Filed Pursuant to Rule 424(b)(3)
Registration No. 333-257995

PROSPECTUS SUPPLEMENT NO. 1
(to prospectus dated May 5, 2022)

THE BEAUTY HEALTH COMPANY

76,040,010 SHARES OF CLASS A COMMON STOCK
6,970,000 WARRANTS TO PURCHASE SHARES OF CLASS A COMMON STOCK
6,970,000 SHARES OF CLASS A COMMON STOCK UNDERLYING WARRANTS

This prospectus supplement is being filed to update and supplement the information contained in the prospectus dated May 5, 2022 (the "Prospectus"), related to (i) the resale, from time to time, by the selling stockholders identified in the Prospectus, or their permitted transferees, of (a) an aggregate of 76,040,010 shares of Class A common stock, par value $0.0001 per share (the "Class A Common Stock"), of The Beauty Health Company, a Delaware corporation, and (b) 6,970,000 warrants to purchase Class A Common Stock at an exercise price of $11.50 per share (the "warrants") and (ii) the issuance by us of up to 6,970,000 shares of Class A Common Stock upon the exercise of warrants, with the information contained in the our Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission ("SEC") on May 10, 2022 (the "Quarterly Report"). Accordingly, we have attached the Quarterly report to this prospectus supplement.

This prospectus supplement updates and supplements the information in the Prospectus and is not complete without, and may not be delivered or utilized except in combination with, the Prospectus, including any amendments or supplements thereto. This prospectus supplement should be read in conjunction with the Prospectus and if there is any inconsistency between the information in the Prospectus and this prospectus supplement, you should rely on the information in this prospectus supplement.

The Beauty Health Company's Class A Common Stock is quoted on The Nasdaq Capital Market LLC ("Nasdaq") under the symbol, "SKIN". On May 9, 2022, the closing price of our Class A Common Stock was $11.20.

Investing in shares of our Class A Common Stock or warrants involves risks that are described in the "Risk Factors" section beginning on page 4 of the Prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of the securities to be issued under the Prospectus or determined if the Prospectus or this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is May 10, 2022

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 March 31, 2022

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

For the transition period from __________ to __________.

Commission File Number: 001-39565

The Beauty Health Company
(Exact name of registrant as specified in its charter)

Delaware	**85-1908962**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2165 Spring Street **Long Beach, CA 90806**	**(800) 603-4996**
(Address of principal executive offices, including zip code)	Registrant's telephone number, including area code

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

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

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

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

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

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

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

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

As of May 5, 2022, there were 150,631,965 shares of Class A Common Stock, par value $0.0001 per share issued and outstanding.

THE BEAUTY HEALTH COMPANY
FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2022
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PART I— FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 859,237	$ 901,886
Accounts receivable, net of allowances for doubtful accounts of $2,536 and $2,681 at March 31, 2022 and December 31, 2021, respectively	60,769	46,824
Prepaid expenses and other current assets	13,554	12,322
Income tax receivable	1,801	4,599
Inventories	47,033	35,261
Total current assets	982,394	1,000,892
Property and equipment, net	17,859	16,183
Right-of-use assets, net	14,251	14,992
Intangible assets, net	52,544	56,010
Goodwill	123,774	123,694
Deferred income tax assets, net	330	330
Other assets	8,026	6,705
TOTAL ASSETS	$ 1,199,178	$ 1,218,806
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 26,962	$ 29,049
Accrued payroll-related expenses	21,383	28,662
Other accrued expenses	12,419	14,722
Lease liabilities, current	3,969	3,712
Income tax payable	4,197	292
Total current liabilities	68,930	76,437
Other long-term liabilities	11	—
Lease liabilities, non-current	12,032	12,781
Deferred income tax liabilities, net	3,761	3,561
Warrant liabilities	41,765	93,816
Convertible senior notes, net	730,971	729,914
TOTAL LIABILITIES	857,470	916,509
Commitments (Note 13)		
Stockholders' equity:		
Class A Common Stock, $0.0001 par value; 320,000,000 shares authorized; 150,603,231 and 150,598,047 shares issued and outstanding at March 31, 2022 and December 31, 2021, respectively	16	16
Preferred Stock, $0.0001 par value; 1,000,000 shares authorized; no shares issued and outstanding at March 31, 2022 and December 31, 2021	—	—
Additional paid-in capital	729,299	722,250
Accumulated other comprehensive loss	(1,402)	(1,257)
Accumulated deficit	(386,205)	(418,712)
Total stockholders' equity	341,708	302,297
LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,199,178	$ 1,218,806

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

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

	Three Months Ended March 31,	
	2022	2021
Net sales	$ 75,415	$ 47,542
Cost of sales	23,478	15,802
Gross profit	51,937	31,740
Operating expenses:		
Selling and marketing	36,407	17,095
Research and development	2,230	1,452
General and administrative	26,261	10,811
Total operating expenses	64,898	29,358
(Loss) income from operations	(12,961)	2,382
Other (income) expense:		
Interest expense, net	3,400	5,699
Other expense, net	937	7
Change in fair value of warrant liabilities	(52,052)	—
Foreign currency transaction (gain) loss, net	(368)	256
Total other (income) expense	(48,083)	5,962
Income (loss) before provision for income taxes	35,122	(3,580)
Income tax expense (benefit)	2,615	(306)
Net income (loss)	$ 32,507	$ (3,274)
Comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(145)	(5)
Comprehensive income (loss)	$ 32,362	$ (3,279)
Net income (loss) per share		
Basic	$ 0.22	$ (0.09)
Diluted	$ (0.13)	$ (0.09)
Weighted average common shares outstanding		
Basic	150,598,105	35,501,743
Diluted	152,711,698	35,501,743

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

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

	Legacy Common Stock		Legacy Preferred Stock		Common Stock		Additional Paid-in Capital	Note Receivable from Stockholder	Accumulated other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount					
BALANCE, December 31, 2020	54,358	$ —	931	$ —	—	$ —	$ 13,956	$ (554)	$ 242	$ (43,604)	$ (29,960)
Retroactive application of recapitalization	(54,358)	—	(931)	—	35,501,743	4	(4)	—	—	—	—
Adjusted balance, beginning of period	—	—	—	—	35,501,743	4	13,952	(554)	242	(43,604)	(29,960)
Stock-based compensation	—	—	—	—	—	—	34	—	—	—	34
Net income (loss)	—	—	—	—	—	—	—	—	—	(3,274)	(3,274)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(5)	—	(5)
BALANCE, March 31, 2021	—	$ —	—	$ —	35,501,743	$ 4	$ 13,986	$ (554)	$ 237	$ (46,878)	$ (33,205)
BALANCE, December 31, 2021	—	$ —	—	$ —	150,598,047	$ 16	$ 722,250	$ —	$ (1,257)	$ (418,712)	$ 302,297
Issuance of common stock for vesting of restricted stock units	—	—	—	—	5,184	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	7,049	—	—	—	7,049
Net income (loss)	—	—	—	—	—	—	—	—	—	32,507	32,507
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(145)	—	(145)
BALANCE, March 31, 2022	—	$ —	—	$ —	150,603,231	$ 16	$ 729,299	$ —	$ (1,402)	$ (386,205)	$ 341,708

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

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

	Three Months Ended March 31, 2022	2021
Cash flows from operating activities:		
Net income (loss)	$ 32,507	$ (3,274)
Adjustments to reconcile net income (loss) to net cash from operating		
Depreciation of property and equipment	1,416	690
Amortization of capitalized software	404	—
Provision for doubtful accounts	229	19
Amortization of right-of-use assets	1,055	—
Amortization of intangible assets	3,174	2,921
Amortization of other assets	135	33
Amortization of deferred financing costs	—	394
Stock-based compensation	7,049	34
Loss on sale and disposal of assets	829	—
In-kind interest	—	2,182
Deferred income tax benefit	—	(842)
Change in fair value adjustment of warrant liabilities	(52,052)	—
Amortization of debt issuance costs	1,057	—
Changes in operating assets and liabilities:		
Accounts receivable	(14,152)	(8,457)
Prepaid expense and other current assets	(2,052)	(975)
Income taxes receivable	3,342	217
Inventory	(11,875)	1,411
Other assets	(1,587)	(1,182)
Accounts payable	(2,664)	3,067
Accrued payroll and other expenses	(8,252)	5,018
Other long-term liabilities	11	(81)
Lease liabilities	(954)	—
Income taxes payable	3,909	86
Net cash (used in) provided by operating activities	(38,471)	1,261
Cash flows used in investing activities:		
Capital expenditures for intangible assets	(276)	(170)
Capital expenditures for property and equipment	(3,149)	(818)
Net cash used in investing activities	(3,425)	(988)
Cash flows from financing activities:		
Payment of contingent consideration from acquisition of business	(783)	—
Proceeds from revolving facility	—	5,000
Repayment of term loan	—	(443)
Payments for transaction costs	—	(180)
Net cash (used in) provided by financing activities	(783)	4,377
Net (decrease) increase in cash and cash equivalents	(42,679)	4,650
Effect of foreign currency translation on cash	30	(21)
Cash and cash equivalents, beginning of period	901,886	9,486
Cash and cash equivalents, end of period	$ 859,237	$ 14,115

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

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

	Three Months Ended March 31,	
	2022	2021
Supplemental disclosures of cash flow information and non-cash investing and financing activities:		
Cash paid for interest	$ 5,130	$ 3,123
Cash received for income taxes	3,645	—
Capital expenditures included in accounts payable	647	863
Deferred unpaid offering costs	—	2,203

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

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

Note 1 – Description of Business

The Beauty Health Company, formerly known as Vesper Healthcare Acquisition Corp. (the “Company” or “BeautyHealth”), was incorporated in Delaware on July 8, 2020. The Company was originally formed for the purpose of entering into a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses.

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

In connection with the Closing, the Company changed its name from “Vesper Healthcare Acquisition Corp.” to “The Beauty Health Company.” Following the Closing, on May 6, 2021, the Company’s Class A Common Stock and publicly traded warrants were listed on the Nasdaq Capital Market (“Nasdaq”) under the symbols, “SKIN” and “SKINW”, respectively. The transactions set forth in the Merger Agreement constitute a “Business Combination” as contemplated by Vesper’s Second Amended and Restated Certificate of Incorporation.

Unless the context otherwise requires, in this Quarterly Report on Form 10-Q, the “Company” refers to Vesper Healthcare Acquisition Corp. prior to the closing of the Business Combination and to the combined company and its subsidiaries following the Closing and “HydraFacial” refers to the business of LCP Edge Intermediate, Inc. and its subsidiaries prior to the Closing. References to “Vesper” refer to Vesper Healthcare Acquisition Corp. prior to the consummation of the Business Combination.

The Company is a category-creating beauty health company focused on bringing innovative products to market. The Company and its subsidiaries design, develop, manufacture, market, and sell a/esthetic technologies and products. The Company’s flagship brand, HydraFacial, is a non-invasive and approachable beauty health platform and ecosystem. HydraFacial uses a unique delivery system to cleanse, extract, and hydrate with their patented hydradermabrasion technology and serums that are made with nourishing ingredients.

