN

Effective May 3, 2023

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VERICEL CORPORATION
DEFERRED COMPENSATION PLAN

Establishment and Purpose

Vericel Corporation, a Michigan corporation (the "Company"), hereby establishes this deferred compensation plan to be known as the Vericel Corporation Deferred Compensation Plan as amended and restated from time to time (the "Plan"), effective May 3, 2023. With respect to Directors, the Plan is intended to amend, restate and supersede the Vericel Corporation Non-Employee Directors' Deferred Compensation Program. The terms of such program will remain in place for all deferrals made by Directors under such program prior to the effective date of the Plan.

The purpose of the Plan is to provide specified benefits to Directors and a select group of management or highly compensated Employees who contribute materially to the continued growth, development and future business success of the Company. The Plan does not authorize or contemplate the issuance of any Stock beyond the Stock authorized and issued under the Equity Plan. The Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.

ARTICLE 1
Definitions

For the purposes of the Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

1.1 **Account** shall mean, with respect to a Participant, an entry on the records of the Company equal to the sum of the Participant's Annual Accounts, which are allocated to a Participant's Cash Account and/or Stock Account, as applicable. An Account shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to the Plan.

1.2 **Annual Account** shall mean, with respect to a Participant, an entry on the records of the Company equal to (a) the sum of the Participant's Annual Deferral Amount, Company Contribution Amount and RSU Amount for any one Plan Year, plus (b) amounts credited or debited to such amounts pursuant to the Plan, less (c) all distributions made to the Participant or his or her Beneficiary pursuant to the Plan that relate to the Annual Account for such Plan Year. The Annual Account shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to the Plan.

1.3 **Annual Deferral Amount** shall mean that portion of a Participant's Base Salary, Bonus, or Cash Director Fees that a Participant defers in accordance with Article 3 for any one Plan Year, without regard to whether such amounts are withheld and credited during such Plan Year.

1.4 **Annual Installment Method** shall mean the method used to determine the amount of each payment due to a Participant who has elected to receive a benefit over a period of years in

accordance with the applicable provisions of the Plan. The amount of each annual payment due to the Participant shall be calculated by multiplying the balance of the Participant's benefit by a fraction, the numerator of which is one and the denominator of which is the remaining number of annual payments due to the Participant. Shares of Stock distributable from a Participant's Stock Account shall be distributable in shares of actual Stock in the same manner previously described, with any fractional shares distributed in cash. The amount of the first annual payment shall be calculated as of the close of business on or around the Participant's Benefit Distribution Date, and the amount of each subsequent annual payment shall be calculated on or around each anniversary of such Benefit Distribution Date.

1.5 **Base Salary** shall mean the Participant's base salary relating to services performed during any calendar year, subject to the provisions of Section 3.3 related to the final payroll period of the year. Base Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or nonqualified plans of the Company Group and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), 402(h), or 403(b) pursuant to plans established by the Company Group; provided, however, that all such amounts will be included in compensation only to the extent that had there been no such plan, the amount would have been payable in cash to the Employee. For the avoidance of doubt, "Base Salary" shall exclude, without limitation, all bonuses, all incentive payments, commissions, overtime, fringe benefits (cash and noncash), stock options, restricted stock units, performance share unit awards, other equity-based awards, relocation expenses, nonqualified deferred compensation, non-monetary awards, moving expense and other reimbursements, welfare benefits, severance and automobile and other allowances.

1.6 **Beneficiary** shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 6, that are entitled to receive benefits under the Plan upon the death of a Participant.

1.7 **Beneficiary Designation Form** shall mean the written or electronic form established from time to time by the Committee that a Participant returns to the Committee to designate one or more Beneficiaries.

1.8 **Benefit Distribution Date** shall mean the date upon which all or an objectively determinable portion of a Participant's benefits will become eligible for distribution in accordance with Article 4 or 5.

1.9 **Board** shall mean the Board of Directors of the Company.

1.10 **Bonus** shall mean any periodic cash bonus earned by the Participant pursuant to applicable Company guidelines. Bonus shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or nonqualified plans of the Company Group and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), 402(h), or 403(b) pursuant to plans established by the Company Group; provided, however, that all such amounts will be included in compensation only to the extent that had there been no such plan, the amount would have been payable in cash to the Employee.

1.11 **Cash Account** shall mean the aggregate value, measured on any given date, of (i) the cash deferred by a Participant as a result of deferrals of Base Salary, Bonus and Cash Director Fees, plus (ii) amounts credited or debited to such amounts pursuant to the Plan, less (iii) the any amount previously distributed from the Cash Account to the Participant or his or her Beneficiary pursuant to the Plan. The Cash Account shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to the Plan.

1.12 **Cash Director Fees** shall mean the annual fees payable in cash that are earned by a Director from the Company, including retainer fees and meetings fees, as compensation for serving on the Board.

1.13 **Change in Control** shall have the meaning set forth in the Equity Plan; provided, however, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Section 409A.

1.14 **Code** shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.

1.15 **Committee** shall mean the Compensation Committee of the Board or a subcommittee formed by the Compensation Committee to act as the Committee hereunder.

1.16 **Company Contribution Amount** shall mean, for any one Plan Year, the amount determined in accordance with Section 3.4.

1.17 **Company Group** shall mean the Company and any "parent corporation" (as defined in Section 424(e) of the Code) and any "subsidiary corporation" (defined in Section 424(f) of the Code), whether now or hereafter existing.

1.18 **Director** shall mean any non-employee member of the Board.

1.19 **Disability or Disabled** shall mean either (i) the Social Security Administration determines that a Participant is totally disabled; or (ii) a Participant incurs a mental or physical impairment that would qualify the Participant for long-term disability benefits under a Company-sponsored long-term disability program as in effect from time to time, provided that the definition of "disability" applied under such long-term disability program complies with Section 409A.

1.20 **Election Form** shall mean the form, which may be in electronic format, established from time to time by the Committee that a Participant returns to the Committee to make an election under the Plan. An Election Form will apply only to the Plan Year for which it is submitted.

1.21 **Employee** shall mean a person classified as a full-time U.S. employee by the Company Group for payroll purposes.

1.22 **Equity Plan** shall mean the Vericel Corporation 2022 Omnibus Incentive Plan, as it may be amended from time to time.

1.23 **ERISA** shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

1.24 **Participant** shall mean any Employee or Director (a) who is selected and becomes a participant in the Plan as provided in Article 2, and (b) whose Account has not been completely distributed.

1.25 **Performance-Based Compensation** shall mean compensation, the entitlement to or amount of which is contingent on the satisfaction of pre-established organizational and/or individual performance criteria relating to a performance period of at least 12 consecutive months, as determined by the Committee in accordance with Treas. Reg. §1.409A-1(e).

1.26 **Plan Agreement** shall mean an agreement, if any, in the form prescribed by or acceptable to the Committee that evidences a Participant's agreement to the terms of the Plan and which may establish additional terms or conditions of Plan participation for a Participant. Unless otherwise determined by the Committee, the most recent Plan Agreement accepted with respect to a Participant shall supersede any prior Plan Agreements for such Participant. Plan Agreements may vary among Participants and may provide additional benefits not set forth in the Plan or limit the benefits otherwise provided under the Plan.

1.27 **Plan Year** shall mean a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.

1.28 **Restricted Stock Unit or RSU** shall mean the right to receive a share of Company common stock in the future, as awarded to the Participant under the Equity Plan.

1.29 **RSU Amount** shall mean, with respect to a Participant for any one Plan Year, the number of RSUs deferred in accordance with Section 3.1(b).

1.30 **Section 409A** shall mean Section 409A of the Code and any regulations or other formal guidance promulgated thereunder.

1.31 **Separation from Service** shall mean a Participant's "separation from service" with the Company Group within the meaning of Section 409A.

1.32 **Stock** shall mean the common stock of the Company.

1.33 **Stock Account** shall mean the aggregate value, measured on any given date, of (i) the number of RSUs deferred by a Participant as a result of all RSUs Amounts, plus (ii) the number of additional shares of Stock credited to a Participant's Stock Account as a result of Stock dividends in accordance with Section 3.7(b)(ii) the Plan, less (iii) the number of RSUs previously distributed to the Participant or his or her Beneficiary pursuant to the Plan. The Stock Account shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to the Plan.

1.34 **Trust** shall mean one or more trusts established by the Company in accordance with Article 11.

1.35 **Unforeseeable Emergency** shall mean a severe financial hardship of the Participant resulting from (a) an illness or accident of the Participant, the Participant's spouse, the Participant's Beneficiary or the Participant's dependent (as defined in Section 152 of the Code without regard to paragraphs (b)(1), (b)(2) and (d)(1)(B) thereof), (b) a loss of the Participant's property due to casualty, or (c) such other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined by the Committee based on the relevant facts and circumstances and in accordance with Section 409A.

