

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K/A
(Amendment No. 1)

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

Date of Report (Date of earliest event reported): July 21, 2023

AEON Biopharma, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-40021
(Commission
File Number)

85-3940478
(I.R.S. Employer
Identification No.)

5 Park Plaza, Suite 1750
Irvine, California
(Address of principal executive offices)

92614
(Zip Code)

(949) 354-6499
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.0001 par value per share	AEON	New York Stock Exchange American
Warrants to purchase common stock	AEON WS	New York Stock Exchange American

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

INTRODUCTORY NOTE

This Amendment No. 1 on Form 8-K/A (this “Amendment No. 1”) amends Item 9.01 of the Current Report on Form 8-K filed by AEON Biopharma, Inc. (the “Company”) on July 27, 2023, (the “Original Report”), in which the Company reported, among other events, the completion of the Transactions. This Amendment No. 1 amends Items 9.01(a) and 9.01(b) in the Original Report to include (a) the unaudited condensed consolidated financial statements of AEON Biopharma, Inc., a Delaware corporation formerly known as AEON Biopharma, Inc. (“Old AEON”), as of June 30, 2023 and for the three and six months ended June 30, 2023 and 2022, and (b) the unaudited pro forma condensed combined financial information of Priveterra Acquisition Corp. (“Priveterra”) and Old AEON as of and for the six months ended June 30, 2023 and for the year ended December 31, 2022. This Amendment No. 1 does not amend any other item of the Original Report or purport to provide an update or a discussion of any developments at the Company subsequent to the filing date of the Original Report.

Capitalized terms used but not defined herein have the meanings given in the Original Report.

Item 9.01. Financial Statements and Exhibits

(a) Financial statements of businesses acquired.

The (i) unaudited condensed consolidated financial statements of Old AEON as of March 31, 2023 and for the periods ended March 31, 2023 and 2022 and (ii) audited consolidated financial statements of Old AEON as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, are incorporated herein by reference from the Original Report. The unaudited condensed consolidated financial statements of Old AEON as of June 30, 2023 and for the periods ended June 30, 2023 and 2022 are filed as Exhibit 99.7 and incorporated herein by reference.

Also included herewith as Exhibit 99.8 and incorporated herein by reference is the Management’s Discussion and Analysis of Financial Condition and Results of Operations for Old AEON for the three and six months ended June 30, 2023.

(b) Pro forma financial information.

The unaudited pro forma condensed combined financial information of Priveterra and Old AEON as of and for the three months ended March 31, 2023 and for the year ended December 31, 2022 is incorporated herein by reference from the Original Report. The unaudited pro forma condensed combined financial information of Priveterra and Old AEON as of and for the six months ended June 30, 2023 and for the year ended December 31, 2022 is filed as Exhibit 99.9 and incorporated herein by reference.

(d) Exhibits.

Exhibit No.	Description
23.2	Consent of Ernst & Young LLP, Independent Public Accounting Firm.
99.7	Unaudited condensed consolidated financial statements of Old AEON as of June 30, 2023 and for the three and six months ended June 30, 2023 and 2022.
99.8	Management’s Discussion and Analysis of Financial Condition and Results of Operations for Old AEON for the three and six months ended June 30, 2023.
99.9	Unaudited pro forma condensed combined financial information of the Company as of and for the six months ended June 30, 2023 and for the year ended December 31, 2022.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURE

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 hereunto duly authorized.

Date: August 11, 2023

AEON Biopharma, Inc.

By: /s/ Marc Forth
Name: Marc Forth
Title: Chief Executive Officer

Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm

We consent to the inclusion of our report dated March 9, 2023, relating to the consolidated financial statements of AEON Biopharma, Inc. (Old AEON) as of and for the years ended December 31, 2022 and 2021 appearing in this Current Report on Form 8-K/A of AEON Biopharma, Inc. (formerly Priveterra Acquisition Corp.).

/s/ Ernst & Young LLP

Irvine, CA
August 11, 2023

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Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors of AEON Biopharma, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of AEON Biopharma, Inc. (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations and comprehensive loss, convertible preferred stock and deficit and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Company’s Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has experienced recurring losses from operations, net capital deficiency, negative cash flows from operations since inception, and has stated that substantial doubt exists about the Company’s ability to continue as a going concern. Management’s evaluation of the events and conditions and management’s plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2019.