The COVID-19 pandemic has had, and may continue to have adverse impacts on our business. As government authorities around the world continue to implement significant measures intended to control the spread of the virus and institute restrictions on commercial operations, while simultaneously implementing policies designed to reopen certain markets, we are working to ensure our compliance and maintain business continuity for essential operations. The extent to which the COVID-19 pandemic impacts our business going forward will depend on numerous factors we cannot reliably predict, including the duration and scope of the pandemic; businesses and individuals’ actions in response to the pandemic; and the impact on economic activity including the possibility of recession or financial market instability.

Note 2 – Summary of Significant Accounting Policies

Information regarding the Company's significant accounting policies is contained in Note 2, "Summary of Significant Accounting Policies", to the consolidated financial statements included in the Company's Annual Report on Form 10-K filed with the SEC on March 1, 2022.

New Accounting Pronouncements Not Yet Adopted

In October 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU 2021-08, Business Combinations (Topic 805), which primarily relates to the accounting for contract assets and contract liabilities from contracts with customers in a business combination. The standard will be effective for annual reporting periods beginning after December 31, 2022, including interim reporting periods within those periods, with early adoption permitted. We are currently evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

Note 3 – Business Combinations

Business Combination — Reverse Recapitalization

The closing of the Business Combination occurred on May 4, 2021. In connection with the Business Combination:

- Certain accredited investors (the "PIPE Investors") entered into subscription agreements (the "PIPE Subscription Agreements") pursuant to which the PIPE Investors agreed to purchase 35,000,000 shares (the "PIPE Shares") of the Company's Class A Common Stock at a purchase price per share of $10.00 for an aggregate purchase price of $350.0 million (the "PIPE Investment"). The PIPE Investment was consummated substantially concurrently with the Closing of the Business Combination.

- Prior to the Business Combination, the Company issued an aggregate of 11,500,000 shares of the Company's Class B Common Stock (the "Founder Shares") to the Sponsor for an aggregate purchase price of $25,000 in cash. All outstanding Founder Shares were automatically converted into shares of the Company's Class A Common Stock on a one-for-one basis at the Closing and will continue to be subject to the transfer restrictions applicable to such shares of Founder Shares.

- In connection with the Closing, holders of 2,672,690 shares of the Company's Class A Common Stock exercised their rights for the Company to redeem their respective shares for cash at an approximate price of $10.00 per share, for an aggregate of approximately $26.7 million, which was paid to such holders at Closing.

- Immediately after giving effect to the Merger and the PIPE Investment, there were 125,329,053 shares of the Company's Class A Common Stock issued and outstanding.

- The aggregate gross cash consideration received by the Company in connection with the Business Combination was $783 million, which consisted of proceeds of $350 million from the PIPE Investment, plus approximately $433 million of cash from the Company's trust account that held the proceeds from the Company's initial public offering (the "Trust Account"). The aggregate gross cash consideration received was reduced by $368 million, which consisted of cash payments made to the former shareholders of HydraFacial, and further reduced by an additional $57 million for the payment of direct transaction costs incurred by HydraFacial and the Company which were reflected as a reduction of proceeds. The Company used the net proceeds to repay all of its outstanding indebtedness at the Closing. The remainder of the consideration paid to the HydraFacial Stockholders consisted of 35,501,743 newly issued shares of Class A Common Stock (the "Stock Consideration"). The net cash received from the Business Combination was subject to a working capital adjustment of $0.9 million. The Company also issued 70,860 shares related to the working capital adjustment.

Business Acquisitions

On June 4, 2021, the Company acquired High Tech Laser, Australia Pty Ltd ("HTL"), a distributor of the Company's products in Australia. On July 1, 2021, the Company acquired Wigmore Medical France ("Wigmore"), Ecomedic GmbH ("Ecomedic") and Sistemas Dermatologicos Internacionales ("Sidermica"), distributors of the Company's products in France, Germany and Mexico, respectively. Through these acquisitions, the Company plans to directly sell to the respective markets and improve services for its products. Cash paid for the four distributors totaled $23.7 million.

The Company applied the acquisition method of accounting and established a new basis of accounting on the dates of the respective acquisitions. The assets acquired by the Company are accordingly measured at their estimated fair values as of the acquisition date. The goodwill arising from the acquisitions consists largely of the business reputation of the acquired company in the marketplace and its assembled workforce. The goodwill is not deductible for income tax purposes. The transaction costs for the acquisitions totaled $0.8 million.

The estimated fair values and preliminary purchase price allocation were based on information available at the time of acquisition and the Company continues to evaluate the underlying inputs and assumptions. Accordingly, these preliminary estimates are subject to retrospective adjustments during the measurement period, not to exceed one year, based upon new information obtained about facts and circumstances that existed as of the date of acquisition. The Company is currently in the process of finalizing the preliminary fair value allocations, and expects this to be completed during the second quarter of 2022.

Note 4 – Revenue Recognition

The Company has determined that each of its products is distinct and represents a separate performance obligation. The customer can benefit from each product on its own or together with other resources that are readily available to the customer. The products are separately identifiable from other promises in the contract. Control over the Company’s products generally transfers to the customer upon shipment of the products from the Company’s warehouse facility. Therefore, revenue associated with product purchases is recognized at a point in time upon shipment to the intended customer.

Disaggregated Revenue

The Company generates revenue through manufacturing and selling HydraFacial Delivery Systems (“*Delivery Systems*”). In conjunction with the sale of Delivery Systems, HydraFacial also sells its serum solutions and consumables (collectively “*Consumables*”). Consumables are sold solely and exclusively by HydraFacial and are available for purchase separately from the purchase of Delivery Systems. For both Delivery Systems and Consumables, revenue is recognized upon transfer of control to the customer, which generally takes place at the point of shipment.

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

	Three Months Ended March 31,	
(in thousands)	**2022**	**2021**
Net Sales		
Delivery Systems	$ 41,647	$ 25,672
Consumables	33,768	21,870
Total net sales	$ 75,415	$ 47,542

See Note 17 for revenue disaggregated by geographical region.

Note 5 — Balance Sheet Components

Inventories consist of the following as of the periods indicated:

(in thousands)	**March 31, 2022**	**December 31, 2021**
Raw materials	$ 14,723	$ 12,024
Finished goods	32,310	23,237
Total inventories	$ 47,033	$ 35,261

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

(in thousands)	March 31, 2022	December 31, 2021
Accrued compensation	$ 7,482	$ 15,262
Accrued payroll taxes	1,805	922
Accrued benefits	4,573	3,022
Accrued sales commissions	7,523	9,456
Total accrued payroll-related expenses	$ 21,383	$ 28,662

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

(in thousands)	March 31, 2022	December 31, 2021
Sales and VAT tax payables	$ 4,356	$ 5,817
Accrued interest	—	2,786
Contingent consideration	—	783
Note payable due seller	2,124	2,153
Royalty liabilities	840	1,074
Other	5,099	2,109
Total other accrued expenses	$ 12,419	$ 14,722

Note 6 — Leases

The Company does not own any real estate. The majority of the Company's lease liability consists of the Company's international office spaces and warehouses, all of which are classified as operating leases. The Company's finance leases relate to leased equipment such as office and warehouse equipment. The finance lease balances are not material but are included in property and equipment, other accrued liabilities, and other long-term liabilities of the Condensed Consolidated Balance Sheets. There were no material changes to the Company's lease portfolio subsequent to December 31, 2021.

Note 7 — Fair Value Measurements

The Company follows the guidance in ASC 820 for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually.

The fair value of the Company's financial assets and liabilities reflects management's estimate of amounts that the Company would have received in connection with the sale of the assets or paid in connection with the transfer of the liabilities in an orderly transaction between market participants at the measurement date. In connection with measuring the fair value of its assets and liabilities, the Company seeks to maximize the use of observable inputs (market data obtained from independent sources) and to minimize the use of unobservable inputs (internal assumptions about how market participants would price assets and liabilities). The following fair value hierarchy is used to classify assets and liabilities based on the observable inputs and unobservable inputs used in order to value the assets and liabilities:

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

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

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

The following table presents information about the Company's assets and liabilities that are measured at fair value on a recurring basis at March 31, 2022, and indicates the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value. As of the Business Combination date, the Private Placement Warrants were valued using the Public Warrant Price, and was considered to be a Level 2 financial instrument as of that date. As of March 31, 2022, the value of the Private Placement Warrants was determined using a Monte Carlo simulation, and as such, were classified as a Level 3 financial instrument. There were no Public Warrants outstanding as of March 31, 2022. There were no valuation level transfers during the three months ended March 31, 2022.

	Fair Value Measurements on a Recurring Basis			
(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents:				
Money market funds	$ 810,310	$ —	$ —	$ 810,310
Liabilities				
Warrant liability — Private Placement Warrants	—	—	41,765	41,765

Money Market Funds

The Company's investment in money market funds that are classified as cash equivalents hold underlying investments with a weighted average maturity of 90 days or less and are recognized at fair value. The valuations of these securities are based on quoted prices in active markets for identical assets, when available, or pricing models whereby all significant inputs are observable or can be derived from or corroborated by observable market data. The Company reviews security pricing and assesses liquidity on a quarterly basis. As of March 31, 2022, the Company's U.S. portfolio had no material exposure to money market funds with a fluctuating net asset value.

Warrant Liabilities

The Public Warrants and Private Placement Warrants (collectively, the "Warrants") were accounted for as liabilities in accordance with ASC 815-40 and are presented within Warrant liabilities on the Company's Condensed Consolidated Balance Sheets. The Warrants are measured at fair value at inception and on a recurring basis, with changes in fair value presented within change in fair value of warrant liabilities in the Company's Condensed Consolidated Statements of Comprehensive Loss. At March 31, 2022, the outstanding Private Placement Warrants were valued using a Monte Carlo simulation because these Warrants are subject to redemption if the reference value of the common stock, as defined, is between $10.00 and $18.00 per share. The Private Placement Warrants are classified as a Level 3 financial instruments as of March 31, 2022. There were no Public Warrants outstanding as of March 31, 2022.

On October 4, 2021, the Company issued a press release stating that it would redeem all of the Public Warrants that remained outstanding following 5:00 p.m. New York City time on November 3, 2021, for a redemption price of $0.10 per Public Warrant. All 16.2 million outstanding Public Warrants were either exercised for cash or on a cashless basis or were redeemed. These outstanding Public Warrants that were exercised comprised 15.3 million Public Warrants issued in connection with the Vesper initial public offering and an additional 0.9 million warrants that became Public Warrants due to the sale of Private Placement Warrants. Approximately 16.1 million Public Warrants were exercised for cash at an exercise price of $11.50 per share of Class A Common Stock, 74,104 Public Warrants were exercised on a cashless basis in exchange for an aggregate of 26,732 shares of Class A Common Stock, and 75,016 warrants were redeemed for $0.10 per warrant, in each case in accordance with the terms of the Warrant Agreement. In 2021, total cash proceeds generated from exercises of the Public Warrants were $185.4 million. In addition, 0.3 million Private Placement Warrants were exercised in 2021 for total cash proceeds of $3.0 million. As of March 31, 2022, the Company had approximately 7 million Private Placement Warrants outstanding.