ARTICLE 2
Selection, Enrollment, Eligibility

2.1 **Selection by Committee**. Participation in the Plan shall be limited to Directors and, as determined by the Committee in its sole discretion, a select group of management or highly compensated Employees. From that group, the Committee shall select, in its sole discretion, those individuals who may actually participate in the Plan.

2.2 **Enrollment and Eligibility Requirements**.

(a) As a condition to participation, each Director or selected Employee shall complete, execute and return to the Committee such written or electronic forms and information as the Committee may require, which may include a Plan Agreement, an Election Form and a Beneficiary Designation Form, by the deadline(s) established by the Committee in accordance with the applicable provisions of the Plan. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines, in its sole discretion, are necessary.

(b) If a Director or an Employee fails to meet all requirements established by the Committee within the period required for a specified Plan Year, that Director or Employee shall not be eligible to participate in the Plan during such Plan Year.

ARTICLE 3
Deferrals, Vesting, Crediting & Taxes

3.1 **Maximum Deferral**.

(a) Cash Annual Deferral Amount. Except as otherwise determined by the Committee and provided in a Plan Agreement or an Election Form, for each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Base Salary, Bonus and/or Cash Director Fees, as applicable, up to the following maximum percentages for each deferral elected:

Deferral	Maximum Percentage
Base Salary	100%
Bonus	100%
Cash Director Fees	100%

(b) RSU Amount. Except as otherwise determined by the Committee and provided in a Plan Agreement or an Election Form, for each grant of RSUs, a Participant may elect to defer, as his or her RSU Amount, the following maximum percentages for each deferral elected:

Deferral	Maximum Percentage
RSUs	100%

For the avoidance of doubt, any RSUs deferred under this Plan shall be granted pursuant to the Equity Plan and shall be subject to individual award agreements.

(c) Short Plan Year. Notwithstanding the foregoing, in the case of an individual first becoming a Participant after the first day of a Plan Year, then to the extent required by Section 3.2 and Section 409A, the maximum amount of the Participant's Base Salary, Bonus and Cash Director Fees that may be deferred by the Participant for the Plan Year shall be determined by applying the percentages set forth in Sections 3.1(a) and (b) to the portion of such compensation attributable to services performed after the date that the Participant's deferral election is made.

3.2 Timing of Deferral Elections; Effect of Election Form.

(a) General Timing Rule for Deferral Elections. Except as otherwise provided in this Section 3.2, in order for a Participant to make a valid election to defer Base Salary, Bonus, and Cash Director Fees, the Participant must submit an Election Form on or before the deadline established by the Committee, which in no event shall be later than December 31st preceding the Plan Year in which such compensation will be earned.

Any deferral election made in accordance with this Section 3.2(a) shall be irrevocable; provided, however, that if the Committee permits or requires Participants to make a deferral election by the deadline described above for an amount that qualifies as Performance-Based Compensation, the Committee may permit a Participant to subsequently change his or her deferral election for such compensation by submitting a new Election Form in accordance with Section 3.2(d) below.

(b) Timing of Deferral Elections for Newly Eligible Plan Participants. A Director or selected Employee who first becomes eligible to participate in the Plan on or after the beginning of a Plan Year, as determined in

accordance with Treas. Reg. §1.409A-2(a)(7)(ii) and the "plan aggregation" rules provided in Treas. Reg. §1.409A-1(c)(2), may be permitted by the Committee to make an election to defer (i) RSUs that may be initially granted to the Participant under the terms of the Equity Plan and which are attributable to services to be performed after such election and/or (ii) the portion of Base Salary, Bonus, and/or Cash Director Fees attributable to services to be performed after such election, provided that the Participant submits an Election Form on or before the deadline established by the Committee, which in no event shall be later than 30 days after the Participant first becomes eligible to participate in the Plan.

If a deferral election made in accordance with this Section 3.2(b) relates to compensation earned based upon a specified performance period, the amount eligible for deferral shall be equal to (i) the total amount of compensation for the performance period, multiplied by (ii) a fraction, the numerator of which is the number of days remaining in the service period after the Participant's deferral election is made, and the denominator of which is the total number of days in the performance period.

Any deferral election made in accordance with this Section 3.2(b) shall become irrevocable as of the date the election is made, but in no event later than the 30th day after the date the Director or selected Employee becomes eligible to participate in the Plan.

(c) RSU Deferral. For an election to defer RSUs to be valid, (i) an Election Form must be submitted by the Participant with respect to such RSUs, and (ii) such Election Form must be timely delivered to the Committee and accepted by the Committee no later than (A) the end of the calendar year preceding the Plan Year during which such RSUs are initially granted to the Participant under the terms of Equity Plan, or (B) such other deadline established by the Committee in accordance with the requirements of Section 409A, including, without limitation, such deadline as may be applicable under Section 3.2(d) or 3.2(e) below.

(d) Timing of Deferral Elections for Performance-Based Compensation. Subject to the limitations described below, the Committee may determine that an irrevocable deferral election for an amount that qualifies as Performance-Based Compensation may be made by submitting an Election Form on or before the deadline established by the Committee, which in no event shall be later than 6 months before the end of the performance period.

In order for a Participant to be eligible to make a deferral election for Performance-Based Compensation in accordance with the deadline established pursuant to this Section 3.2(d), the Participant must have performed services continuously from the later of (i) the beginning of the performance period for such compensation, or (ii) the date upon which the performance criteria for such compensation are established, through the date

upon which the Participant makes the deferral election for such compensation. In no event shall a deferral election submitted under this Section 3.2(d) be permitted to apply to any amount of Performance-Based Compensation that has become readily ascertainable.

(e) Timing Rule for Deferral of Compensation Subject to Risk of Forfeiture. With respect to compensation (i) to which a Participant has a legally binding right to payment in a subsequent year, and (ii) that is subject to a forfeiture condition requiring the Participant's continued services for a period of at least 12 months from the date the Participant obtains the legally binding right, the Committee may determine that an irrevocable deferral election for such compensation may be made by timely delivering an Election Form to the Committee in accordance with its rules and procedures, no later than the 30th day after the Participant obtains the legally binding right to the compensation, provided that the election is made at least 12 months in advance of the earliest date at which the forfeiture condition could lapse, as determined in accordance with Treas. Reg. §1.409A-2(a)(5).

Any deferral election(s) made in accordance with this Section 3.2(e) shall become irrevocable no later than the 30th day after the Participant obtains the legally binding right to the compensation subject to such deferral election(s).

3.3 Withholding and Crediting of Annual Deferral Amounts. The Base Salary portion and the Cash Director Fees portion of the Annual Deferral Amount shall be withheld from the Participant's pay earned during the Plan Year. The Bonus portion of the Annual Deferral Amount shall be withheld at the time the Bonus is or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself. Such Annual Deferral Amounts shall be credited to the Participant's Cash Account for such Plan Year at the time such amounts would otherwise have been paid to the Participant. Base Salary that is both (i) attributable solely to services performed during the final payroll period containing the last day of the Plan Year, and (ii) payable in the subsequent Plan Year, will be treated as earned in that subsequent Plan Year; accordingly, Base Salary related to such final payroll period shall be withheld in accordance with the Participant's Base Salary deferral election applicable to such subsequent Plan Year.

3.4 Company Contribution Account

(a) For each Plan Year, the Company may be required to credit amounts to a Participant's Annual Account in accordance with employment or other agreements entered into between the Participant and any member of the Company Group, which amounts shall be part of the Participant's Company Contribution Amount for that Plan Year. Such amounts shall be credited to the Participant's Annual Account for the applicable Plan Year on the date or dates prescribed by such agreements.

(b) For each Plan Year, the Company, in its sole discretion, may, but is not required to, credit any amount it desires to any Participant's Annual Account

under the Plan, which amount shall be part of the Participant's Company Contribution Amount for that Plan Year. The amount so credited to a Participant may be smaller or larger than the amount credited to any other Participant, and the amount credited to any Participant for a Plan Year may be zero, even though one or more other Participants receive a Company Contribution Amount for that Plan Year. The Company Contribution Amount described in this Section 3.4(b), if any, shall be credited to the Participant's Annual Account for the applicable Plan Year on a date or dates to be determined by the Committee.

(c) If not otherwise specified in the Participant's employment or other agreement entered into between the Participant and any member of the Company Group, the amount (or the method or formula for determining the amount) of a Participant's Company Contribution Amount shall be set forth in writing in one or more documents, which shall be deemed to be incorporated into the Plan in accordance with Section 1.26.