Irvine, California
March 9, 2023

AEON BIOPHARMA, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	Years Ended December 31,		June 30,
	2022	2021	2023 (unaudited)
ASSETS			
Current assets:			
Cash	\$ 9,746	\$ 5,128	\$ 2,603
Prepaid expenses and other current assets	92	26	59
Total current assets	9,838	5,154	2,662
Property and equipment, net	431	193	382
Operating lease right-of-use asset	475	729	382
Other assets	34	360	34
Total assets	\$ 10,778	\$ 6,436	\$ 3,460
LIABILITIES, CONVERTIBLE PREFERRED STOCK AND DEFICIT			
Current liabilities:			
Accounts payable	\$ 7,805	\$ 1,192	\$ 6,345
Accrued clinical trials expenses	2,051	2,246	5,099
Accrued compensation	1,112	1,066	1,591
Other accrued expenses	740	697	1,871
Current portion of convertible notes at fair value, including related party amount of \$38,834, \$11,162 and \$39,103 at December 31, 2022 and 2021, and June 30, 2023 (unaudited), respectively	70,866	15,603	73,433
Total current liabilities	82,574	20,804	88,339
Convertible notes at fair value, including related party amount of \$23,132, \$35,751 and \$26,018 at December 31, 2022 and 2021, and June 30, 2023 (unaudited), respectively	60,426	70,762	60,932
Operating lease liability	242	524	130
Other liabilities	—	221	—
Total liabilities	143,242	92,311	149,401
Commitments and contingencies			
Convertible preferred stock issuable in series, \$0.0001 par value; 44,666,035 shares authorized; 21,257,708 shares issued and outstanding at December 31, 2022 and 2021, and June 30, 2023 (unaudited); liquidation preference of \$141,920 at December 31, 2022 and December 31, 2021, and June 30, 2023 (unaudited)	137,949	137,949	137,949
Stockholders' Deficit:			
AEON Biopharma, Inc. stockholders' deficit:			
Common stock, \$0.0001 par value; 207,450,050 shares authorized; 138,848,177 shares issued and 138,825,356 shares outstanding at December 31, 2022 and 2021, and June 30, 2023 (unaudited)	14	14	14
Additional paid-in capital	187,348	187,348	204,384
Accumulated deficit	(474,839)	(422,283)	(507,857)
Treasury stock, at cost, 22,821 shares at December 31, 2022, 2021, and June 30, 2023 (unaudited)	(23)	(23)	(23)
Total AEON Biopharma, Inc. stockholders' deficit	(287,500)	(234,944)	(303,482)
Non-controlling interest	17,087	11,120	19,592
Total deficit	(270,413)	(223,824)	(283,890)
Total liabilities, convertible preferred stock and deficit	\$ 10,778	\$ 6,436	\$ 3,460

AEON BIOPHARMA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except per share data)

	Years Ended December 31,		Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2023	2022	2023	2022
			(unaudited)		(unaudited)	
Operating expenses:						
Selling, general and administrative	\$ 13,675	\$ 11,153	\$ 4,946	\$ 3,189	\$ 8,787	\$ 5,734
Research and development	34,754	25,728	9,025	8,964	18,230	17,747
Litigation settlement	—	28,966	—	—	—	—
Total operating costs and expenses	48,429	65,847	13,971	12,153	27,017	23,481
Loss from operations	(48,429)	(65,847)	(13,971)	(12,153)	(27,017)	(23,481)
Other income (loss):						
Change in fair value of convertible notes	(4,416)	795	(1,453)	9,657	(6,110)	15,928
Gain on cancellation of unwind fee	—	9,550	—	—	—	—
Other income (loss), net	289	(135)	45	(1)	109	—
Total other (loss) income	(4,127)	10,210	(1,408)	9,656	(6,001)	15,928
Loss before taxes	(52,556)	(55,637)	(15,379)	(2,497)	(33,018)	(7,553)
Income taxes	—	—	—	—	—	—
Loss and comprehensive loss	\$ (52,556)	\$ (55,637)	\$ (15,379)	\$ (2,497)	\$ (33,018)	\$ (7,553)
Basic and diluted net loss per share	\$ (0.38)	\$ (0.44)	\$ (0.11)	\$ (0.02)	\$ (0.24)	\$ (0.05)
Weighted average shares of common stock outstanding used to compute basic and diluted net loss per share	138,825,356	126,252,622	138,825,356	138,825,356	138,825,356	138,825,356

AEON BIOPHARMA, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands, except per share data)