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Note 8 – Property and Equipment, net

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

(in thousands)	Useful life (years)	March 31, 2022	December 31, 2021
Furniture and fixtures	2-7	$ 4,327	$ 4,074
Computers and equipment	3-5	4,839	4,010
Machinery and equipment	2-5	4,108	3,669
Autos and trucks	5	1,157	1,163
Tooling	5	1,708	1,389
Leasehold improvements	Shorter of remaining lease term or estimated useful life	8,096	5,086
Total property and equipment		24,235	19,391
Less: accumulated depreciation and amortization		(9,803)	(8,561)
Construction in progress		3,427	5,353
Property and equipment, net		$ 17,859	$ 16,183

Depreciation expense was as follows for the periods indicated:

(in thousands)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Cost of sales	$ 414	$ 305
General and administrative	479	385
Selling and marketing	523	—
Total depreciation expense	$ 1,416	$ 690

Note 9 – Goodwill and Intangible Assets, net

The gross carrying amount and accumulated amortization of the Company's intangible assets, net, as of March 31, 2022 were as follows:

(in thousands)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Estimated Useful Life (Years)
Trademarks	$ 10,072	$ (3,611)	$ 6,461	15
Non-compete agreement	805	(356)	449	3
Customer relationships	18,629	(5,095)	13,534	5-10
Developed technology	70,900	(47,267)	23,633	8
Patents	2,146	(320)	1,826	3-19
Capitalized software	10,016	(3,375)	6,641	3-5
Total intangible assets	$ 112,568	$ (60,024)	$ 52,544	

The gross carrying amount and accumulated amortization of the Company's intangible assets, net, as of December 31, 2021 were as follows:

(in thousands)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Estimated Useful Life (Years)
Trademarks	$ 10,048	$ (3,442)	$ 6,606	15
Non-compete agreement	809	(139)	670	3
Customer relationships	18,625	(4,391)	14,234	5-10
Developed technology	70,900	(45,051)	25,849	8
Patents	2,050	(295)	1,755	3-19
Capitalized software	9,867	(2,971)	6,896	3-5
Total intangible assets	$ 112,299	$ (56,289)	$ 56,010	

Amortization expense was as follows for the periods indicated:

	Three Months Ended March 31,	
(in thousands)	2022	2021
Cost of sales	$ 2,241	$ 2,231
General and administrative	298	502
Selling and marketing	635	188
Total amortization expense	$ 3,174	$ 2,921

The changes in the carrying value of goodwill are as follows:

	Three Months Ended March 31,	
(in thousands)	2022	2021
Beginning balance	$ 123,694	$ 98,531
Measurement period adjustments - Ecomedic	174	—
Foreign currency translation impact	(94)	4
Ending balance	$ 123,774	$ 98,535

The goodwill arising from the Ecomedic acquisition was increased by $0.2 million due to adjustments of acquisition date tax liability estimates during the three months ended March 31, 2022.

Note 10 – Long-term Debt

Credit Facility

On December 30, 2021, Edge Systems LLC, a California limited liability company (the "Borrower") and an indirect wholly owned subsidiary of The Beauty Health Company, as borrower, entered into a Credit Agreement (the "Credit Agreement") with Edge Systems Intermediate LLC, an indirect wholly owned subsidiary of the Company and the direct parent of the Borrower that holds the Company's foreign and domestic operating entities, and The Hydrafacial Company Mexico Holdings, LLC, a direct wholly owned subsidiary of the Borrower that conducts the Mexican business operations , as guarantors (the "Guarantors" and, together with the Borrower, the "Loan Parties"), and JPMorgan Chase Bank, N.A., as administrative agent.

The Credit Agreement provides for a $50 million revolving credit facility with a maturity date of December 30, 2026. In addition, the Borrower has the ability from time to time to increase the revolving commitments or enter into one or more tranches of term loans up to an additional aggregate amount not to exceed $50 million, subject to receipt of lender commitments and certain conditions precedent. As of March 31, 2022 the Credit Agreement remains undrawn and there is no outstanding balance under the revolving credit facility.

Borrowings under the Credit Agreement are secured by certain collateral of the Loan Parties and are guaranteed by the Guarantors, each of whom will derive substantial benefit from the revolving credit facility. In specified circumstances, additional guarantors are required to be added. The Credit Agreement contains various restrictive covenants subject to certain exceptions, including limitations on the Borrower's ability to incur indebtedness and certain liens, make certain investments, become liable under contingent obligations in certain circumstances, make certain restricted payments, make certain dispositions within guidelines and limits, engage in certain affiliate transactions, alter its fundamental business or make certain fundamental changes, and requirements to maintain financial covenants, including maintaining a leverage ratio of no greater than 3.00 to 1.00 and maintaining a fixed charge coverage ratio of not less than 1.15 to 1.00.

The leverage ratio also determines pricing under the Credit Agreement. At the Borrower's option, borrowings under the revolving credit facility accrue interest at a rate equal to either LIBOR or a specified base rate plus an applicable margin. The applicable margin is linked to the leverage ratio. The margins range from 2.00% to 2.50% per annum for LIBOR loans and 1.00% to 1.50% per annum for base rate loans. The revolving credit facility is subject to a commitment fee payable on the unused revolving credit facility commitments ranging from 0.25% to 0.35%, depending on the Borrower's leverage ratio. As of March 31, 2022 the Company's unused commitment rate was 0.25%. The Borrower is also required to pay certain fees to the administrative agent and letter of credit issuers under the revolving credit facility. During the term of the revolving credit facility, the Borrower may borrow, repay and re-borrow amounts available under the revolving credit facility, subject to voluntary reductions of the swing line, letter of credit and revolving credit commitments.

Convertible Senior Notes

On September 14, 2021, the Company issued an aggregate of $750 million in principal amount of its 1.25% Convertible Senior Notes due 2026 (the "Notes"). The Notes were issued pursuant to, and are governed by, an indenture (the "Indenture"), dated as of September 14, 2021, between the Company and U.S. Bank National Association, as trustee. Pursuant to the purchase agreement between the Company and the initial purchasers of the Notes, the Company granted the initial purchasers an option to purchase, for settlement within a period of 13 days from, and including, the date the Notes were first issued, up to an additional $100 million principal amount of Notes. The Notes issued on September 14, 2021 include the $100 million principal amount of Notes issued pursuant to the full exercise by the initial purchasers of such option.

The Notes are the Company's senior, unsecured obligations and are (i) equal in right of payment with the Company's existing and future senior, unsecured indebtedness; (ii) senior in right of payment to the Company's existing and future indebtedness that is expressly subordinated to the Notes; (iii) effectively subordinated to the Company's existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness; and (iv) structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, and (to the extent the Company is not a holder thereof) preferred equity, if any, of the Company's subsidiaries.

The Notes accrue interest at a rate of 1.25% per annum, payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 1, 2022. The Notes mature on October 1, 2026, unless earlier repurchased, redeemed or converted. Before April 1, 2026, noteholders have the right to convert their Notes only upon the occurrence of certain events. From and after April 1, 2026, noteholders may convert their Notes at any time at their election until the close of business on the second scheduled trading day immediately before the maturity date. The Company will settle conversions by paying or delivering, as applicable, cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company's election. The initial conversion rate is 31.4859 shares of common stock per $1,000 principal amount of Notes, which represents an initial conversion price of approximately $31.76 per share of common stock. The conversion rate and conversion price will be subject to customary adjustments upon the occurrence of certain events. In addition, if certain corporate events that constitute a "Make-Whole Fundamental Change" (as defined in the Indenture) occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time.

The Notes are redeemable, in whole or in part (subject to certain limitations described below), at the Company's option at any time, and from time to time, on or after October 6, 2024, and on or before the 40th scheduled trading day immediately before the maturity date, but only if certain liquidity conditions are satisfied and the last reported sale price per share of the Company's common stock exceeds 130% of the conversion price on (i) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive trading days ending on, and including, the trading day immediately before the date the Company sends the related redemption notice; and (ii) the trading day immediately before the date the Company sends such notice. However, the Company may not redeem less than all of the outstanding notes unless at least $100.0 million aggregate principal amount of notes are outstanding and not called for redemption as of the time the Company sends the related redemption notice. The redemption price will be a cash amount equal to the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. In addition, calling any Note for redemption will constitute a Make-Whole Fundamental Change with respect to that Note, in which case the conversion rate applicable to the conversion of that Note will be increased in certain circumstances if it is converted after it is called for redemption.

If certain corporate events that constitute a "Fundamental Change" (as defined in the Indenture) occur, then, subject to a limited exception for certain cash mergers, noteholders may require the Company to repurchase their Notes at a cash repurchase price equal to the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date. The definition of Fundamental Change includes certain business combination transactions involving the Company and certain de-listing events with respect to the Company's common stock.

The Notes have customary provisions relating to the occurrence of "Events of Default" (as defined in the Indenture), which include the following: (i) certain payment defaults on the Notes (which, in the case of a default in the payment of interest on the Notes, will be subject to a 30-day cure period); (ii) the Company's failure to send certain notices under the Indenture within specified periods of time; (iii) the Company's failure to convert a Note upon the exercise of the conversion right with respect to such Note, subject to a three business-day cure period; (iv) the Company's failure to comply with certain covenants in the Indenture relating to the Company's ability to consolidate with or merge with or into, or sell, lease or otherwise transfer, in one transaction or a series of transactions, all or substantially all of the assets of the Company and its subsidiaries, taken as a whole, to another person; (v) a default by the Company in its other obligations or agreements under the Indenture or the Notes if such default is not cured or waived within 60 days after notice is given in accordance with the Indenture; (vi) certain defaults by the Company or any of its subsidiaries with respect to indebtedness for money borrowed of at least $45,000,000; (vii) the rendering of certain judgments against the Company or any of its significant subsidiaries for the payment of at least $45,000,000, where such judgments are not discharged or stayed within 60 days after the date on which the right to appeal has expired or on which all rights to appeal have been extinguished and (viii) certain events of bankruptcy, insolvency and reorganization involving the Company or any of its significant subsidiaries.

If an Event of Default involving bankruptcy, insolvency or reorganization events with respect to the Company (and not solely with respect to a significant subsidiary of the Company) occurs, then the principal amount of, and all accrued and unpaid interest on, all of the Notes then outstanding will immediately become due and payable without any further action or notice by any person. If any other Event of Default occurs and is continuing, then, the Trustee, by notice to the Company, or noteholders of at least 25% of the aggregate principal amount of Notes then outstanding, by notice to the Company and the Trustee, may declare the principal amount of, and all accrued and unpaid interest on, all of the Notes then outstanding to become due and payable immediately. However, notwithstanding the foregoing, the Company may elect, at its option, that the sole remedy for an Event of Default relating to certain failures by the Company to comply with certain reporting covenants in the Indenture consists exclusively of the right of the noteholders to receive special interest on the Notes for up to 180 days at a specified rate per annum not exceeding 1.00% on the principal amount of the Notes.