3.5 **RSUs**. A Participant may elect to defer RSUs under the Plan, which amount shall be for that Participant the RSU Amount for that Plan Year. Any RSUs deferred shall, at the time the RSUs would otherwise vest and become transferable to the Participant under the terms of the Equity Plan, but for the election to defer, be reflected on the books of the Company as an unfunded, unsecured promise to deliver to the Participant a specific number of actual shares of Stock in the future.

3.6 **Vesting**. A Participant shall at all times be 100% vested in his or her Account. Notwithstanding the foregoing, a Participant shall be vested in the portion of his or her Account attributable to any Company Contribution Amounts, as adjusted pursuant to Section 3.7, in accordance with the vesting schedule(s) set forth in his or her Plan Agreement, employment agreement or any other agreement entered into between the Participant and any member of the Company Group. If not addressed in such agreements, a Participant shall be 100% vested in such Company Contribution Amounts. All unvested Company Contribution Amounts shall become 100% vested in the event of a Change in Control or upon a Participant's death or Disability.

3.7 **Crediting/Debiting of Accounts**. In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account in accordance with the following rules:

(a) Cash Account

(i) Measurement Funds. A Participant may elect one or more of the measurement funds selected by the Committee, in its sole discretion (the "Measurement Funds"), for the purpose of crediting or debiting investment experience to his or her Cash Account. The Committee shall determine the number and type of Measurement Funds, which may include a specified interest rate, one or more investment options, an index or similar measure, or a series of hypothetical

investment options. As necessary, the Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund.

(ii) Election of Measurement Funds. A Participant, in connection with his or her initial deferral election in accordance with Section 3.2 above, shall elect, on the Election Form, one or more Measurement Fund(s) to be used to determine the amounts to be credited or debited to his or her Cash Account. If a Participant does not elect any of the Measurement Funds as described in the previous sentence, the Participant's Cash Account shall automatically be allocated into the designated default Measurement Fund, as determined by the Committee, in its sole discretion. The Participant may (but is not required to) elect, by submitting an Election Form to the Committee that is accepted by the Committee, to add or delete one or more Measurement Fund(s) to be used to determine the amounts to be credited or debited to his or her Cash Account, or to change the portion of his or her Cash Account allocated to each previously or newly elected Measurement Fund. If an election is made in accordance with the previous sentence, it shall apply as of the first business day deemed reasonably practicable by the Committee, in its sole discretion, and shall continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the previous sentence. Notwithstanding the foregoing, the Committee, in its sole discretion, may impose limitations on the frequency with which one or more of the Measurement Funds elected in accordance with this Section 3.7(a) may be added or deleted by such Participant; furthermore, the Committee, in its sole discretion, may impose limitations on the frequency with which the Participant may change the portion of his or her Cash Account allocated to each previously or newly elected Measurement Fund.

(iii) Proportionate Allocation. In making any election described in this Section 3.7(a), the Participant shall specify on the Election Form, in increments of one percent (1%), the percentage of his or her Cash Account or Measurement Fund, as applicable, to be allocated/reallocated.

(iv) Crediting or Debiting Method. The performance of each Measurement Fund (either positive or negative) will be determined on a daily basis based on the manner in which such Participant's Account Balance has been hypothetically allocated among the Measurement Funds by the Participant.

(v) No Actual Investment. Notwithstanding any other provision of the Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's

election of any such Measurement Fund, the allocation of his or her Cash Account thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Cash Account shall not be considered or construed in any manner as an actual investment of his or her Cash Account in any such Measurement Fund. In the event that the Company or the Trustee (as that term is defined in the Trust), in its own discretion, decides to invest funds in any or all of the investments on which the Measurement Funds are based, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company or the Trust; the Participant shall at all times remain an unsecured creditor of the Company.

(b) Stock Account.

(i) The portion of a Participant's Account attributable to the deferral of RSUs pursuant to the terms of the Plan will be automatically and irrevocably allocated to the Stock Account. No portion of the Participant's Cash Account can be either initially allocated or re-allocated to the Stock Account. Amounts allocated to the Stock Account shall only be distributable in actual shares of Stock, provided that fractional shares may be distributed in cash. Amounts credited to a Stock Account shall not accrue interest or earnings.

(ii) Any stock dividends that are paid pursuant to the Equity Plan and related award agreements during any period that a Participant holds Stock in a Stock Account, shall be credited to the Participant's Stock Account in the form of additional shares of Stock and shall automatically and irrevocably be deemed to be re-invested in the Stock Account until such amounts are distributed to the Participant. The number of shares credited to the Participant for a particular stock dividend shall be equal to (A) the number of shares of Stock credited to the Participant's Stock Account as of the payment date for such dividend in respect of each share of Stock, multiplied by (B) the number of additional whole or fractional shares of Stock actually paid as a dividend in respect of each share of Stock. Any cash dividends that are paid pursuant to the Equity Plan and related award agreements during any period that a Participant holds Stock in a Stock Account shall be credited to the Participant's Cash Account on the date on which the applicable dividend is paid to stockholders generally or such other date as is determined by the Committee and held in the Cash Account until such amounts are distributed to the Participant. The cash credited to a Participant's Cash Account for a particular cash dividend shall be equal to (A) the number of shares of Stock credited to the Participant's Stock Account as of the payment

date for such dividend in respect of each share of Stock, multiplied by (B) the fair market value of the dividend, divided by (C) the fair market value of the Stock on the payment date for such dividend.

(iii) For purposes of this Section 3.7(b), the fair market value of a share of Stock as of a particular date shall mean the fair market value of a share of Stock as determined in accordance with the Equity Plan. The RSUs that may be paid pursuant to the Plan shall be issued under the Equity Plan subject to all of the terms and conditions of the Equity Plan, and only to the extent that Stock remains available for issuance under the Equity Plan. The terms and conditions of the Equity Plan are incorporated into and made a part of this Plan with respect to any RSUs paid pursuant to this Plan, and any awards of RSUs shall be governed by and construed in accordance with the provisions of the Equity Plan. In the event of any inconsistency between the Equity Plan and this Plan with respect to RSUs, the terms of the Equity Plan shall control. The Plan does not constitute a separate source of Stock for the RSU grants described herein.

(iv) Notwithstanding anything to the contrary, all Stock or other securities delivered under the Plan shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange on which such Stock or other securities are then listed, and any applicable federal, state or local securities laws. The Committee may at any time alter the effective date of any investment or allocation involving the Stock Account pursuant to Section 9.1 (relating to safeguards against insider trading). The Committee may also, to the extent necessary to ensure compliance with Rule 16b-3(f) of the Act, arrange for tracking of any such transaction defined in Rule 16b-3(b)(1) of the Act and bar any such transaction to the extent it would not be exempt under Rule 16b-3(f). The Company may also impose blackout periods pursuant to the requirements of the Sarbanes-Oxley Act of 2002 whenever the Company determines that circumstances warrant. Further, the Company may impose blackout periods on insider trading with respect to Stock Accounts, as needed (as determined by the Company) in accordance with the Company's insider trading policy, as it may be amended from time to time.

3.8 FICA and Other Taxes.

(a) Annual Deferral Amounts. For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Company Group shall withhold from that portion of the Participant's Base Salary and/or Bonus that is not being deferred, in a manner determined by Company Group, the

Participant's share of FICA and other employment taxes on such Annual Deferral Amount. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.8.

(b) Company Contribution Amounts. When a Participant becomes vested in a portion of his or her Account attributable to any Company Contribution Amounts, the Company Group shall withhold from that portion of the Participant's Base Salary and/or Bonus that is not deferred, in a manner determined by the Company Group, the Participant's share of FICA and other employment taxes on such amounts. If necessary, the Committee may reduce the vested portion of the Company Contribution Amount in order to comply with this Section 3.8.

(c) RSU Amounts. For each Plan Year in which an RSU Amount is being first withheld from an Employee Participant, the Company Group shall withhold from that portion of the Participant's compensation not being deferred, in a manner determined by the Company Group, the Participant's share of FICA and other employment taxes on such RSU Amount. If necessary, the Committee may reduce the RSU Amount in order to comply with this Section 3.8.

(d) Distributions. The Company Group, or the trustee of the Trust, shall withhold from any payments made to a Participant under the Plan all federal, state and local income, employment and other taxes required to be withheld by the Company Group, or the trustee of the Trust, in connection with such payments, in amounts and in a manner to be determined in the sole discretion of Company Group and the trustee of the Trust.