	Years Ended December 31,		Six Months Ended June 30,	
	2022	2021	2023	2022
	(unaudited)			
Cash flows from operating activities:				
Net loss	\$ (52,556)	\$ (55,637)	\$ (33,018)	\$ (7,553)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	68	3	48	23
Gain on cancellation of unwind fee	—	(9,550)	—	—
Write-off of deferred offering costs	331	1,978	—	—
Stock-based compensation expense	5,892	5,220	2,505	3,151
Change in fair value of convertible notes	4,416	(795)	6,110	(15,928)
Litigation settlement, non-cash through the issuance equity	—	28,966	—	—
Other	(3)	(34)	—	(2)
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets	(66)	182	33	(12)
Accounts payable	6,613	(898)	(1,460)	810
Accrued expenses and other liabilities	(105)	2,158	4,656	3,713
Other assets and liabilities	(174)	(26)	(17)	198
Net cash used in operating activities	(35,584)	(28,433)	(21,143)	(15,600)
Cash flows from investing activities:				
Purchases of property and equipment	(306)	(170)	—	(69)
Net cash used in investing activities	(306)	(170)	—	(69)
Cash flows from financing activities:				
Proceeds from issuance of convertible notes	44,500	15,000	14,000	12,000
Payments for offering costs	—	(1,437)	—	—
Payment of note payable	(3,992)	—	—	—
Net cash provided by financing activities	40,508	13,563	14,000	12,000
Net increase (decrease) in cash	4,618	(15,040)	(7,143)	(3,669)
Cash at beginning of period	5,128	20,168	9,746	5,128
Cash at end of period	\$ 9,746	\$ 5,128	\$ 2,603	\$ 1,459
Supplemental disclosure of cash flow information:				
Non-cash investing activities				
Property and equipment assets obtained in exchange for accounts payable	\$ —	\$ 27	\$ —	\$ —
Non-cash financing activities:				
Issuance of common stock in connection with litigation settlement	\$ —	\$ 28,966	\$ —	\$ —
Operating lease assets obtained in exchange for operating lease liabilities	\$ —	\$ 747	\$ —	\$ —
Unpaid deferred offering costs	\$ —	\$ 33	\$ —	\$ —

AEON BIOPHARMA, INC.

CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND DEFICIT
(in thousands, except share data)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock		Non-Controlling Interest	Total Deficit
	Shares	Amount	Shares	Amount			Shares	Amount		
Balance as of January 1, 2021	21,257,708	\$ 137,949	112,167,666	\$ 11	\$ 158,385	\$ (366,646)	(22,821)	\$ (23)	\$ 5,039	\$ (203,234)
Net loss	—	—	—	—	—	(55,637)	—	—	—	(55,637)
Issuance of common stock in connection with litigation settlement	—	—	26,680,511	3	28,963	—	—	—	—	28,966
Stock-based compensation expense	—	—	—	—	—	—	—	—	6,081	6,081
Balance as of December 31, 2021	21,257,708	137,949	138,848,177	14	187,348	(422,283)	(22,821)	(23)	11,120	(223,824)
Net loss	—	—	—	—	—	(52,556)	—	—	—	(52,556)
Stock-based compensation expense	—	—	—	—	—	—	—	—	5,967	5,967
Balance as of December 31, 2022	21,257,708	137,949	138,848,177	14	187,348	(474,839)	(22,821)	(23)	17,087	(270,413)
Net loss	—	—	—	—	—	(17,639)	—	—	—	(17,639)
Stock-based compensation expense	—	—	—	—	—	—	—	—	1,360	1,360
Balance as of March 31, 2023 (unaudited)	21,257,708	137,949	138,848,177	14	187,348	(492,478)	(22,821)	(23)	18,447	(286,692)
Net loss	—	—	—	—	—	(15,379)	—	—	—	(15,379)
Stock-based compensation expense	—	—	—	—	—	—	—	—	1,145	1,145
Debt extinguishment due to warrant modification	—	—	—	—	17,036	—	—	—	—	17,036
Balance as of June 30, 2023 (unaudited)	<u>21,257,708</u>	<u>\$ 137,949</u>	<u>138,848,177</u>	<u>\$ 14</u>	<u>\$ 204,384</u>	<u>\$ (507,857)</u>	<u>(22,821)</u>	<u>\$ (23)</u>	<u>\$ 19,592</u>	<u>\$ (283,890)</u>
Balance as of December 31, 2021	21,257,708	\$ 137,949	138,848,177	\$ 14	\$ 187,348	\$ (422,283)	(22,821)	\$ (23)	\$ 11,120	\$ (223,824)
Net loss	—	—	—	—	—	(5,056)	—	—	—	(5,056)
Stock-based compensation expense	—	—	—	—	—	—	—	—	1,429	1,429
Balance as of March 31, 2022 (unaudited)	21,257,708	137,949	138,848,177	14	187,348	(427,339)	(22,821)	(23)	12,549	(227,451)
Net loss	—	—	—	—	—	(2,497)	—	—	—	(2,497)
Stock-based compensation expense	—	—	—	—	—	—	—	—	1,722	1,722
Balance as of June 30, 2022 (unaudited)	<u>21,257,708</u>	<u>\$ 137,949</u>	<u>138,848,177</u>	<u>\$ 14</u>	<u>\$ 187,348</u>	<u>\$ (429,836)</u>	<u>(22,821)</u>	<u>\$ (23)</u>	<u>\$ 14,271</u>	<u>\$ (228,226)</u>