The Notes were issued to the initial purchasers of such Notes in transactions not involving any public offering in reliance upon Section 4(a)(2) of the Securities Act. The Notes were resold by the initial purchasers to persons whom the initial purchasers reasonably believe are "qualified institutional buyers," as defined in, and in accordance with, Rule 144A under the Securities Act.

The total amount of debt issuance costs of $21.3 million was recorded as a reduction to "Convertible senior notes, net" in the Company's Condensed Consolidated Balance Sheets and are being amortized as interest expense over the term of the Notes using the effective interest method. During the three months ended March 31, 2022, the Company recognized $2.3 million in interest expense related to the amortization of the debt issuance costs related to the Notes. There was no such expense related to the Notes in the three months ended March 31, 2021.

The following is a summary of the Company's Notes as of March 31, 2022:

				Fair Value	
(in thousands)	**Principal Amount**	**Unamortized Issuance Costs**	**Net Carrying Value**	**Amount**	**Level**
1.25% Convertible Notes due 2026	$ 750,000	$ 19,029	$ 730,971	$ 680,400	Level 2

The Notes are carried at face value less the unamortized debt issuance costs on the Company's Consolidated Balance Sheets. As of March 31, 2022, the estimated fair value of the Notes was approximately $680 million. The estimated fair value of the Notes was determined based on the actual bid price of the Notes on March 31, 2022.

As of March 31, 2022, the remaining life of the Notes is approximately 4.5 years.

Capped Call Transactions

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

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

Business Combination

In connection with the Closing of the Business Combination, all of HydraFacial's existing debt under its credit facilities were repaid and its credit facilities were extinguished. The related write-off of the deferred financing costs totaled $2.3 million and prepayment penalties totaled $2.0 million in 2021. Both are included in the Other expense (income), net on the Company's Consolidated Statements of Comprehensive Loss.

Deferred financing costs expense prior to the Closing of the Business Combination for the three months ended March 31, 2021 amounted to $0.4 million and is included in Interest expense, net on the Company's Consolidated Statements of Comprehensive Loss.

Note 11 – Income Taxes

The income tax expense/(benefit) for the three months ended March 31, 2022 and March 31, 2021 is $2.6 million and $(0.3) million, respectively.

The effective tax rate for the three months ended March 31, 2022 is 7.45% which is lower than the federal statutory rate of 21.0% primarily due to forecasted loses adjusted by various non-deductible expenses primarily from the revaluation of the warrants, limitation on officer's compensation, and meals and entertainment.

The effective tax rate for the three months ended March 31, 2021 is 8.55% which is lower than the federal statutory rate of 21.0% primarily due to the increase in valuation and non-deductible expense related to stock-based compensation and meals and entertainment.

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

Additionally, the Company applies ASC 740, the accounting standard governing uncertainty in income taxes that prescribes rules for recognition, measurement and classification in the financial statements of tax positions taken or expected to be taken in a tax return. The Company has gross unrecognized tax benefits of $0.1 million and $0.1 million for the three months ended March 31, 2022 and March 31, 2021, respectively.

On March 11, 2021 the United States enacted the American Rescue Plan Act of 2021 ("American Rescue Plan"). The American Rescue Plan includes various income and payroll tax measures. The Company does not expect a material impact of the American Rescue Plan on the Company's Condensed Consolidated Financial Statements and related disclosures.

Note 12 – Equity-Based Compensation

Compensation expense attributable to net stock-based compensation was as follows for the periods indicated:

	Three Months Ended March 31,	
(in thousands)	**2022**	**2021**
Cost of sales	226	2
Selling and marketing	2,814	6
Research and development	110	—
General and administrative	3,899	26
Stock-based compensation expense	$ 7,049	$ 34

Restricted Stock Units ("RSUs") and Performance-based restricted stock units ("PSUs")

The following table summarizes the Company's unvested equity award activity for the three months ended March 31, 2022:

			Weighted Average Grant Date Fair Value	
	RSUs	**PSUs**	**RSUs**	**PSUs**
Outstanding - January 1, 2022	380,775	975,000	$ 25.88	$ 11.39
Granted	2,122,819	719,613	13.89	12.31
Vested	(8,895)	—	13.49	—
Forfeited	(36,238)	—	18.38	—
Outstanding - March 31, 2022	2,458,461	1,694,613	15.69	11.79

Note 13 – Commitments and Contingencies

From time to time the Company may be involved in claims, legal actions and governmental proceedings that arise from its business operations. As of March 31, 2022, the Company was not a party to any legal proceedings or threatened legal proceedings, the adverse outcome of which, individually or in the aggregate, that it believes would have a material adverse effect on its business, financial condition or results of operations.

Note 14 – Concentrations

As of March 31, 2022, the Company had no customers that accounted for 10% or more of the Accounts receivable balance.

As of December 31, 2021, the Company had no customers that accounted for 10% or more of the Accounts receivable balance.

No single customer accounted for 10% or more of consolidated Net sales during the three months ended March 31, 2022 and March 31, 2021.

Note 15 – Related-Party Transactions

Registration Rights Agreement

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

Pursuant to the terms of the Registration Rights Agreement, (i) any outstanding share of Class A Common Stock or any other equity security (including the Private Placement Warrants and including shares of Class A Common Stock issued or issuable upon the exercise of any other equity security) of the Company held by the Sponsor or the HydraFacial Stockholders (together, the "Restricted Stockholders") as of the date of the Registration Rights Agreement or thereafter acquired by a Restricted Stockholder (including the shares of Class A Common Stock issued upon conversion of the 11,500,000 Founder Shares that were owned by the Sponsor and converted to shares of Class A Common Stock prior in connection with the

Business Combination and upon exercise of any Private Placement Warrants) and shares of Class A Common Stock issued as earn-out shares to the HydraFacial Stockholders and (ii) any other equity security of the Company issued or issuable with respect to any such share of common stock by way of a stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise will be entitled to registration rights.

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

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

Lock-Up Agreement

In connection with the consummation of the Business Combination, on May 4, 2021, the Company, the Sponsor and the HydraFacial Stockholders entered into a Lock-Up Agreement, pursuant to which the HydraFacial Stockholders agreed, subject to certain exceptions, not to sell, transfer to another or otherwise dispose of, in whole or in part, the common stock held by the HydraFacial Stockholders during the period commencing from the closing of the Business Combination and through the earlier of (i) the 180-day anniversary of the date of the closing of the Business Combination and (ii) the date after the closing of the Business Combination on which the Company consummates certain transactions involving a change of control of the Company. Pursuant to the terms of the Lock-Up Agreement, the restrictions set forth therein expired on October 31, 2021.

Investor Rights Agreement

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

Amended and Restated Management Services Agreement

HydraFacial entered into a Management Services Agreement, dated December 1, 2016 with Linden Capital Partners III LP (“Linden Capital Partners III”) and DW Management Services, L.L.C. (“DW Management Services”) pursuant to which the parties receive quarterly monitoring fees of the greater of (a) $125,000 and (b) 1.25% of Last Twelve Months EBITDA multiplied by the quotient of (x) the aggregate capital invested by the investors of DW Healthcare Partners IV (B), L.P. (“DWHP Investors”) into LCP and/or its subsidiaries as of such date, divided by (y) the sum of (i) the aggregate capital invested by the DWHP Investors into LCP and/or its subsidiaries, plus (ii) the aggregate capital invested by Linden Capital Partners III into LCP and/or its subsidiaries as of the date of payment. In addition, the management services agreement provides for other fees in relation to services that may be provided in connection with equity and/or debt financing, acquisition of any other business, company, product line or enterprise, or divestiture of any division, business, and product or material assets. The fees vary between 1% and 2% of the related transaction amount. Linden Capital Partners III also received a transaction fee upon the consummation of the Business Combination.

In connection with the consummation of the Business Combination, on May 4, 2021, the Company, its subsidiary, Edge Systems LLC, and Linden Capital III LLC, the general partner of Linden Manager III LP (the "Linden Manager") entered into an Amended and Restated Management Services Agreement (the "Linden Management Services Agreement") pursuant to which the Linden Manager may continue to provide advisory services at the request of the Company related to mergers and acquisitions for one year following the Business Combination. As consideration for such services, the Company will pay a fee, equal to 1% of enterprise value of the target acquired, to the Linden Manager upon the consummation of any such transaction (the "1% Fee"). The Company has also agreed to reimburse Linden Manager for certain expenses in connection with such advisory services. However, pursuant to the Linden Management Services Agreement, the Company's obligation to pay the 1% Pursuant to the terms of the agreement, the fee expired twelve months after the consummation of the Business Combination on May 4, 2022.

HydraFacial recorded $0 and approximately $0.1 million of charges related to management services fees for the three months ended March 31, 2022 and 2021, respectively. These amounts are included in General and administrative expenses on the Company's Consolidated Statements of Comprehensive Loss. There were no amounts due to these related parties at March 31, 2022 and 2021. In relation to the consummation of the Business Combination, $21.0 million in transaction fees was paid to the Former Parent. These amounts are included in General and administrative expenses on the Company's Consolidated Statements of Comprehensive Loss.

Former Long-term Debt Due to Related Parties

On April 10, 2020, the Company's existing Credit Agreement with a bank that is also a related party was amended to include a "PIK" interest component of 2% that accrues on the outstanding balances of the Term Loan and Revolver. Additionally, the Company is required to pay an early prepayment fee of 2.00% of the amount prepaid or repaid on the Term Loan prior to April 10, 2021, and 1.00% if prepaid between April 11, 2021 and April 10, 2022. In connection with the consummation of the Business Combination, all outstanding debt was paid. As of March 31, 2022, there was no amount due to related parties in connection with the Term Loan and Revolver.

On April 10, 2020, HydraFacial also entered into a second credit facility with a related party to provide for borrowings of $30.0 million (the "Term A Loan"). In connection with the consummation of the Business Combination, all outstanding debt was paid. As of March 31, 2022, there was no amount due to a related parties in connection with the Term A Loan and related PIK Interest.

Related Party Leases

Signal Hill Office

HydraFacial leases its office in Signal Hill, California, from an entity owned by former minority stockholders of HydraFacial who are no longer active employees. Lease expense under this lease was $0.2 million and $0.1 million for the three months ended March 31, 2022 and 2021, respectively.

Miami Beach Office

The Company maintains an office in Miami Beach, Florida, whereby the Company, on a monthly basis, reimburses an entity owned by the Company's Executive Chairman that makes such office available to the Company for its employees and affiliates. Expense for this property was not material for the three months ended March 31, 2022. No such expenses existed for the three months ended March 31, 2021.

Note 16 - Stockholders' Deficit

Common Stock

The Company is authorized to issue 320,000,000 shares of Class A Common Stock, par value of $0.0001 per share. Holders of Class A Common Stock are entitled to one vote for each share. As of March 31, 2022 and December 31, 2021, there were 150,603,231 and 150,598,047, respectively, of Class A Common Stock issued and outstanding. The Class A Common Stock is entitled to one vote per share and all shares are outstanding. The Company has not declared or paid any dividends with respect to its Class A Common Stock.