ARTICLE 4
In-Service Distribution of Account; Unforeseeable Emergency

4.1 Scheduled Distribution. In connection with each election to defer an Annual Deferral Amount and RSU Amount, a Participant may elect to receive such Annual Deferral Amount and/or RSU Amount, as adjusted pursuant to Section 3.7, on a Benefit Distribution Date designated by the Participant in accordance with this Section (a "Scheduled Distribution"). The Benefit Distribution Date for the amount subject to a Scheduled Distribution election shall be, or commence on, the date designated by the Participant as permitted on an Election Form approved by the Committee. The Participant may elect to receive the Scheduled Distribution in the form of a lump sum payment or pursuant to the Annual Installment Method, calculated as of the close of business on or around the Benefit Distribution Date, as permitted on an Election Form approved by the Committee. If a Participant does not make any election with respect to a Scheduled Distribution, then the Participant will be deemed to have elected to receive such Annual Deferral Account as a lump sum.

4.2 Postponing Scheduled Distributions. To the extent permitted by the Committee, a Participant may elect to postpone a Scheduled Distribution described in Section 4.1 above, and have such amount paid out upon an allowable alternative Benefit Distribution Date designated in

accordance with this Section 4.2. In order to make such an election, the Participant must submit an Election Form to the Committee in accordance with the following criteria:

(a) The election of the new Benefit Distribution Date shall have no effect until at least 12 months after the date on which the election is made;

(b) The new Benefit Distribution Date selected by the Participant for such Scheduled Distribution must be the first day of a Plan Year that is no sooner than 5 years after the previously designated Benefit Distribution Date; and

(c) The election must be made at least 12 months prior to the Participant's previously designated Benefit Distribution Date for such Scheduled Distribution.

For purposes of applying the provisions of this Section 4.2, a Participant's election to postpone a Scheduled Distribution shall not be considered to be made until the date on which the election becomes irrevocable. Such an election shall become irrevocable no later than the date that is 12 months prior to the Participant's previously designated Benefit Distribution Date for such Scheduled Distribution.

4.3 Other Benefits Take Precedence Over Scheduled Distributions. Should an event occur prior to any Benefit Distribution Date designated for a Scheduled Distribution that would trigger a benefit under Article 5, all amounts subject to a Scheduled Distribution election shall be paid in accordance with Article 5 and not in accordance with this Article 4.

4.4 Unforeseeable Emergencies.

(a) If a Participant experiences an Unforeseeable Emergency prior to the occurrence of a distribution event described in this Article 4 and Article 5, as applicable, the Participant may petition the Committee to receive a partial or full payout from the Plan. The payout, if any, from the Plan shall not exceed the lesser of (i) the Participant's Cash Account, calculated as of the close of business on or around the Benefit Distribution Date for such payout, as determined by the Committee in accordance with provisions set forth below, or (ii) the amount necessary to satisfy the Unforeseeable Emergency, plus amounts necessary to pay Federal, state, or local income taxes or penalties reasonably anticipated as a result of the distribution. A Participant shall not be eligible to receive a payout from the Plan to the extent that the Unforeseeable Emergency is or may be relieved (A) through reimbursement or compensation by insurance or otherwise; (B) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship; or (C) by cessation of deferrals under the Plan.

If the Committee, in its sole discretion, approves a Participant's petition for payout from the Plan, the Participant's Benefit Distribution Date for such payout shall be the date on which such Committee approval occurs. In

addition, in the event of such approval the Participant's outstanding deferral elections under the Plan shall be cancelled.

(b) A Participant's deferral elections under the Plan shall also be cancelled to the extent the Committee determines that such action is required for the Participant to obtain a hardship distribution from a 401(k) plan of the Company Group pursuant to Treas. Reg. §1.401(k)-1(d)(3).

ARTICLE 5
Other Distributions of Account

5.1 Termination Benefit.

(a) Termination Benefit. If a Participant experiences a Separation from Service, the Participant will receive a distribution of his or her Account (a "Termination Benefit").

(b) Timing of Termination Benefits. A Participant's Termination Benefit will be calculated as of the close of business on or around the Benefit Distribution Date for such benefit.

(c) Election of Payment Form. In connection with a Participant's election to defer an Annual Deferral Amount, the Participant may elect the form of Termination Benefit in which his or her Annual Account for such Plan Year will be paid. The Participant may elect to receive the Termination Benefit in the form of a lump sum payment or pursuant to the Annual Installment Method, as permitted by the Committee and provided in an Election Form approved by the Committee. If a Participant does not make any election with respect to the Termination Benefit, then the Participant will be deemed to have elected to receive such Annual Account as a lump sum.

(d) Modification of Payment Form. If permitted by the Committee, a Participant may change the form of Termination Benefit payment for an Annual Account, by submitting an Election Form to the Committee in accordance with the following criteria:

(i) The election will not take effect until 12 months after the date on which the election is made;

(ii) The new Benefit Distribution Date for such Annual Account will be 5 years after the Benefit Distribution Date that would otherwise have been applicable to such Annual Account; and

(iii) The election must be made at least 12 months prior to the Benefit Distribution Date that would otherwise have been applicable to such Annual Account.

For purposes of applying the provisions of this Section 5.1(d), a Participant's election to change the form of Termination Benefit payment for an Annual Account will not be considered to be made until the date on which the election becomes irrevocable. Such an election will become irrevocable no later than the date that is 12 months prior to the Benefit Distribution Date that would otherwise have been applicable to such Annual Account. Subject to the requirements of this Section 5.1(d), the Election Form most recently accepted by the Committee that has become effective for an Annual Account will govern the form of payout of such Annual Account.

(e) Timing of Payments. The lump sum payment will be made, or installment payments will commence, upon the Participant's Benefit Distribution Date. Remaining installments, if any, will be paid upon each anniversary of the Participant's Benefit Distribution Date.

5.2 Change in Control Benefit. In the event of a Change in Control prior to the occurrence of a distribution event described in Article 4 and this Article 5, the Participant will receive his or her Account in the form of a lump sum payment (the "Change in Control Benefit"). A Participant's Change in Control Benefit will be calculated as of the close of business on or around the Benefit Distribution Date for such benefit.

5.3 Disability Benefit. If a Participant becomes Disabled prior to the occurrence of a distribution event described in Article 4 and this Article 5, the Participant shall receive his or her Account in the form of a lump sum payment (the "Disability Benefit"). The Disability Benefit shall be calculated as of the close of business on or around the Participant's Benefit Distribution Date for such benefit, which shall be the date on which the Participant becomes Disabled. The Disability Benefit shall be paid to the Participant upon the Participant's Benefit Distribution Date.

5.4 Death Benefit. In the event of a Participant's death prior to the complete distribution of his or her Account, the Participant's Beneficiary(ies) shall receive the Participant's unpaid Account in a lump sum payment (the "Death Benefit"). The Death Benefit shall be calculated as of the close of business on or around the Benefit Distribution Date for such benefit, which shall be the date of the Participant's death. The Death Benefit shall be paid to the Participant's Beneficiary(ies) upon the Participant's Benefit Distribution Date.

5.5 Timing of Payments to Specified Employees.. Notwithstanding anything in the Plan to the contrary, if a Participant is a Specified Employee (as defined in Section 409A(a)(2)(B)(i) of the Code and Treas. Reg. §1.409A-1(i)) as of the date of their Separation from Service, then no distribution of such Participant's Account shall be made upon the Participant's Separation from Service until the first payroll date of the seventh month following the Participant's Separation from Service (or, if earlier, upon the date of the Participant's death or Disability) (the "Specified Employee Payment Date"). Any payments to which a Specified Employee otherwise would have been entitled under the Plan during the period between the Participant's Separation from Service and the Specified Employee Payment date shall be accumulated and paid in a lump sum payment on the Specified Employee Payment Date.

ARTICLE 6
Beneficiary Designation

6.1 **Beneficiary**. Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant. The Beneficiary designated under the Plan may be the same as or different from the Beneficiary designation under any other plan of a Company Group in which the Participant participates.

6.2 **Beneficiary Designation; Change**. A Participant shall designate his or her Beneficiary by completing the Beneficiary Designation Form and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death.

6.3 **Acknowledgment.** No designation or change in designation of a Beneficiary shall be effective until received and acknowledged by the Committee or its designated agent.

6.4 **No Beneficiary Designation**. If a Participant fails to designate a Beneficiary as provided in Sections 6.1, 6.2 and 6.3 above, or if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.

6.5 **Discharge of Obligations**. The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge the Company Group and the Committee from all further obligations under the Plan with respect to the Participant, and that Participant's Plan Agreement, if any, shall terminate upon such full payment of benefits.

ARTICLE 7
Leave of Absence

7.1 **Paid Leave of Absence**. If a Participant is authorized by the Company Group to take a paid leave of absence, and such leave of absence does not constitute a Separation from Service, (a) the Participant shall continue to be considered eligible for the benefits provided under the Plan, and (b) the Annual Deferral Amount and any previously elected deferrals of RSUs shall continue to be withheld during such paid leave of absence in accordance with Section 3.2.