AEON BIOPHARMA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization

Description of Business

AEON Biopharma, Inc. (“AEON” or the “Company”) is a biopharmaceutical company focused on developing its proprietary botulinum toxin complex, ABP-450 (prabotulinumtoxinA) injection (“ABP-450”), for debilitating medical conditions. The Company was incorporated in Delaware in February 2012 under the name Alphaeon Corporation as a wholly owned subsidiary of Strathspey Crown Holdings Group, LLC (“SCH”). On December 18, 2019, the Company changed its name to “AEON Biopharma, Inc.” The Company is headquartered in Irvine, California.

On December 12, 2022, AEON and Priveterra (Nasdaq: PMGM), a special purpose acquisition company (SPAC), entered into a definitive business combination and merger agreement (the “Merger”). Upon closing of the proposed transaction, the combined company will operate as AEON Biopharma, Inc. and to list on the NYSE under the ticker symbol “AEON”. The merger closed on July 21, 2023. See Note 12 Subsequent Events.

Liquidity and Going Concern

The accompanying consolidated financial statements have been prepared on a basis that assumes the Company will continue as a going concern. The Company has experienced recurring losses from operations and has a net capital deficiency and negative cash flows from operations since its inception. As of December 31, 2022, the Company reported cash of \$9.7 million and an accumulated deficit of \$474.8 million. As of June 30, 2023, the Company reported cash of \$2.6 million and an accumulated deficit of \$507.9 million. The Company expects to incur losses for the foreseeable future. As a result of these conditions, management has concluded that there is substantial doubt about the Company’s ability to continue as a going concern and to meet its obligations as they become due within one year after the date that these consolidated financial statements are issued.

The Company expects to seek additional funding in the form of the Merger, equity financings or debt, however, there can be no assurance that such efforts will be successful or that, in the event that they are successful, the terms and conditions of such financing will be favorable. If the Company is unable to consummate the Merger or to secure additional funding when desired, the Company may need to delay the development, commercialization and marketing of its products and scale back its business and operations.

The preparation of these consolidated financial statements does not include any adjustments that may result from the outcome of this uncertainty. This basis of accounting contemplates the recovery of the Company’s assets and the satisfaction of the Company’s liabilities and commitments in the normal course of business and does not include any adjustments to reflect the possible future effects of the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. If the Company is unable to obtain adequate capital, it could be forced to cease operations. The audit report covering these accompanying consolidated financial statements includes an explanatory paragraph that describes conditions that raise substantial doubt about the Company’s ability to continue as a going concern.

The Company’s future operations are highly dependent on a combination of factors, including (1) the success of its research and development programs; (2) the timely and successful completion of any additional financing; (3) the development of competitive therapies by other biotechnology and pharmaceutical companies; (4) the Company’s ability to manage growth of the organization; (5) the Company’s ability to protect its technology and products; and, ultimately (6) regulatory approval and successful commercialization and market acceptance of its product candidates.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). The consolidated financial statements include the accounts of the Company and its controlled subsidiaries.

Prior to September 30, 2020, the Company's consolidated results included the results of the Company's wholly-owned affiliate, Alphaeon Credit. See Note 3, "Contribution and Distribution of Affiliated Companies" for more information.

All intercompany transactions and balances have been eliminated from the consolidated financial statements.