In connection with the Business Combination on May 4, 2021, the Company issued 35,000,000 shares of Class A Common Stock to certain qualified institutional buyers and accredited investors that agreed to purchase such shares in connection with the Business Combination for aggregate consideration of $350 million. The Company also issued 35,501,743 shares of Class A Common Stock as partial compensation to the HydraFacial Stockholders for the Business Combination.

Preferred Stock

The Company is authorized to issue 1,000,000 shares of preferred stock with a par value of $0.0001 per share with such designations, voting and other rights and preferences as may be determined from time to time by the Company's board of directors. At March 31, 2022 and December 31, 2021, there were no shares of preferred stock issued or outstanding.

Note 17 - Segment Reporting

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

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

	Three Months Ended March 31,	
(in thousands)	**2022**	**2021**
Americas	$ 44,606	$ 31,280
Asia-Pacific	12,901	8,791
Europe, the Middle East and Africa	17,908	7,471
Total net sales	$ 75,415	$ 47,542

As of March 31, 2022 and December 31, 2021 substantially all of the Company's property, plant and equipment was held in the United States.

Note 18 – Net Income (Loss) Attributable to Common Shareholders

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

(in thousands, except share and per share amounts)	Three Months Ended March 31, 2022	2021
Net income (loss) available to common shareholders - basic	$ 32,507	$ (3,274)
Plus: Income on Private placement warrants	(52,052)	—
Net income (loss) available to common shareholders - diluted	$ (19,545)	$ (3,274)
Weighted average common shares outstanding - basic	150,598,105	35,501,743
Effect of dilutive shares:		
Private placement warrants	2,113,593	—
Weighted average common shares outstanding - diluted	152,711,698	35,501,743
Basic net income (loss) per share:	$ 0.22	$ (0.09)
Diluted net income (loss) per share	$ (0.13)	$ (0.09)

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

	March 31, 2022	March 31, 2021
Convertible Notes	23,614,425	—
RSUs	2,458,461	—
PSUs	1,694,613	—
Stock Options	6,582,520	1,509

Note 19 – Subsequent Events

Other than as disclosed elsewhere, no subsequent events have occurred that would require recognition in the condensed consolidated financial statements or disclosure in the accompanying notes.

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

Forward-Looking Statements

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

These forward-looking statements are not guarantees of future performance, conditions or results, and involve a number of known and unknown risks, uncertainties, assumptions and other important factors, many of which are outside The Beauty Health Company’s control, that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified below and those discussed in the section titled Risk Factors of this filing.

Important factors, among others, that may affect actual results or outcomes include the inability to recognize the anticipated benefits of the Business Combination; costs related to the Business Combination; the inability to maintain the listing of The Beauty Health Company’s shares on Nasdaq; The Beauty Health Company’s availability of cash for debt service and exposure to risk of default under debt obligations; The Beauty Health Company’s ability to manage growth; The Beauty Health Company’s ability to execute its business plan; potential litigation involving The Beauty Health Company; changes in applicable laws or regulations; the possibility that The Beauty Health Company may be adversely affected by other economic, business, and/or competitive factors; and the impact of the continuing COVID-19 pandemic on our business. The Beauty Health Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and also with our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 filed with the U.S. Securities and Exchange Commission (SEC) on March 1, 2021.

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

Company Overview

The Beauty Health Company is a global category-creating company focused on delivering beauty health experiences by reinventing our consumer’s relationship with their skin, their bodies and their self-confidence. Our flagship brand, HydraFacial, created the category of hydradermabrasion by using a patented Vortex-Fusion Delivery System to cleanse, peel, exfoliate, extract, infuse, and hydrate the skin with proprietary solutions and serums. HydraFacial provides a non-invasive and approachable experience with a powerful community of a/estheticians, consumers and partners, bridging medical skin correction to traditional over-the-counter beauty. Our vision is to expand our platform and connected community of providers, consumers, brand partners, and retail partners to democratize and personalize beauty health solutions across ages, genders, skin tones, and skin types.

Recent Developments

CEO Transition

On November 9, 2021, by mutual agreement, the Board of Directors and Clinton Carnell, the Company's Chief Executive Officer and member of the Board, determined that Mr. Carnell would transition out of his roles as Chief Executive Officer and as a member of the Board, in each case, effective December 31, 2021. These actions were not related to any matter regarding the Company's financial condition, reported financial results, internal controls or disclosure controls and procedures. On January 1, 2022, Brenton L. Saunders, the Company's Executive Chairman of the Board, assumed additional responsibilities as its interim Chief Executive Officer.

On January 20, 2022, we announced the appointment of Andrew Stanleick to serve as our President and Chief Executive Officer and as a member of the Board of Directors, effective as of February 7, 2022. In this capacity, Mr. Stanleick is serving as our principal executive officer. Upon Mr. Stanleick commencing employment as our Chief Executive Officer, Mr. Saunders, the Company's then interim Chief Executive Officer and the Executive Chairman of the Board, ceased to serve as interim Chief Executive Officer. Mr. Saunders continues to serve as the Executive Chairman of the Board.

Syndeo Launch

On March 7, 2022 the Company announced that its new delivery system, HydraFacial Syndeo ("*Syndeo*"), would be available for purchase starting immediately in the United States, with a rolling release in other markets to follow. The Syndeo system is a digitally connected device co-created with our HydraFacialist community to meaningfully enhance the consumer and provider experience. Built with cloud-based software, the upgraded delivery system blends the HydraFacial core treatment with digital capabilities to supply the Company and providers with key learnings and insights. The data retrieval enables the Company to better analyze consumer behavior and aid providers in understanding their clients' needs. With this data, providers can see consumer history and preferences, allowing them to offer targeted products and experiences personalized to a consumer's needs. The new system also provides the capability to enhance consumer engagement through branding and gamification.

Factors Affecting Our Performance

Market Trends

HydraFacial is a pioneer in the attractive and growing beauty-health industry and there are several emerging market trends that we believe will play a key role in shaping the future of this industry. Recent growth in the skincare industry has been driven by an emphasis on skincare rather than cosmetics and HydraFacial is poised to capture a larger share of wallet from consumers. Further, HydraFacial's market research conducted in 2019 demonstrated that consumers are increasingly willing to spend on high-end beauty health products. To the extent disposable income grows, we expect impacts of this trend to be amplified. We believe these favorable market trends will continue and strengthen going forward. However, we operate in the beauty health industry, which is highly competitive and changes rapidly. Our operating results could be significantly affected by our ability to develop new products and find new distribution channels for new and existing product.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic has had, and may continue to have, adverse impacts on our business. Most markets have recently shown encouraging signs of emergence from the pandemic; however, sporadic containment measures and travel restrictions continue to impact volume trends in certain markets. However, the recent loosening of social distancing protocols and the gradual removal or reduction of travel restrictions in certain key markets have contributed to increased demand and sales growth, in most of the countries we operate in.

As previously reported, we have implemented several key measures in response to the COVID-19 pandemic which continue to be in place. We have also amplified our measures to address the potentially longer-lasting impacts of the COVID-19 pandemic, the intermittent lockdowns and possible economic uncertainty resulting from COVID-19 that continue in many markets. We anticipate the recovery to be non-linear until COVID-19 containment measures are discontinued across all regions and normal consumer traffic resumes on a consistent basis. We currently expect that any easing of containment measures and recovery of the impacted sectors of the economy will be gradual and uneven, as regions face resurgence of COVID-19 and related uncertainties, and the availability and widespread distribution of a safe and effective vaccine varies across regions. As a result, we anticipate that consumer spending habits and consumer confidence will continue to shift, causing future sales and volume trends to be non-linear.

Demographics

HydraFacial benefits from a large, young and diverse customer base and the ability to serve a large percentage of the population given that HydraFacial's patented technology addresses all skin, regardless of type, age or gender. At the intersection of the medical and consumer retail markets, the large potential customer base should provide significant upside to drive top-line growth. HydraFacial over indexes with males, significantly increasing the Total Addressable Market (TAM) compared to peers and the mix of male customers is growing at two times the rate of female customers. HydraFacial customers are young; approximately 50% of HydraFacial customers are Millennials, and approximately 30% of HydraFacial's beauty retail customers are under the age of 24. As the Millennial and Gen Z consumers age, they appear to be taking skincare more seriously and willing to invest in premium treatments, such as those offered by HydraFacial.

Marketing

Effective marketing is vital to our ability to drive growth. We plan to further our successful demand-generating activities through educational campaigns that focus on our brand, values, and quality, as well as enhancing our digitally integrated media campaigns.

Innovation

Our strategy involves innovating our current product offering while also diversifying into attractive adjacent categories where we can leverage our strengths, capabilities and community. We intend to maintain investment in research and development to stay at the forefront of cutting-edge technology.

Technology

Our investments in technology enhance the HydraFacial experience for consumers while capturing valuable and leverageable data. As we expand our capabilities, we hope to enable the world's largest skin health database. We believe this data will allow us to drive habituation by enhancing personalization, access, trend identification and consumer education.

Geographic Expansion

HydraFacial's recent growth has been driven in part by our international strategy. 41% of HydraFacial's total revenue during the first quarter of fiscal year 2022 came from outside the United States and Canada. Our diverse distribution channels create a significant opportunity within our existing retail and wholesale channels, as well as new locations abroad. We plan to expand our global footprint, building out our team and infrastructure for further penetration across Asia, Europe and Latin America.

Regulation

It remains unclear how governmental authorities, including the FDA, will regulate the products that we sell, and in the case of the FDA, whether and when it will propose or implement new or additional regulations. Unforeseen regulatory obstacles or compliance costs may hinder our business in both the short and long-term as well.

Key Operational and Business Metrics

In addition to the measures presented in our consolidated financial statements, we use the following key operational and business metrics to evaluate our business, measure our performance, develop financial forecasts, and make strategic decisions. Amounts and percentages may not foot due to rounding.

	Three Months Ended March 31,	
(dollars in millions)	**2022**	**2021**
Delivery Systems net sales	$ 41.6	$ 25.7
Consumables net sales	33.8	21.9
Total net sales	$ 75.4	$ 47.5
Gross profit	$ 51.9	$ 31.7
Gross margin	68.9%	66.8%
Net income (loss)	$ 32.5	$ (3.3)
Adjusted net income (loss)	$ (8.5)	$ (0.1)
Adjusted EBITDA	$ 2.2	$ 7.0
Adjusted EBITDA margin	2.9%	14.8%
Adjusted gross profit	$ 54.8	$ 34.3
Adjusted gross margin	72.7%	72.2%

Adjusted Net Income (Loss), Adjusted EBITDA (Loss) and Adjusted EBITDA Margin

Adjusted net income (loss), adjusted EBITDA (loss) and adjusted EBITDA margin are key performance measures that our management uses to assess our operating performance. See the section titled "*Non-GAAP Financial Measures—adjusted net income (loss), adjusted EBITDA (loss) and adjusted EBITDA margin*" for information regarding our use of adjusted net income (loss) and adjusted EBITDA and reconciliations of adjusted net income (loss) and adjusted EBITDA to net loss.

Adjusted Gross Profit and Adjusted Gross Margin

We use adjusted gross profit and adjusted gross margin to measure our profitability and ability to scale and leverage the costs of our Delivery Systems and Consumables sales. See the section titled "*Non-GAAP Financial Measures—adjusted gross profit and adjusted gross margin*" for information regarding our use of adjusted gross profit and a reconciliation of adjusted gross profit to gross profit.