7.2 **Unpaid Leave of Absence**. If a Participant is authorized by the Company Group to take an unpaid leave of absence for any reason, and such leave of absence does not constitute a Separation from Service, such Participant shall continue to be eligible for the benefits provided under the Plan. During the unpaid leave of absence, the Participant shall not be allowed to make any additional deferral elections. However, if the Participant returns to employment, the

Participant may elect to defer an Annual Deferral Amount, and/or RSU Amount for the Plan Year following his or her return to employment and for every Plan Year thereafter while a Participant in the Plan, provided such deferral elections are otherwise allowed and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.2 above.

ARTICLE 8
Termination of Plan, Amendment or Modification

8.1 **Termination of Plan**. The Company expects the Plan to be continued indefinitely but reserves the right to terminate the Plan at any time by action of its Board. If the Plan is terminated, the value of the Accounts shall be paid to Participants and Beneficiaries in a single lump-sum cash payment and in accordance with Section 409A.

8.2 **Amendment**. The Company may, at any time, amend or modify the Plan in whole or in part. Notwithstanding the foregoing, (a) no amendment or modification shall be effective to decrease the value of a Participant's Account in existence at the time the amendment or modification is made, and (b) no amendment or modification of this Section 8.2 shall be effective.

8.3 **Effect of Payment**. The full payment of the Participant's Account in accordance with the applicable provisions of the Plan shall completely discharge all obligations to a Participant and his or her designated Beneficiaries under the Plan, and the Participant's Plan Agreement, if any, shall terminate.

ARTICLE 9
Administration

9.1 **Committee Duties**. Except as otherwise provided in this Article 9, the Plan shall be administered by a Committee. Members of the Committee may be Participants under the Plan. The Committee shall also have the discretion and authority to (a) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of the Plan, and (b) decide or resolve any and all questions, including benefit entitlement determinations and interpretations of the Plan, as may arise in connection with the Plan. Any individual serving on the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or the Company. Notwithstanding any other provision of the Plan, except provisions relating to compliance with Section 409A, the Committee may take any action it deems is necessary to assure compliance with any policy of the Company respecting insider trading as may be in effect from time to time. Such actions may include altering the effective date of intra-fund transfers or the distribution date of Annual Accounts, to the extent permitted under Section 409A. Any such actions shall alter the normal operation of the Plan to the minimum extent necessary.

9.2 **Agents**. In the administration of the Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel.

9.3 **Binding Effect of Decisions**. The decision or action of the Committee with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

9.4 **Indemnity of Committee**. The Company shall indemnify and hold harmless the members of the Committee and any Employee to whom the duties of the Committee may be delegated against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to the Plan, except in the case of willful misconduct by the Committee, any of its members, or any such Employee.

9.5 **Section 16 Compliance**. The Plan is intended to be a formula plan for purposes of Section 16 of the Securities Exchange Act of 1934, as it may be amended from time to time (the "Act"). Accordingly, in the case of a deferral or other action under the Plan that constitutes a transaction that could be covered by Rule 16b-3(d) or (e), if it were approved by the Company's Board or Compensation Committee of the Board ("Board Approval"), it is intended that the Plan shall be administered by delegates of the Compensation Committee of the Board, in the case of a Participant who is subject to Section 16 of the Act, in a manner that will permit the Board Approval of the Plan to avoid any additional Board Approval of specific transactions to the maximum possible extent. The liquidation of the Participant's Stock Account in connection with a distribution to the Participant may, as determined by the Committee and if permitted by Section 409A, be delayed until the date such distribution will not violate Section 16 of the Act.

ARTICLE 10
Claims Procedures

10.1 **Presentation of Claim**. Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan, eligibility for Plan participation, or any other question or issue regarding such Claimant's rights under the Plan (referred to herein as a "claim"). If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within 60 days after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise first occurred. The claim must state with particularity the determination desired by the Claimant. Additionally, upon denial of an appeal pursuant to this Article, a Claimant shall have 180 days within which to bring suit against the Plan or the Company for any claim related to such denied appeal; any such suit initiated after such 180-day period shall be precluded.

10.2 **Notification of Decision**. The Committee shall consider a Claimant's claim within a reasonable time, but no later than 90 days after receiving the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial 90 day period. In no event shall such extension exceed a period of 90 days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. The Committee shall notify the Claimant in writing:

(a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or

(b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant;

(c) the specific reason(s) for the denial of the claim, or any part of it;

(d) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;

(e) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary;

(f) an explanation of the claim review procedure set forth in Section 10.3 below; and

(g) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

10.3 **Review of a Denied Claim**. On or before 60 days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the claim. The Claimant (or the Claimant's duly authorized representative):

(a) may, upon request and free of charge, have reasonable access to, and copies of all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claim for benefits;

(b) may submit written comments or other documents; and/or

(c) may request a hearing, which the Committee, in its sole discretion, may grant.

10.4 **Decision on Review**. The Committee shall render its decision on review promptly, and no later than 60 days after the Committee receives the Claimant's written request for a review of the denial of the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial 60 day period. In no event shall such extension exceed a period of 60 days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render its determination. In rendering its decision, the Committee shall take into account all comments, documents, records and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in

the initial determination. The decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

(a) specific reasons for the decision;

(b) specific reference(s) to the pertinent Plan provisions upon which the decision was based;

(c) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records and other information relevant (as defined in applicable ERISA regulations) to the Claimant's claim for benefits; and

(d) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a).

10.5 Legal Action. A Claimant's compliance with the foregoing provisions of this Article 10 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under the Plan.

ARTICLE 11
Trust

11.1 Establishment of the Trust. In order to provide assets from which to fulfill its obligations to the Participants and their Beneficiaries under the Plan, the Company may, in its discretion, establish a grantor trust by a trust agreement with a third party, the trustee, to which the Company may, in its discretion, contribute cash or other property, including securities issued by the Company, to provide for the benefit payments under the Plan (the "Trust"). Any creation or maintenance of a trust or other informal funding vehicle shall not create or constitute a trust or a fiduciary relationship between the Committee or the Company and a Participant, or otherwise confer on any Participant or Beneficiary or his or her creditors a vested or beneficial interest in any assets of the Company whatsoever. Participants and Beneficiaries shall have no claim against the Company for any changes in the value of any assets which may be invested or reinvested by the Company with respect to this Plan.

11.2 Interrelationship of the Plan and the Trust. The provisions of the Plan and any Plan Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Company, Participants and the creditors of the Company to the assets transferred to the Trust. The Company shall at all times remain liable to carry out its obligations under the Plan.

11.3 Distributions From the Trust. The Company's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Company's obligations under the Plan.

ARTICLE 12
Miscellaneous

12.1 **Status of Plan**. The Plan is intended to be a plan that is not qualified within the meaning of Section 401(a) of the Code and that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with the intent described in the preceding sentence.

12.2 **Section 409A**. The Plan is intended to comply with, or be exempt from, the requirements of Section 409A, and the provisions of the Plan (including any Election Form, Plan Agreement or related agreement) shall be interpreted in a manner that satisfies the requirements of Section 409A. If any provision of the Plan (including any Election Form, Plan Agreement or related agreement) would otherwise frustrate or conflict with this intent, such provision will be interpreted and deemed amended so as to avoid such conflict. Notwithstanding anything to the contrary, to the extent that any payment under the Plan is determined by the Committee to constitute "nonqualified deferred compensation" subject to Section 409A and is payable to a Participant by reason of a Participant's Separation from Service, then (i) such payment shall be made or provided only upon a Separation from Service and (ii) if the Participant is a "specified employee" (within the meaning of Section 409A and as determined by the Committee), such payment shall not be made or provided to the Participant until first day of the seventh month following the date of the Participant's Separation from Service (or, if earlier, on the date of the Participant's death). Neither the Company Group, the Committee nor any person acting on behalf of the Company Group, will be liable to any Participant, a Beneficiary, or to any other person by reason of any acceleration of income, any additional tax, or any penalty, interest or other liability asserted by reason of the Plan failing to satisfy the requirements of Section 409A. For purposes of the Plan, the right to receive a benefit payment in annual installments shall be treated as the entitlement to a single payment.

12.3 **Unsecured General Creditor**. Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of the Company Group. For purposes of the payment of benefits under the Plan, any and all of the Company's assets shall be, and remain, the general, unpledged unrestricted assets of the Company. The Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

12.4 **Company's Liability**. The Company's liability for the payment of benefits shall be defined only by the Plan and any Plan Agreement, as entered into between the Company and a Participant. The Company shall have no obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Plan Agreement.

12.5 **Nonassignability**. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be

transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise, including but not limited to a domestic relations order.

12.6 **Not a Contract of Employment**. The terms and conditions of the Plan shall not be deemed to constitute a contract of employment between any member of the Company Group and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in the Plan shall be deemed to give a Participant the right to be retained in the service of the Company Group, either as an Employee or a Director, or to interfere with the right of the Company Group to discipline or discharge the Participant at any time.