Unaudited Interim Financial Information

The accompanying interim consolidated balance sheet as of June 30, 2023, the consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2023 and 2022, convertible preferred stock and deficit and cash flows for the six months ended June 30, 2023 and 2022 and the related footnote disclosures are unaudited. These unaudited interim financial statements have been prepared in accordance with U.S. GAAP and, in management's opinion, on a basis consistent with the audited financial statements and reflect all adjustments which only include normal recurring adjustments necessary for the fair presentation of the Company's financial position as of June 30, 2023 and its results of operations and comprehensive loss for the three and six months ended June 30, 2023 and 2022 and cash flows for the six months ended June 30, 2023 and 2022. The results for the three and six months ended June 30, 2023 are not necessarily indicative of the results to be expected for the year ending December 31, 2023 or any other interim period.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes. The Company's most significant estimates relate to the valuation of common stock and related stock-based compensation, the fair values of financial instruments and convertible notes, among others. Although the Company bases estimates on historical experience, knowledge of current events and actions it may undertake in the future, and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments over the carrying values of assets and liabilities, this process may result in actual results differing materially from those estimated amounts used in the preparation of the financial statements.

In December 2019, a novel strain of coronavirus, which causes COVID-19, was identified. Due to the rapid and global spread of the virus, on March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. To slow the proliferation of COVID-19, governments implemented extraordinary measures, which included the mandatory closure of businesses, restrictions on travel and gatherings, and quarantine and physical distancing requirements. Due to the COVID-19 pandemic, there has been uncertainty and disruption in the global economy and financial markets. There were no significant estimates contained in the preparation of the Company's consolidated financial statements or impacts to the Company's consolidated financial statements for the years ended December 31, 2022 and 2021 and for the six months ended June 30, 2023 and 2022 that were a result of the COVID-19 pandemic.

Segment Reporting

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker in making decisions regarding resource allocation and assessing performance. The Company provides segment financial information and results for its segments based on the segregation of revenues and expenses that its chief operating decision makers review for purposes of allocating resources and evaluating its financial performance.

As of December 31, 2022 and 2021 and June 30, 2023, the Company operates and manages its business as one operating and reportable segment.

Risk and Uncertainties

The Company is subject to risks common to early-stage companies in the pharmaceutical industry including, but not limited to, dependency on the clinical and commercial success of its current and any future product candidates, ability to obtain regulatory approval of its current and any future product candidates, the need for substantial additional financing to achieve its goals, uncertainty of broad adoption of its approved products, if any, by physicians and patients and significant competition.

The Company relies on Daewoong Pharmaceuticals Co., Ltd. (“Daewoong”), a South Korean pharmaceutical manufacturer, as an exclusive and sole supplier to manufacture the Company’s source material for product candidates. Any termination or loss of significant rights, including exclusivity, under the Company’s license and supply agreement with Daewoong (the “Daewoong Agreement”) would materially and adversely affect the Company’s commercialization of its products. See Note 7, “Commitments and Contingencies” for a discussion of the Daewoong Agreement.

Any ongoing direct or indirect impact of COVID-19 on the Company’s business, results of operations and financial condition, including clinical trials delays and costs, will depend on future developments that are highly uncertain, including any new outbreaks of COVID-19 and the actions taken to contain them, as well as the economic impact on local, regional, national and international markets.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization. The cost of property and equipment is depreciated over the estimated useful lives of the respective assets. The Company’s furniture and fixtures are depreciated on a straight-line basis over a period of seven years. Equipment is depreciated over a useful life of three years. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the related lease term. Property and equipment, net, as of December 31, 2022 and June 30, 2023 are as follows (in thousands):

	December 31,		June 30,
	2022	2021	2023
			(unaudited)
Furniture and fixtures	\$ 199	130	\$ 199
Equipment	237	—	\$ 237
Leasehold improvements	66	66	\$ 66
Property and equipment	502	196	502
Accumulated depreciation	(71)	(3)	(120)
Property and equipment, net	\$ 431	\$ 193	\$ 382

Deferred Initial Public Offering Costs and 2022 Definitive Business Combination Agreement and Merger Costs