Comparison of Three Months Ended March 31, 2022 to Three Months Ended March 31, 2021

The following tables set forth our consolidated results of operations in dollars and as a percentage of net sales for the periods presented. The period-to-period comparisons of our historical results are not necessarily indicative of the results that may be expected in the future. The results of operations data for the three months ended March 31, 2022 and March 31, 2021 have been derived from the condensed consolidated financial statements included elsewhere in this Form 10-Q. Amounts and percentages may not foot due to rounding.

	Three Months Ended March 31,			
(in millions)	**2022**	**% of Net Sales**	**2021**	**% of Net Sales**
Net sales	$ 75.4	100.0 %	$ 47.5	100.0 %
Cost of sales	23.5	31.1 %	15.8	33.2
Gross profit	51.9	68.9 %	31.7	66.8
Operating expenses				
Selling and marketing	36.4	48.3	17.1	36.0
Research and development	2.2	3.0	1.5	3.1
General and administrative	26.3	34.8	10.8	22.7
Total operating expenses	64.9	86.1	29.4	61.8
Income (loss) from operations	(13.0)	(17.2)	2.4	5.0
Other (income) expense, net	(48.1)	(63.8)	6.0	12.5
Income (loss) before provision for income tax	35.1	46.6	(3.6)	(7.5)
Income tax expense (benefit)	2.6	3.5	(0.3)	(0.6)
Net income (loss)	$ 32.5	43.1 %	$ (3.3)	(6.9)%

Net Sales

	Three Months Ended March 31,		Change	
(in millions)	**2022**	**2021**	**Amount**	**%**
Net sales				
Delivery Systems	$ 41.6	$ 25.7	$ 15.9	62.2%
Consumables	33.8	21.9	11.9	54.4%
Total net sales	$ 75.4	$ 47.5	$ 27.9	58.6%
Percentage of net sales				
Delivery Systems	55.2%	54.0%		
Consumables	44.8%	46.0%		
Total	100.0%	100.0%		

Total net sales for the three months ended March 31, 2022 increased $27.9 million, or 58.6%, compared to the three months ended March 31, 2021. Delivery System sales for the three months ended March 31, 2022 increased $15.9 million, or 62.2%, compared to the three months ended March 31, 2021 primarily due to strong trends in the Americas, Europe and Asia as markets remained open as well as the launch of Syndeo Delivery Systems.

In the Americas region, net sales increased to $44.6 million in Q1 2022 compared to $31.3 million in Q1 2021 due to sales growth in the U.S. and Mexico. The strength in the U.S. was driven by the launch of Syndeo and a continued increase in sales productivity fueled by strong conversion from the Company's marketing-driven leads. Sales growth was primarily due to US and Mexico.

In the APAC region, net sales increased to $12.9 million in Q1 2022 compared to $8.8 million in Q1 2021, driven by continued strength in Australia despite the partial offset by closures in China due to COVID-19.

In the EMEA region, net sales increased to $17.9 million in Q1 2022 compared to $7.5 million in Q1 2021, due to strength in the United Kingdom, Germany and France.

There were 1,849 Delivery Systems units sold for the three months ended March 31, 2022, including 258 trade-ups. Similarly, Consumables sales for the three months ended March 31, 2022 increased $11.9 million, or 54.4%, compared to the three months ended March 31, 2021. The increase in Consumables sales was primarily attributable to increased placements of delivery systems and the adjoining consumption of consumables during the three months ended March 31, 2022.

Cost of Sales, Gross Profit, and Gross Margin

	Three Months Ended March 31,		Change	
(in millions)	**2022**	**2021**	**Amount**	**%**
Cost of sales	$ 23.5	$ 15.8	$ 7.7	48.6%
Gross profit	$ 51.9	$ 31.7	$ 20.2	63.6%
Gross margin	68.9 %	66.8 %		

Cost of sales increased $7.7 million driven by and in conjunction with increased sales volume in delivery systems and consumables. Gross margin increased from 66.8% during the three months ended March 31, 2021 to 68.9% during the three months ended March 31, 2022 primarily due to fixed cost leverage from higher sales volumes coupled with cost saving initiatives and margin accretion from distributor acquisitions, partially offset by higher supply chain and logistics costs. The Company expects continued headwinds from global supply chain challenges and inflationary pressures to weigh on gross margin through 2022, specifically higher shipping costs, offset by margin accretion related to the acquired distributor inventory and pricing initiatives.

Operating Expenses

Sales and Marketing

	Three Months Ended March 31,		Change	
(in millions)	**2022**	**2021**	**Amount**	**%**
Selling and marketing	$ 36.4	$ 17.1	$ 19.3	113.0 %
As a percentage of net sales	48.3 %	36.0 %		

Selling and marketing expense for the three months ended March 31, 2022 increased $19.3 million, or 113.0%, compared to the three months ended March 31, 2021. The overall increase as a percentage of net sales was driven by higher sales commissions of $1.1 million. Personnel-related expenses increased by $5.9 million, which included a $3.4 million increase from our international operations, primarily attributable to increased headcount as we scale, and stock-based compensation expense by $2.8 million. In addition, expenses related to travel and the Global Sales Meeting increased by $3.4 million due primarily to the launch of Syndeo. Personnel-related training expenses increased by $1.0 million and marketing spend increased by $2.4 million as we moved forward with marketing programs after COVID-19 restrictions were lifted and markets reopened.

Research and Development

(in millions)	Three Months Ended March 31, 2022	2021	Change Amount	%
Research and development	$ 2.2	$ 1.5	$ 0.7	53.6 %
As a percentage of net sales	3.0 %	3.1 %		

Research and development expense for the three months ended March 31, 2022 increased $0.7 million, or 53.6%, compared to the three months ended March 31, 2021. The increase was primarily attributable to personnel and professional services related expenses as we accelerate investment into product development and our digital platform.

General and Administrative

(in millions)	Three Months Ended March 31, 2022	2021	Change Amount	%
General and administrative	$ 26.3	$ 10.8	$ 15.5	142.9 %
As a percentage of net sales	34.8 %	22.7 %		

General and administrative expense for the three months ended March 31, 2022 increased $15.5 million, or 142.9%, compared to the three months ended March 31, 2021. Stock-based compensation expense increased by $3.9 million and personnel-related expenses increased by $2.9 million primarily due to increased headcount as we scale. We incurred additional public company costs, which included an increase in directors' and officers' liability insurance, Sarbanes-Oxley Act compliance and additional audit and tax and other professional service fees for a total of $2.0 million for the three months ended March 31, 2022. Legal expenses increased by $1.5 million, which includes expenses related to litigating and enforcing patent and trademark infringement claims against third parties, and personnel recruiting and one-time transaction costs increased by $2.4 million.

Other (Income) Expense, Net and Income Tax Provision

(in millions)	Three Months Ended March 31, 2022	2021	Change Amount	%
Other (income) expense, net	$ (48.1)	$ 6.0	$ (54.1)	(906.5)%
Income tax expense (benefit)	$ 2.6	$ (0.3)	$ 2.9	(954.6)%

Other (income) expense, net, was $(48.1) million for the three months ended March 31, 2022 compared to $6.0 million for the three months ended March 31, 2021. The change of $(54.1) million was primarily driven by the change in the fair value of the Warrant liability of $(52.1) million.

Liquidity and Capital Resources

Our primary sources of capital have been funded by (i) cash flow from operating activities, (ii) net proceeds received from the consummation of the Business Combination, (iii) net proceeds received from the Notes (as defined below), and (iv) net proceeds received from the exercise of Public and Private Placement Warrants. As of March 31, 2022, we had cash and cash equivalents of approximately $859.2 million. A revolving credit facility of $50 million is also available as a source of capital.

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

We expect capital expenditures of up to $20.0 million for the year ending December 31, 2022. Based on our sources of capital (including the cash consideration received from the consummation of the Business Combination and the cash received from the issuance of the Notes), management believes that we have sufficient liquidity to satisfy our anticipated working capital requirements for our ongoing operations and obligations for at least the next twelve months. However, we will continue to evaluate our capital expenditure needs based upon factors including but not limited to our rate of revenue growth, potential acquisitions, the timing and amount of spending on research and development, growth in sales and marketing activities, the timing of new product launches, timing and investments needed for international expansion, the continuing market acceptance of the Company's products and services, expansion, and overall economic conditions.

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

Credit Agreement

On December 30, 2021, Edge Systems LLC, a California limited liability company (the "Borrower") and an indirect wholly owned subsidiary of The Beauty Health Company, as borrower, entered into a Credit Agreement (the "Credit Agreement") with Edge Systems Intermediate LLC, an indirect wholly owned subsidiary of the Company and the direct parent of the Borrower that holds the Company's foreign and domestic operating entities, and The Hydrafacial Company Mexico Holdings, LLC, a direct wholly owned subsidiary of the Borrower that conducts the Mexican business operations, as guarantors (the "Guarantors" and, together with the Borrower, the "Loan Parties"), and JPMorgan Chase Bank, N.A., as administrative agent.

The Credit Agreement provides for a $50 million revolving credit facility with a maturity date of December 30, 2026. In addition, the Borrower has the ability from time to time to increase the revolving commitments or enter into one or more tranches of term loans up to an additional aggregate amount not to exceed $50 million, subject to receipt of lender commitments and certain conditions precedent. As of March 31, 2022, the Credit Agreement remains undrawn and there is no outstanding balance under the revolving credit facility.

Borrowings under the Credit Agreement are secured by certain collateral of the Loan Parties and are guaranteed by the Guarantors, each of whom will derive substantial benefit from the revolving credit facility. In specified circumstances, additional guarantors are required to be added. The Credit Agreement contains various restrictive covenants subject to certain exceptions, including limitations on the Borrower's ability to incur indebtedness and certain liens, make certain investments, become liable under contingent obligations in certain circumstances, make certain restricted payments, make certain dispositions within guidelines and limits, engage in certain affiliate transactions, alter its fundamental business or make certain fundamental changes, and requirements to maintain financial covenants, including maintaining a leverage ratio of no greater than 3.00 to 1.00 and maintaining a fixed charge coverage ratio of not less than 1.15 to 1.00.

The leverage ratio also determines pricing under the Credit Agreement. At the Borrower's option, borrowings under the revolving credit facility accrue interest at a rate equal to either LIBOR or a specified base rate plus an applicable margin. The applicable margin is linked to the leverage ratio. The margins range from 2.00% to 2.50% per annum for LIBOR loans and 1.00% to 1.50% per annum for base rate loans. The revolving credit facility is subject to a commitment fee payable on the unused revolving credit facility commitments ranging from 0.25% to 0.35%, depending on the Borrower's leverage ratio. As of March 31, 2022 the Company's unused commitment rate was 0.25%.. The Borrower is also required to pay certain fees to the administrative agent and letter of credit issuers under the revolving credit facility. During the term of the revolving credit facility, the Borrower may borrow, repay and re-borrow amounts available under the revolving credit facility, subject to voluntary reductions of the swing line, letter of credit and revolving credit commitments.