12.7 **Furnishing Information**. A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.

12.8 **Terms**. Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

12.9 **Captions**. The captions of the articles, sections and paragraphs of the Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

12.10 **Governing Law**. Subject to ERISA, the provisions of the Plan shall be construed and interpreted according to the internal laws of the State of Michigan without regard to its conflicts of laws principles.

12.11 **Notice**. Any notice or filing required or permitted to be given to the Committee under the Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Vericel Corporation
Attn: Office of the General Counsel
64 Sidney Street
Cambridge, MA 02139

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under the Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

12.12 Successors. The provisions of the Plan shall bind and inure to the benefit of the Company and its successors and assigns and the Participant and the Participant's designated Beneficiaries.

12.13 Spouse's Interest. The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.

12.14 Validity. In case any provision of the Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but the Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

12.15 Incompetent. If the Committee determines in its discretion that a benefit under the Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

IN WITNESS WHEREOF, the Plan is executed as of May 3, 2023, the date the Board approved the Plan, to be effective as of May 3, 2023.

VERICEL CORPORATION

By: /s/ Sean C. Flynn

Name: Sean C. Flynn
Title: Senior Vice President, General Counsel and Secretary

VERICEL CORPORATION
DEFERRED COMPENSATION PLAN

ELECTION FORM

EMPLOYEE PARTICIPANT FORM

An Employee of Vericel Corporation ("Vericel") who is eligible to participate in the Vericel Corporation Deferred Compensation Plan (the "Plan") may use this Election Form to elect to defer Base Salary, Bonus and/or restricted stock units ("RSUs") granted pursuant to the Vericel Corporation 2022 Omnibus Incentive Plan (the "Equity Plan"). Any election you make on this Election Form will apply only if the Base Salary or Bonus would otherwise be payable to you, and only if RSUs are actually granted to you and have terms such that the election can be given effect. Vericel has no obligation to grant RSUs to you at any time, or to provide any particular terms of RSUs to you if they are actually granted. Deferrals are subject to all terms of the Plan, Equity Plan and applicable RSU award agreements, which terms may be amended and restated from time to time and are incorporated herein by reference. This includes any additional restrictions as may be necessary to comply with the requirements of Section 409A of the Internal Revenue Code.

First Name	Middle Name	Last Name	
Street Address	City	State	Zip Code
Telephone Number	Email		

ELECTION TO DEFER

I. Cash Deferral. I hereby elect to defer the following (my "Annual Deferral Amount"): *(please specify a whole percentage)*

___% of my Base Salary, up to a maximum of 100%

___% of my Bonus, up to a maximum of 100%

I understand and acknowledge that by making this election, I am irrevocably electing to defer my Base Salary and/or Bonus that may be otherwise payable to me in the 202_ calendar year.

II. RSU Deferral. I hereby elect to defer the following (the "RSU Amount"): *(please specify a whole percentage)*

___% of the RSUs that Vericel grants to me pursuant to the Equity Plan, up to a maximum of 100%

Please Note: For deferral of 2023 calendar year RSUs, you may only defer the installments vesting in February 2025, 2026 and 2027. Please specify the installment(s) you would like to defer and the applicable deferral percentage (*please specify a whole percentage for each RSU installment*):

☐ RSU Installment vesting February 2025. Percentage Deferred _____%
☐ RSU Installment vesting February 2026. Percentage Deferred _____%
☐ RSU Installment vesting February 2027. Percentage Deferred _____%

I understand and acknowledge that by making this election, I am irrevocably electing to defer the stock settled after vesting of my RSUs, which RSUs may otherwise be awarded to me in the 202_ calendar year pursuant to the Equity Plan.

III. Time of Distribution.

Optional Election: I hereby elect that my Annual Deferral Amount and/or RSU Amount deferred pursuant to this Election Form be distributed to me, or commence to be distributed to me, on _____ *(If you would like to elect a specific distribution date, please specify a date of distribution* (the "Scheduled Distribution Date"), *which must be no earlier than 2 years from the date of this election form. If deferring RSUs, the Scheduled Distribution Date must be no earlier than the last date the deferred RSU Amount is originally scheduled to vest in accordance with the vesting schedule as provided in the RSU award agreements).*

However, I understand that my Annual Deferral Amount and/or RSU Amount (to the extent vested) deferred pursuant to this Election Form may be paid before my Scheduled Distribution Date. My Account will be distributed to me, or commence to be distributed to me, on the ***earliest*** to occur in accordance with the terms of the Plan:

- My Scheduled Distribution Date;
- Within 60 days after my "separation from service" (as defined in the Plan)*;
- Within 60 days after a "change in control" (as defined in the Plan);
- Within 60 days after my "disability" (as defined in the Plan); or
- Within 60 days after my death.

*I understand that if I qualify as a "specified employee," within the meaning of Section 409A of the Internal Revenue Code, a distribution of my Account triggered by a "separation from service" may be delayed by six months following my termination of service in accordance with the Plan.

IV. Form of Distribution. I hereby elect that my Annual Deferral Amount and/or RSU Amount deferred pursuant to this Election Form will be distributed to me, or commence to be distributed to me, in the following form: *(please select and if applicable, specify a number of years)*

Form of Distribution for Separation from Service

☐ One lump sum payment

☐ A series of substantially equal annual installments, payable over ☐ 5 years or ☐ 10 years (*please select on option*) on each anniversary of the Scheduled Distribution Date

Form of Distribution for Scheduled Distribution Date (if applicable)
☐ One lump sum payment

☐ A series of substantially equal annual installments, payable over ☐ 5 years or ☐ 10 years (*please select on option*) on each anniversary of the Scheduled Distribution Date

I understand that my RSU Amount deferred pursuant to this Election Form will only be distributed to me to the extent vested under the terms of the applicable award agreements.

I understand that this election for the form of distribution only applies to the form of distribution for a Scheduled Distribution Date and a benefit payable on a "separation from service" (referred to as a "Termination Benefit" under the Plan). My account will be distributed to me in a lump sum upon a "change in control" (as defined in the Plan) or upon my death or "disability" (as defined in the Plan).

V. Allocation of Investment Options for Cash Deferrals. I hereby elect that my Annual Deferral Amount deferred pursuant to this Election Form will be allocated amongst the following investment options (referred to as "Measurement Funds" under the Plan), which will determine my rate of return in accordance with Section 3.7 of the Plan: *(please specify whole percentage(s), which must total 100%).*

___% Fidelity 500 Index

___% Fidelity Extended Market Index

___% Fidelity International Index

___% Fidelity Inflation-Protected Bond Index

___% Fidelity U.S. Bond Index

___% Fidelity Government Money Market

I understand that the amounts deferred hereunder will be deemed invested in the above Measurement Funds solely for purposes of determining the value of my Account on the Benefit Distribution Date and that the Committee may change the Investment Options available under the Plan at any time. The Company has no obligation to invest any assets in the Investment Options I select. I also understand that the value of my Account on the payment date may be less than the amount originally deferred.

VI. Beneficiary Designation. I hereby designate the following individual(s), trust or other entity as my Beneficiary (or Beneficiaries) to receive any amounts payable under the Plan in the event of my death before I have received the entire amount credited to my Account: (*please complete this section for an initial election under the Plan or if the Beneficiary designation is being changed)*

I hereby designate (full name) as my primary Beneficiary under the Plan. His or her Social Security Number, relationship to me and current address are as follows:

Social Security Number:

Relationship:

Current Address:

If my primary Beneficiary fails to survive me, I hereby designate (full name) as my contingent Beneficiary. His or her Social Security Number, relationship to me and current address are as follows:

Social Security Number:

Relationship:

Current Address:

If I previously made a Beneficiary designation, I understand that the designations which I have made on this Election Form will revoke any and all of my prior Beneficiary designations when the Committee receives this Election Form.

AGREEMENT AND AUTHORIZATION

I understand that my election to defer my Base Salary, Bonus and/or RSUs is subject to review and final approval by the Committee, and that my election is governed by the terms and conditions of the Plan. I also acknowledge and agree that:

- This election only applies for Base Salary, Bonus and/or RSUs paid or awarded in the 20__ calendar year (if any). If I wish to defer any of my compensation with respect to future years, I will need to make a new election.

- The Plan has been made available to me, and I have had the opportunity to ask questions and receive answers regarding the terms and conditions of the Plan. I have read and understand the terms of the Plan and this Election Form and agree to all of the terms and conditions.

- I may make, with the consent of the Committee, a subsequent election to further defer payment subject to this Election Form, and that such an election must be made at least 12 months prior to my original Scheduled Distribution Date and I further understand that my newly selected Scheduled Distribution Date must be at least five years after the date of the original Scheduled Distribution Date. I further understand that the ability to make such a subsequent deferral election may not be available to me if the Committee changes the administration policies.