Specific incremental legal fees, accounting fees and other fees directly attributable to a proposed or actual offering of securities are deferred and charged against the gross proceeds of the offering or are expensed as incurred. In the event the planned offering does not occur, the deferred offering costs would be expensed. As of January 1, 2021, the Company had \$0.8 million of capitalized offering cost. During 2021, the Company incurred additional offering costs of \$1.5 million and wrote off \$2.0 million of offering costs. As of December 31, 2021, the Company had \$0.3 million of capitalized offering costs. During 2022, the Company did not incur any offering costs and wrote-off \$0.3 million of offering costs. During the six months ended June 30, 2022, the Company did not incur any offering costs. As of December 31, 2022 and June 30, 2023, capitalized offering costs were \$0. During the year ended December 31, 2022, the Company incurred and recorded as selling, general and administrative expenses \$3.0 million related to the definitive business combination agreement and Merger. During the three and six months ended June 30, 2023, the Company incurred and recorded as selling, general and administrative expenses \$2.6 million and \$3.5 million, respectively, related to the definitive business combination agreement and Merger. See Note 1, Organization, Description of Business.

Fair Value Option

The Company elects to account for its convertible promissory notes, which meet the required criteria, at fair value at inception and at each subsequent reporting date. Subsequent changes in fair value are recorded as a component of non-operating loss in the consolidated statements of operations and comprehensive loss or as a component of other comprehensive loss for changes related to instrument-specific credit risk. As a result of electing the fair value option, direct costs and fees related to the convertible promissory notes are expensed as incurred.

Investments

The Company's equity investments are accounted for under the equity method of accounting when the Company can exert significant influence and the Company's ownership interest does not exceed 50%. The Company initially records equity method investments at cost and adjusts for the appropriate share of investee net earnings or losses.

Convertible Preferred Stock

The Company records convertible preferred stock at their respective issuance price, less issuance costs on the dates of issuance. The convertible preferred stock is classified outside of permanent equity as temporary equity in the accompanying consolidated balance sheets. Although the convertible preferred stock is not redeemable, upon certain change in control events that are outside of the Company's control, including liquidation, sale or transfer of control of the Company, holders of the convertible preferred stock may have the right to receive their liquidation preference to any distribution of the proceeds under the terms of the Company's amended and restated certificate of incorporation. The Company has not adjusted the carrying values of the convertible preferred stock to the liquidation preferences of such shares since it is uncertain whether or when a redemption event will occur. Subsequent adjustments to increase the carrying values to the redemption values will be made only when it becomes probable that such redemption will occur.

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or an exit price paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair value measurements are based on a three-tiered valuation hierarchy, which is classified and disclosed by the Company in one of the three categories as follows:

- Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly, or can be corroborated by observable market data for substantially the full term of the asset or liability; and
- Level 3 — Prices or valuation techniques that require unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Leases

The Company determines whether a contract is, or contains, a lease at inception. Right-of-use ("ROU") assets represent the Company's right to use an underlying asset during the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at lease commencement based upon the estimated present value of unpaid lease payments over the lease term using the Company's incremental borrowing rate applicable to the underlying asset unless the implicit rate is readily determinable. The Company determines the lease term as the noncancellable period of the lease, and may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Leases with a term of 12 months or less are not recognized on the balance sheets.

Research and Development Expenses

Research and development costs are expensed as incurred. Research and development expenses consist primarily of costs associated with clinical studies including clinical trial design, clinical site reimbursement, data management, travel expenses and the cost of products used for clinical trials and internal and external costs associated with the Company's regulatory compliance and quality assurance functions, including the costs of outside consultants and contractors that assist in the process of submitting and maintaining regulatory filings, and overhead costs. Additionally, research and development expenses include employee compensation, including stock-based compensation, supplies, consulting, prototyping, testing, materials, travel expenses and an allocation of facility overhead expenses. Costs incurred in obtaining technology licenses are charged to research and development expense as acquired in-process research and development if the technology licensed has not reached technological feasibility and has no alternative future use.

The Company accrues the expenses for its clinical trial activities performed by third parties, including clinical research organizations and other service providers, based upon estimates of the work completed over the life of the individual study in accordance with associated agreements. The Company determines these estimates through discussion with internal personnel and outside service providers as to progress or stage of completion of trials or services pursuant to contracts with clinical research organizations and other service providers and the agreed-upon fee to be paid for such services. Payments made to outside service providers in advance of the performance of the related services are recorded as prepaid expenses and other current assets until the services are rendered. There have been no material adjustments to the Company's accrued estimates for clinical trial activities through December 31, 2022 and June 30, 2023.