Convertible Senior Notes

On September 14, 2021, we issued $750 million aggregate principal amount of Notes in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The Notes were issued pursuant to, and are governed by, an indenture, dated as of September 14, 2021, between the Company and U.S. Bank National Association, as trustee. The Notes accrue interest at a rate of 1.25% per annum, payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 1, 2022. The Notes will mature on October 1, 2026, unless earlier repurchased, redeemed or converted. Before April 1, 2026, noteholders have the right to convert their Notes only upon the occurrence of certain events. From and after April 1, 2026, noteholders may convert their Notes at any time at their election until the close of business on the second scheduled trading day immediately before the maturity date. We will settle conversions by paying or delivering, as applicable, cash, shares of our Class A Common Stock or a combination of cash and shares of our Class A Common Stock, at our election. The initial conversion rate is 31.4859 shares of Class A Common Stock per $1,000 principal amount of Notes, which represents an initial conversion price of approximately $31.76 per share of Class A Common Stock. We used $90.2 million of the net proceeds from the sale of the Notes to fund the cost of entering into capped call transactions. The net proceeds from the issuance of the Notes were approximately $638.7 million, net of capped call transaction costs of $90.2 million and debt issuance costs totaling $21.3 million. See Note 10 - Debt, to the Notes to the Condensed Consolidated Financial Statements included elsewhere in this report.

Capped Call Transactions

Capped call transactions cover the aggregate number of shares of our Class A Common Stock that will initially underlie the Notes, and generally reduce potential dilution to our common stock upon any conversion of Notes and/or offset any cash payments we may make in excess of the principal amount of the converted Notes, as the case may be, with such reduction and/or offset subject to a cap, based on the cap price of the capped call transactions. See Note 2 - Summary of Significant Accounting Policies, to the Notes to Consolidated Financial Statements included elsewhere in this report.

Contractual Obligations and Other Commercial Commitments

As of March 31, 2021, our material contractual obligations is approximately $42.2 million in interest related to the Notes, the Notes of $750 million, and $16.0 million in lease obligations.

Known Trends or Uncertainties

We believe there are several emerging trends that may play a key role in shaping the future of the beauty health industry. Our market research demonstrated that consumers are increasingly willing to spend on high-end beauty health products. Some of the key industry trends identified by this market research are:

- *Millennials/Gen Z aging*: HydraFacial customers are young; approximately 50% of HydraFacial customers are Millennials, and approximately 30% of HydraFacial's beauty retail customers are under the age of 24. As the Millennial and Gen Z consumers age, they appear to be taking skincare more seriously and willing to invest in premium experiences, such as those offered by HydraFacial.

- *Influencers and social media driving purchase decisions*: Social media personalities are increasingly opining and having an effect on skin care, which has gained more prominence in the age of selfies.

- *Growth in disposable income*: As the global economy grows, consumers have more disposable income to spend on premium products.

- *Shift in spend from makeup to skin care*: There appears to be an increasing movement towards treating underlying skin to make it healthy and reveal it (i.e.: “clean beauty”), as opposed to using products such as make-up to cover it. Clean beauty places an emphasis on unveiling fresh, naked skin as the star, as opposed to covering it up. The HydraFacial experience not only physically cleanses skin with vortex suction, exfoliation and extraction, and removal of debris, but it also actively infuses the skin with innovative, clean ingredients to nourish and hydrate the newly cleaned skin canvas.

- *Growth in multi-brand and online retailers*: Multi-brand retailers and digital native brands play an important role in captivating the consumer and pushing innovation.

- *Consumers shopping across mass and premium brands*: Consumers appear to be willing to shop across mass and premium brands in order to allocate more money towards trending categories and products that help make them look and feel better.

We operate in the beauty health industry, which is highly competitive and changes rapidly. Our operating results could be significantly affected by our ability to develop new products and find new distribution channels for new and existing products.

The majority of our customers are in the medical, (dermatologists and plastic surgeons), esthetician, and beauty retail industry. During economic downturns, we have seen consolidations in such industries. The extent to which the COVID-19 pandemic impacts our business going forward will depend on numerous factors we cannot reliably predict, including the duration and scope of the pandemic; businesses and individuals' actions in response to the pandemic; and the impact on economic activity including the possibility of recession or financial market instability. These factors may adversely impact consumer, business, and government spending as well as customers' ability to pay for our products and services on an ongoing basis. As a result, our growth rate could be affected by consolidation and downsizing in the medical, esthetician, and beauty retail industry.

In addition, we expect continued headwinds from global supply chain challenges and inflationary pressures to weigh on gross margin into 2022, specifically higher shipping costs, offset by margin accretion related to the acquired distributor inventory and pricing initiatives.

Furthermore, it remains unclear how governmental authorities, including the Food and Drug Administration ("FDA"), will regulate the products that we sell, and in the case of the FDA, whether and when it will propose or implement new or additional regulations. Unforeseen regulatory obstacles or compliance costs may hinder our business in both the short and long-term as well.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon our financial condition or results of operations.

Cash Flows

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

	Three Months Ended March 31,	
(in millions)	**2022**	**2021**
Cash and cash equivalents at beginning of period	$ 901.9	$ 9.5
Operating activities:		
Net income (loss)	32.5	(3.3)
Non-cash adjustments	(36.7)	5.4
Changes in working capital	(34.3)	(0.9)
Net cash flows (used in) provided by operating activities	(38.5)	1.3
Net cash flows (used in) provided by investing activities	(3.4)	(1.0)
Net cash flows (used in) provided by financing activities	(0.8)	4.4
Net change in cash and cash equivalents	(42.7)	4.7
Effect of foreign currency translation	—	—
Cash and cash equivalents at end of period	$ 859.2	$ 14.1

Operating Activities

Net cash used in operating activities of $38.5 million for the three months ended March 31, 2022 was primarily due to investment in inventory in relation to the launch of Syndeo Delivery Systems, combined with a corresponding shift in the average collection period of receivables related to increased payment plan participation on delivery systems globally, as well as continued investments globally in people and systems to fuel future growth. The net income of $32.5 million was driven by non-cash adjustments of $36.7 million, with the largest adjustment being the fair value adjustment to warrant liabilities. The decrease in working capital of $34.3 million was primarily due to the increase in accounts receivable of $14.2 million, the increase in inventory of $11.9 million and the increase in accrued payroll and other expenses of $8.3 million.

Net cash from operating activities of $1.3 million for the three months ended March 31, 2021 was primarily due to in-kind interest in the amount of $2.2 million. The net loss of $3.3 million was impacted by non-cash adjustments of $5.4 million primarily related to depreciation and amortization, partially offset by a decrease in net change in working capital of $0.9 million. The total increase in net operating assets and liabilities was primarily due to a $3.1 million increase in accounts payable and a $5.0 million increase in accrued payroll and other expenses offset by a $8.5 million decrease in accounts receivable.

Investing Activities

Cash used in investing activities for the three months ended March 31, 2022 of $3.4 million was primarily related to $3.1 million in capital expenditures for property and equipment and $0.3 million in capitalized software.

Cash used in investing activities for the three months ended March 31, 2021 of $1.0 million was related to capital expenditures.

Financing Activities

There was $0.8 million used in financing activities for the three months ended March 31, 2022. The Company did not withdraw from the line of credit and there were no transactions related to the warrants during the three months ended March 31, 2022.

Net cash from financing activities of $4.4 million for the three months ended March 31, 2021 was primarily related to proceeds from borrowings of $5.0 million, net of debt repayments and issuance costs of $0.4 million.

Critical Accounting Policies and Estimates

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

There has been no change to our critical accounting policies as included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Recent Accounting Pronouncements

See Note 2 of the notes to our Condensed Consolidated Financial Statements in the section titled "—Recently Issued Accounting Pronouncements" in our Note 2 to our consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for a discussion about new accounting pronouncements adopted and not yet adopted.

Non-GAAP Financial Measures

In addition to our results determined in accordance with accounting principles generally accepted in the United States of America (GAAP), management utilizes certain non-GAAP performance measures, adjusted net income (loss), adjusted EBITDA (loss), adjusted EBITDA margin, adjusted gross profit, and adjusted gross margin, for purposes of evaluating our ongoing operations and for internal planning and forecasting purposes. We believe that these non-GAAP operating measures, when reviewed collectively with our GAAP financial information, provide useful supplemental information to investors in assessing our operating performance.

Adjusted Net Income (Loss), Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted net income (loss), adjusted EBITDA and adjusted EBITDA margin are key performance measures that we use to assess our operating performance. Because adjusted net income (loss), adjusted EBITDA and adjusted EBITDA margin facilitate internal comparisons of our historical operating performance on a more consistent basis, we use these measures for business planning purposes.

We also believe this information will be useful for investors to facilitate comparisons of our operating performance and better identify trends in our business. We expect adjusted EBITDA margin to increase over the long-term as we continue to scale our business and achieve greater operating leverage.

We calculate adjusted net income (loss) as net income (loss) adjusted to exclude: change in fair value of Public and Private Placement Warrants, change in fair value of earn-out shares liability, other expense (income), net; amortization expense; stock-based compensation expense; management fees incurred from our historical private equity owners; one-time or non-recurring items such as transaction costs (including transactions costs with respect to the Business Combination); restructuring costs (including those associated with COVID-19) and the aggregate adjustment for income taxes for the tax effect of the adjustments described above.

We calculate adjusted EBITDA as net income (loss) adjusted to exclude: change in fair value of Public and Private Placement Warrants, change in fair value of earn-out shares liability, other expense (income), net; interest expense; income tax benefit (expense); depreciation and amortization expense; stock-based compensation expense; foreign currency (gain) loss; management fees incurred from our historical private equity owners; one-time or non-recurring items such as transaction costs (including transactions costs with respect to the Business Combination); and restructuring costs (including those associated with COVID-19).

The following table reconciles our net income (loss) to adjusted net income (loss) and adjusted EBITDA for the periods indicated:

	Three Months Ended March 31,	
(in thousands)	**2022**	**2021**
Net income (loss)	$ 32,507	$ (3,274)
Adjusted to exclude the following:		
Change in fair value of warrant liability	(52,052)	—
Amortization expense	3,713	2,954
Stock-based compensation expense	7,049	34
Other expense (income)	937	7
Management fees (1)	—	127
Transaction related costs (2)	1,045	746
Other non-recurring and one-time fees (3)	1,955	87
Aggregate adjustment for income taxes	(3,626)	(763)
Adjusted net income (loss)	$ (8,472)	$ (82)
Depreciation expense	1,416	690
Interest expense	3,400	5,699
Foreign currency (gain) loss, net	(368)	256
Remaining benefit for income taxes	6,241	457
Adjusted EBITDA	$ 2,217	$ 7,020
Adjusted EBITDA margin	2.9%	14.8 %

(1) Represents quarterly management fees paid to the majority shareholder of HydraFacial based on a pre-determined formula. Following the Business Combination, these fees are no longer paid.

(2) For the three months ended March 31, 2022, such amounts primarily represent direct costs incurred in relation to potential acquisitions. For the three months ended March 31, 2021 such amounts primarily represents direct costs incurred with the Business Combination and to prepare HydraFacial to be marketed for sale by HydraFacial's shareholders in previous periods.