- Vericel may take whatever steps it, in its sole discretion, deems appropriate or necessary to satisfy the applicable local, state, federal or foreign income tax, Social Security, Medicare and other tax withholding obligations.

I hereby certify that the above information about me is true, accurate, and complete.

I acknowledge that I have been advised to consult with my own financial, tax, estate planning and legal advisors before making any election to defer compensation in order to determine the tax effects and other implications of my participation in the Plan.

I understand that for this election to be effective it must be completed, signed and returned to Vericel on or before _____, and its receipt is acknowledged by Vericel. This election will become irrevocable as of the date it is executed.

Date: _____, 202__.

_____
Signature
Print Name: _____

Return signed form by email to sflynn@vcel.com

Return original by mail to:
Vericel Corporation
Attn: Office of the General Counsel
64 Sidney Street
Cambridge, MA 02139

Receipt of Election Form acknowledged on behalf of Vericel Corporation

Date: _____, 202__.

_____
Signature
Print Name: _____
Title: _____

VERICEL CORPORATION
DEFERRED COMPENSATION PLAN

ELECTION FORM

DIRECTOR PARTICIPANT FORM

A non-employee Director of Vericel Corporation ("Vericel") who is eligible to participate in the Vericel Corporation Deferred Compensation Plan (the "Plan") may use this Election Form to elect to defer Cash Director Fees and/or restricted stock units ("RSUs") granted pursuant to the Vericel Corporation 2022 Omnibus Incentive Plan (the "Equity Plan"). Any election you make on this Election Form will apply only if the Cash Director Fees would otherwise be payable to you, and only if RSUs are actually granted to you and have terms such that the election can be given effect. Vericel has no obligation to grant RSUs to you at any time, or to provide any particular terms of RSUs to you if they are actually granted. Deferrals are subject to all terms of the Plan, Equity Plan and applicable RSU award agreements and Vericel's Non-Employee Director Compensation Guidelines, which terms may be amended and restated from time to time and are incorporated herein by reference. This includes any additional restrictions as may be necessary to comply with the requirements of Section 409A of the Internal Revenue Code.

First Name	Middle Name	Last Name	
Street Address	City	State	Zip Code
Telephone Number	Email		

ELECTION TO DEFER

I. **Cash Deferral**. I hereby elect to defer the following (my "Annual Deferral Amount"): *(please specify a whole percentage)*

___% of my Cash Director Fees, up to a maximum of 100%

I understand and acknowledge that by making this election, I am irrevocably electing to defer my Cash Director Fees that may be otherwise payable to me in the 202_ calendar year.

II. **RSU Deferral**. I hereby elect to defer the following (the "RSU Amount"): *(please specify a whole percentage)*

___% of the RSUs that Vericel grants to me pursuant to the Equity Plan, up to a maximum of 100%

I understand and acknowledge that by making this election, I am irrevocably electing to defer the stock settled after vesting of my RSUs, which RSUs may otherwise be awarded to me in the 202_ calendar year pursuant to the Equity Plan and Vericel's Non-Employee Director Compensation Guidelines.

III. Time of Distribution. I hereby elect that my Annual Deferral Amount and/or RSU Amount deferred pursuant to this Election Form be distributed to me, or commence to be distributed to me, on [_____]*(If you would like to elect a specific distribution date, please specify a date of distribution* (the "Scheduled Distribution Date"), *which must be no earlier than 2 years from the date of this election form. If deferring RSUs, the Scheduled Distribution Date must be no earlier than the last date the deferred RSU Amount is originally scheduled to vest in accordance with the vesting schedule as provided in the RSU award agreements)*.

However, I understand that my Annual Deferral Amount and/or RSU Amount (to the extent vested) deferred pursuant to this Election Form may be paid before my Scheduled Distribution Date. My Account will be distributed to me, or commence to be distributed to me, on the ***earliest*** to occur in accordance with the terms of the Plan:

- My Scheduled Distribution Date;
- Within 60 days after my "separation from service" (as defined in the Plan);
- Within 60 days after a "change in control" (as defined in the Plan);
- Within 60 days after my "disability" (as defined in the Plan); or
- Within 60 days after my death.

IV. Form of Distribution. I hereby elect that my Annual Deferral Amount and/or RSU Amount deferred pursuant to this Election Form will be distributed to me, or commence to be distributed to me, in the following form: *(please select and if applicable, specify a number of years)*

Form of Distribution for Separation from Service

☐ One lump sum payment

☐ A series of substantially equal annual installments, payable over ☐ 5 years or ☐ 10 years (*please select on option*) on each anniversary of the Scheduled Distribution Date

Form of Distribution for Scheduled Distribution Date (if applicable)

☐ One lump sum payment

☐ A series of substantially equal annual installments, payable over ☐ 5 years or ☐ 10 years (*please select on option*) on each anniversary of the Scheduled Distribution Date

I understand that my RSU Amount deferred pursuant to this Election Form will only be distributed to me to the extent vested under the terms of the applicable award agreements.

I understand that this election for the form of distribution only applies to the form of distribution for a Scheduled Distribution Date and a benefit payable on a "separation from service" (referred to as a "Termination Benefit" under the Plan). My account will be distributed to me in a lump sum upon a "change in control" (as defined in the Plan) or upon my death or "disability" (as defined in the Plan).

V. Allocation of Investment Options for Cash Deferrals. I hereby elect that my Annual Deferral Amount deferred pursuant to this Election Form will be allocated amongst the following investment options (referred to as "Measurement Funds" under the Plan), which will determine my rate of return in accordance with Section 3.7 of the Plan: *(please specify whole percentage(s), which must total 100%).*

___% Fidelity 500 Index

___% Fidelity Extended Market Index

___% Fidelity International Index

___% Fidelity Inflation-Protected Bond Index

___% Fidelity U.S. Bond Index

___% Fidelity Government Money Market

I understand that the amounts deferred hereunder will be deemed invested in the above Measurement Funds solely for purposes of determining the value of my Account on the Benefit Distribution Date and that the Committee may change the Investment Options available under the Plan at any time. The Company has no obligation to invest any assets in the Investment Options I select. I also understand that the value of my Account on the payment date may be less than the amount originally deferred.

VI. Beneficiary Designation. I hereby designate the following individual(s), trust or other entity as my Beneficiary (or Beneficiaries) to receive any amounts payable under the Plan in the event of my death before I have received the entire amount credited to my Account: (*please complete this section for an initial election under the Plan or if the Beneficiary designation is being changed)*

I hereby designate (full name) as my primary Beneficiary under the Plan. His or her Social Security Number, relationship to me and current address are as follows:

Social Security Number:

Relationship:

Current Address:

If my primary Beneficiary fails to survive me, I hereby designate (full name) as my contingent Beneficiary. His or her Social Security Number, relationship to me and current address are as follows:

Social Security Number:

Relationship:

Current Address:

If I previously made a Beneficiary designation, I understand that the designations which I have made on this Election Form will revoke any and all of my prior Beneficiary designations when the Committee receives this Election Form.

AGREEMENT AND AUTHORIZATION

I understand that my election to defer my Cash Director Fees and/or RSUs is subject to review and final approval by the Committee, and that my election is governed by the terms and conditions of the Plan. I also acknowledge and agree that:

- This election only applies Cash Deferral Fees and/or RSUs paid or awarded in the 20__ calendar year (if any). If I wish to defer any of my compensation with respect to future years, I will need to make a new election.

- The Plan has been made available to me, and I have had the opportunity to ask questions and receive answers regarding the terms and conditions of the Plan. I have read and understand the terms of the Plan and this Election Form and agree to all of the terms and conditions.

- I may make, with the consent of the Committee, a subsequent election to further defer payment subject to this Election Form, and that such an election must be made at least 12 months prior to my original Scheduled Distribution Date and I further understand that my newly selected Scheduled Distribution Date must be at least five years after the date of the original Scheduled Distribution Date. I further understand that the ability to make such a subsequent deferral election may not be available to me if the Committee changes the administration policies.

- Vericel may take whatever steps it, in its sole discretion, deems appropriate or necessary to satisfy the applicable local, state, federal or foreign income tax, Social Security, Medicare and other tax withholding obligations.

I hereby certify that the above information about me is true, accurate, and complete.

I acknowledge that I have been advised to consult with my own financial, tax, estate planning and legal advisors before making any election to defer compensation in order to determine the tax effects and other implications of my participation in the Plan.

I understand that for this election to be effective it must be completed, signed and returned to Vericel on or before _____, and its receipt is acknowledged by Vericel. This election will become irrevocable as of the date it is executed.

Date: _____, 202__.