(3) For the three months ended March 31, 2022 such costs primarily represent one-time personnel costs related to executive recruiting, executive severance and a CEO sign-on bonus. For the three months ended March 31, 2021 such costs primarily represent personnel costs associated with restructuring of HydraFacial's salesforce and costs associated with former warehouse and assembly facility during the transition period offset by a legal settlement received in favor of HydraFacial.

Adjusted Gross Profit and Adjusted Gross Margin

We use adjusted gross profit and adjusted gross margin to measure profitability and the ability to scale and leverage the costs of Delivery Systems and Consumables. The continued growth of Delivery Systems is expected to improve adjusted gross margin, as additional Delivery Systems sold will increase our recurring Consumables net sales, which has higher margins.

We believe adjusted gross profit and adjusted gross margin are useful measures to us and to our investors to assist in evaluating our operating performance because they provide consistency and direct comparability with past financial performance and between fiscal periods, as the metric eliminates the effects of amortization and depreciation and stock-based compensation expense, which are non-cash expenses that may fluctuate for reasons unrelated to overall continuing operating performance. Adjusted gross margin has been and will continue to be affected by a variety of factors, including the product mix, geographic mix, direct vs. indirect mix, the average selling price on Delivery Systems, and new product launches. We expect our adjusted gross margin to fluctuate over time depending on the factors described above.

The following table reconciles gross profit to adjusted gross profit for the periods indicated. Amounts and percentages may not foot due to rounding:

	Three Months Ended March 31,	
(in millions)	**2022**	**2021**
Net sales	$ 75.4	$ 47.5
Cost of sales	23.5	15.8
Gross profit	$ 51.9	$ 31.7
Gross margin	68.9%	66.8%
Adjusted to exclude the following:		
Stock-based compensation expense included in cost of sales	$ 0.2	$ —
Depreciation and amortization expense included in cost of sales	2.7	2.6
Adjusted gross profit	$ 54.8	$ 34.3
Adjusted gross margin	72.7%	72.2%

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We had cash and cash equivalents of approximately $859.2 million as of March 31, 2022. We do not enter into investments for trading or speculative purposes. We have not been exposed, nor do we anticipate being exposed to material risks due to changes in interest rates. A hypothetical 10% increase in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements.

We are primarily potentially exposed to changes in short-term interest rates with respect to our cost of borrowing under our Credit Agreement, from which we have yet to draw on. Our debt obligations related to the Notes are long-term in nature with fixed interest rates. We monitor our cost of borrowing, taking into account our funding requirements, and our expectations for short-term rates in the future. A hypothetical 10% change in the interest rate on our Credit Agreement for all periods presented would not have a material impact on our consolidated financial statements.

Foreign Currency Risk

To date, all of our inventory purchases have been denominated in U.S. dollars. Our international sales are primarily denominated in foreign currencies and any unfavorable movement in the exchange rate between U.S. dollars and the currencies in which we conduct sales in foreign countries could have an adverse impact on our revenue. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies, which are also subject to fluctuations due to changes in foreign currency exchange rates.

While we are not currently contractually obligated to pay increased costs due to changes in exchange rates, to the extent that exchange rates move unfavorably for our suppliers, they may seek to pass these additional costs on to us, which could have a material impact on our gross margins. Our operating results and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates. However, we believe that the exposure to foreign currency fluctuation from operating expenses is relatively small at this time as the related costs do not constitute a significant portion of our total expenses. As of March 31, 2022, the effect of a hypothetical 10% change in foreign currency exchange rates would not have had a material impact to our consolidated results of operations.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition, or results of operations. If our costs become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition, and operating results.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2022. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, due to the material weaknesses that existed as of December 31, 2020 and continued to exist as of March 31, 2022, our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were not effective. This was accordingly disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021, Form 10-K/A for the year ended December 31, 2020 and in our Definitive Proxy Statement filed on April 7, 2021.

Previously Identified Material Weaknesses in Internal Control over Financial Reporting

In connection with the audit of HydraFacial as of and for the year ended December 31, 2020, we previously identified material weaknesses in our internal control over financial reporting. The material weaknesses were related to segregation of duties, including the review and approval of journal entries, our lack of sufficient accounting resources and the lack of a formalized risk assessment process. These material weaknesses may not allow for us to have proper segregation of duties and the ability to close our books and records and report our results on a timely basis.

In response to the material weaknesses, management completed the following remediation actions:

- We established a formal risk assessment process to identify and evaluate risks relevant to financial reporting objectives
- We implemented segregation of duties around the approval of journal entries and accounting processes
- We implemented a training program addressing internal control over financial reporting, including educating control owners regarding the requirements of each control

We determined that the material weakness around lack of sufficient accounting resources continued to exist as of December 31, 2021. This material weakness may not allow for us to have proper segregation of duties and the ability to close our books and report our results on a timely basis.

We have begun the process of, and we are focused on, designing and implementing effective internal controls measures to improve our internal control over financial reporting and remediate the material weakness. Our efforts include a number of actions:

- We are actively recruiting additional personnel, in addition to engaging and utilizing third party consultants and specialists to supplement our internal resources and segregate key functions within our business processes, if appropriate;
- We are designing and implementing additional review procedures within our accounting and finance department to provide more robust and comprehensive internal controls over financial reporting that address the relative financial statement assertions and risks of material misstatement within our business processes;

- We are designing and implementing information technology and application controls in our financially significant systems to address our relative information processing objectives

While these actions and planned actions are subject to ongoing management evaluation and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles, we are committed to the continuous improvement of our internal controls over financial reporting and will continue to diligently review our internal control over financial reporting.

Changes in Internal Control over Financial Reporting

Other than the remediation efforts described in this Item 4, there have been no changes in our internal control over financial reporting during the quarter ended March 31, 2022 covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II— OTHER INFORMATION

Item 1. Legal Proceedings.

For a description of our material pending legal proceedings, see Note 13, Commitments and Contingencies, to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

Please carefully consider the information set forth in this Quarterly Report on Form 10-Q and the risk factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on March 1, 2022 (the “Annual Report”), which could materially affect our business, financial condition, or future results. The risks described in our Annual Report, as well as other risks and uncertainties, could materially and adversely affect our business, results of operations, and financial condition, which in turn could materially and adversely affect the trading price of shares of our Class A Common Stock. Except as set forth below, there have been no material updates or changes to the risk factors previously disclosed in our Annual Report; provided, however, additional risks not currently known or currently material to us may also harm our business.

We are currently operating in a period of economic uncertainty and capital markets disruption, which has been significantly impacted by geopolitical instability due to the ongoing military conflict between Russia and Ukraine. Our business, financial condition and results of operations could be materially adversely affected by any negative impact on the global economy and capital markets resulting from the conflict in Ukraine or any other geopolitical tensions.

U.S. and global markets are experiencing volatility and disruption following the escalation of geopolitical tensions and the start of the military conflict between Russia and Ukraine. On February 24, 2022, a full-scale military invasion of Ukraine by Russian troops was reported. Although the length and impact of the ongoing military conflict is highly unpredictable, the conflict in Ukraine could lead to market disruptions, including significant volatility in commodity prices, credit and capital markets, as well as supply chain interruptions. We are continuing to monitor the situation in Ukraine and globally and assessing its potential impact on our business.

Additionally, the recent military conflict in Ukraine has led to sanctions and other penalties being levied by the United States, European Union and other countries against Russia and certain banks, companies, and individuals in Russia. Additional potential sanctions and penalties have also been proposed and/or threatened. Russian military actions and the resulting sanctions could adversely affect the global economy and financial markets and lead to instability and lack of liquidity in capital markets, potentially making it more difficult for us to obtain additional funds. In March 2022, the Company stopped selling and shipping products into its distributor in Russia.

It is impossible to predict the extent to which our operations, or those of our suppliers and manufacturers, will be impacted in the short and long term, or the ways in which the conflict, as well as any further retaliatory actions taken by Russia and the United States and other nations, may impact our business. The extent and duration of the military action, sanctions and resulting market disruptions are impossible to predict, but could be substantial. Any such disruptions may also magnify the impact of other risks described in this Quarterly Report on Form 10-Q and our Annual Report.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

The information included in this Item 5 is provided in lieu of filing such information on a Current Report on Form 8-K under Item 5.02. Compensatory Arrangements of Certain Officers.

Retention Bonus Award

On May 7, 2022, Daniel Watson, our Executive Vice President of Sales for the United States and Canada, signed a retention agreement that states, "In recognition of your continued service with the Company through and until December 31, 2022 (the "Retention Period"), we are offering you a retention bonus in the amount of $371,196.54 less all applicable withholdings and deductions required by law (the "Retention Bonus"). This Retention Bonus will be payable within thirty (30) days from the end of the Retention Period." Such retention agreement will be filed as an exhibit to the quarterly report on Form 10-Q for the quarter ending June 30, 2022.

Item 6. Exhibits

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

EXHIBIT INDEX

No.	Description of Exhibit	Form	File No.	Exhibit	Filing Date	Filed Herewith
2.1	Agreement and Plan of Merger, dated as of December 8, 2020, by and among Vesper Healthcare Acquisition Corp., Hydrate Merger Sub I, Inc., Hydrate Merger Sub II, LLC, LCP Edge Intermediate, Inc. and LCP Edge Holdco, LLC, in its capacity as the Stockholders' Representative	8-K	001-39565	2.1	December 9, 2020	
3.1	Second Amended and Restated Certificate of Incorporation of The Beauty Health Company	8-K	001-39565	3.1	May 10, 2021	
3.2	Amended and Restated Bylaws of The Beauty Health Company	8-K	001-39565	3.2	May 10, 2021	
4.1	Indenture, dated as of September 14, 2021, between The Beauty Health Company and U.S. Bank National Association, as trustee	8-K	001-39565	4.1	September 14, 2021	
4.2	Form of certificate representing the 1.25% Convertible Senior Notes due 2026 (included as Exhibit A to Exhibit 4.1)	8-K	001-39565	4.2	September 14, 2021	
10.1	Form of Confirmation for Capped Call Transactions	8-K	001-39565	10.1	September 14, 2021	
10.2#	Employment Agreement, dates as of January 20, 2022, between Andrew Stanleick, Edge Systems LLC d/b/a The HydraFacial Company and The Beauty Health Company	8-K	001-39565	10.1	January 20, 2022	
31.1*	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2*	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS**	Inline XBRL Instance Document					X
101.SCH**	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB**	Inline XBRL Taxonomy Extension Labels Linkbase Document					X
101.PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104**	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101 attachments					

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

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

\# Management contract or compensatory plan or arrangement.

SIGNATURES

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

THE BEAUTY HEALTH COMPANY

Date: May 10, 2022	By:	/s/ Andrew Stanleick
	Name:	Andrew Stanleick
	Title:	Chief Executive Officer (Principal Executive Officer)
Date: May 10, 2022	By:	/s/ Liyuan Woo
	Name:	Liyuan Woo
	Title:	Chief Financial Officer (Principal Accounting Officer and Financial Officer)