_____
Signature
Print Name: _____

Return signed form by email to sflynn@vcel.com

Return original by mail to:
Vericel Corporation
Attn: Office of the General Counsel
64 Sidney Street
Cambridge, MA 02139

Receipt of Election Form acknowledged on behalf of Vericel Corporation

Date: _____, 202__.

_____
Signature
Print Name: _____
Title: _____

Vericel Corporation 2022 Omnibus Incentive Plan
Restricted Stock Unit Award (Deferred) Agreement for Non-Employee Directors

Name of Participant: _____

No. of Restricted Stock Units: _____

Grant Date: _____

Vesting Start Date: _____

Pursuant to the Vericel Corporation 2022 Omnibus Incentive Plan as amended through the date hereof (the "Plan"), Vericel Corporation (the "Company") hereby grants an award of the number of Restricted Stock Units listed above (an "Award") to the Participant named above. Each Restricted Stock Unit shall relate to one share of common stock, no par value per share (each, a "Share") of the Company. Reference is also made to the Vericel Corporation Deferred Compensation Plan (the "Program").

1. Restrictions on Transfer of Award. This Award may not be sold, transferred, pledged, assigned or otherwise encumbered or disposed of by the Participant, and any Shares issuable with respect to the Award may not be sold, transferred, pledged, assigned or otherwise encumbered or disposed of until (i) the Restricted Stock Units have vested as provided in Paragraph 2 of this Agreement and (ii) Shares have been issued to the Participant in accordance with the terms of the Plan, this Agreement and the Program.

2. Vesting of Restricted Stock Units. The restrictions and conditions of Paragraph 1 of this Agreement shall lapse as to [100% of the number of Restricted Stock Units on the earlier of the first anniversary of the Vesting Start Date or the date of the first Annual Meeting of Stockholders following the Vesting Start Date (such date, the "Vesting Date"), provided that the Participant is providing services to the Company as a Director on the relevant Vesting Date] OR [33% of the number of the Restricted Stock Units on each anniversary of the Vesting Start Date over a three-year period (such date, the "Vesting Date"), provided that the Participant is providing services to the Company as a Director on the relevant Vesting Date]. Subject to the terms of the Plan and the Program, the Committee may at any time accelerate the vesting schedule specified in this Paragraph 2.

3. Termination of Service. Subject to the discretion of the Committee to permit continued vesting of the Restricted Stock Units, if the Participant's services as a Director terminates for any reason other than due to the Participant's death or Disability prior to the satisfaction of the vesting conditions set forth in Paragraph 2 above, any Restricted Stock Units that have not vested as of such date shall automatically and without notice terminate and be forfeited, and neither the Participant nor any of his or her successors, heirs, assigns, or personal representatives will

thereafter have any further rights or interests in such unvested Restricted Stock Units. Upon termination of the Participant's services as a Director due to the Participant's death or Disability, the restrictions and conditions of Paragraph 1 of this Agreement shall lapse as to 100% of the number of Restricted Stock Units. For purposes of this Award, "Disability" shall have the meaning set forth in Treas. Reg. Section 1.409A-3(i)(4).

4. Issuance of Shares. As soon as practicable following the Settlement Date (but in no event later than the later of the last day of the calendar year in which such event occurs or two and one-half months after the Settlement Date occurs), the Company shall issue to the Participant the number of Shares equal to the aggregate number of Restricted Stock Units that have vested pursuant to Paragraph 2 of this Agreement on such date and the Participant shall thereafter have all the rights of a stockholder of the Company with respect to such Shares. For purposes of this Agreement, "Settlement Date" means the earlier of (i) the date specified by the Participant in the Participant's deferral election under the Company's nonqualified deferred compensation plan, (ii) the date the Participant ceases to serve as a member of the Board of Directors of the Company and incurs a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder ("Section 409A") and (iii) a Change in Control (as defined in the Plan), so long as such Change in Control also constitutes a "change in the ownership or effective control" of the Company or a "change in the ownership of a substantial portion of the assets" of the Company (as such terms are defined in Section 409A).

5. Change in Control. In the event of a Change in Control, the Award shall (i) become fully vested and nonforfeitable on the day prior to the date of the Change in Control if the Participant is then providing services to the Company as a Director and (ii) terminate on the date of the Change in Control.

6. Incorporation of Plan and the Program. Notwithstanding anything herein to the contrary, this Agreement shall be subject to and governed by all the terms and conditions of the Plan, including the powers of the Committee set forth in Section 4.2 of the Plan, and the Program. Capitalized terms in this Agreement shall have the meaning specified in the Plan or in the Program, unless a different meaning is specified herein.

7. Section 409A of the Code. This Agreement is intended to be a compliant deferred compensation plan under Section 409A and shall be administered in accordance with the requirements of Section 409A. If the Participant is a "specified employee" (as defined in Section 409A) at the time of his or her separation from service and the Restricted Stock Units are settled on account of such separation from service, then the settlement shall be delayed for six months or until the Participant's death, if earlier, to the extent required to avoid adverse taxation under Section 409A.

8. Severability. If any provision of this Agreement shall be held unlawful or otherwise invalid or unenforceable in whole or in part by a court of competent jurisdiction, such provision shall (i) be deemed limited to the extent that such court of competent jurisdiction deems it lawful, valid and/or enforceable and as so limited shall remain in full force and effect, and (ii) not affect

any other provision of this Agreement or part thereof, each of which shall remain in full force and effect.

9. Governing Law. This Agreement shall be governed by, and interpreted in accordance with, the laws of the State of Michigan, other than its conflict of laws principles.

10. Headings. The headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

11. Notices. All notices required or permitted under this Agreement shall be in writing and shall be sufficiently made or given if hand delivered or mailed by registered or certified mail, postage prepaid. Notice by mail shall be deemed delivered on the date on which it is postmarked.

Notices to the Company should be addressed to:

Vericel Corporation
64 Sidney Street
Cambridge, MA 02139
Attention: Chief Financial Officer

Notice to the Participant should be addressed to the Participant at the Participant's address as it appears on the Company's records.

The Company or the Participant may by writing to the other party, designate a different address for notices. If the receiving party consents in advance, notice may be transmitted and received via telecopy or via such other electronic transmission mechanism as may be available to the parties. Such notices shall be deemed delivered when received.

12. No Obligation to Continue as a Director. Neither the Plan, the Program or this Award confers upon the Participant any rights with respect to continuance as a Director.

13. Entire Agreement; Modification. The Agreement contains the entire agreement between the parties with respect to the subject matter contained herein and may not be modified, except as provided in the Plan or the Program or in a written document signed by each of the parties hereto, and may be rescinded only by a written agreement signed by both parties.

14. Data Privacy Consent. In order to administer the Plan, the Program and this Agreement and to implement or structure future equity grants, the Company, its subsidiaries and affiliates and certain agents thereof (together, the "Relevant Companies") may process any and all personal or professional data, including but not limited to Social Security or other identification number, home address and telephone number, date of birth and other information that is necessary or desirable for the administration of the Plan and/or this Agreement (the "Relevant Information"). By entering into this Agreement, the Participant (i) authorizes the Company to collect, process, register and transfer to the Relevant Companies all Relevant Information; (ii) waives any privacy rights the Participant may have with respect to the Relevant Information; (iii) authorizes the Relevant Companies to store and transmit such information in electronic form; and (iv) authorizes the transfer of the Relevant Information to any jurisdiction in which the Relevant Companies consider appropriate. The Participant shall have access to, and the right to change, the Relevant Information. Relevant Information will only be used in accordance with applicable law.IN WITNESS WHEREOF, the parties have executed the Agreement as of the date first above written.

VERICEL CORPORATION

By:

_____

Title: President and CEO

PARTICIPANT

_____

[_____]

EXHIBIT 31.1

CERTIFICATION

I, Dominick C. Colangelo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vericel Corporation;

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

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

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

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

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

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

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

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

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

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

Date: August 2, 2023

/s/ DOMINICK C. COLANGELO

Dominick C. Colangelo

President and Chief Executive Officer

(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, Joseph A. Mara, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vericel Corporation;

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

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

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

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

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

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

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

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

Date: August 2, 2023

/s/ JOSEPH A. MARA

Joseph A. Mara

Chief Financial Officer

(Principal Financial Officer)

EXHIBIT 32.1

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 Vericel Corporation (the "Company") on Form 10-Q for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), the following:

(1) The Report 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.

Date: August 2, 2023

/s/ DOMINICK C. COLANGELO
Dominick C. Colangelo
President and Chief Executive Officer
(Principal Executive Officer)

/s/ JOSEPH MARA
Joseph Mara
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to Vericel Corporation and will be retained by Vericel Corporation and furnished to the Securities and Exchange Commission or its staff upon request.