Stock-Based Compensation

The Company recognizes compensation expense for all share-based awards. The Company accounts for stock-based compensation as measured at grant date, based on the fair value of the award. The Company measures the fair value of awards granted using the Black-Scholes option pricing model, which requires the input of subjective assumptions, including the estimated fair value of common stock, the expected volatility of the Company's common stock, expected risk-free interest rate, and the option's expected life. The Company also evaluates the impact of modifications made to the original terms of equity awards when they occur.

The fair value of equity awards that are expected to vest is amortized on a straight-line basis over the requisite service period. Stock-based compensation expense is recognized net of actual forfeitures when they occur, as an increase to additional paid-in capital or noncontrolling interest in the consolidated balance sheets and in selling, general and administrative or research and development expenses in the consolidated statements of operations and comprehensive loss. All stock-based compensation costs are recorded in the consolidated statements of operations and comprehensive loss based upon the underlying employee's role within the Company.

Noncontrolling Interest

ABP Sub Inc., the Company's wholly owned subsidiary, grants stock options to certain employees and nonemployee consultants of ABP Sub Inc. The Company accounts for stock-based compensation expense recognized by ABP Sub Inc. as an increase in noncontrolling interest in the accompanying consolidated financial statements. See Note 11, "Share-based Compensation" for more information.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires, among other things, that deferred income taxes be provided for temporary differences between the tax basis of the Company's assets and liabilities and their financial statement reported amounts. In addition, deferred tax assets are recorded for the future benefit of utilizing net operating losses and research and development credit carryforwards and are measured using the enacted tax rates and laws that will be in effect when such items are expected to reverse. A valuation allowance is provided against deferred tax assets unless it is more likely than not that they will be realized.

The Company records uncertain tax positions on the basis of a two-step process whereby (i) it determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (ii) for those tax positions that meet the more-likely-than-not recognition threshold, it recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statements of operations and comprehensive loss. Any accrued interest and penalties related to uncertain tax positions will be reflected as a liability in the balance sheet.

Net Loss Per Share Attributable to Common Stockholders

The Company calculates basic and diluted net loss per share to common stockholders in conformity with the two-class method required for companies with participating securities. The Company considers all series of convertible preferred stock to be participating securities as they participate in any dividends declared by the Company. Under the two-class method, undistributed earnings allocated to these participating stockholders are subtracted from net income in determining net income attributable to common stockholders. Net loss attributable to common stockholders is not allocated to convertible preferred stock as the holders of convertible preferred stock do not have a contractual obligation to share in losses.

Basic net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period, without consideration for potentially dilutive shares of common stock. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock and potentially dilutive securities outstanding for the period using the “treasury stock,” “if converted” or “two-class” method if their inclusion would have been anti-dilutive. For purposes of the diluted net loss per share calculation, convertible preferred stock, warrants, convertible notes and common stock options are considered as potentially dilutive securities.

Since the Company was in a loss position for the three and six months ended June 30, 2023 and 2022 and the years ended December 31, 2022 and 2021, basic net loss per share is the same as diluted net loss per share as the inclusion of all potentially dilutive common shares was anti-dilutive.

Basic and diluted net loss per share for the year ended December 31, 2021 was calculated as follows (in thousands, except share and per share amounts):

Year ended December 31, 2021

Net loss available to AEON common stockholders	\$ (55,637)
Weighted average common shares outstanding, basic and diluted	126,252,622
Net loss per share attributable to AEON common stockholders, basic and diluted	<u><u>\$ (0.44)</u></u>

Basic and diluted net loss per share for the year end December 31, 2022 was calculated as follows (in thousands, except share and per share amounts):

Year Ended December 31, 2022

Net loss available to AEON common stockholders	\$ (52,556)
Weighted average common shares outstanding, basic and diluted	138,825,356
Net loss per share attributable to AEON common stockholders, basic and diluted	<u><u>\$ (0.38)</u></u>

Basic and diluted net loss per share for the three months ended June 30, 2022 was calculated as follows (in thousands, except share and per share amounts):

Three Months Ended June 30, 2022 (unaudited)

Net loss available to AEON common stockholders	\$ (2,497)
Weighted average common shares outstanding, basic and diluted	138,825,356
Net loss per share attributable to AEON common stockholders, basic and diluted	\$ (0.02)

Basic and diluted net loss per share for the three months ended June 30, 2023 was calculated as follows (in thousands, except share and per share amounts):

Three Months Ended June 30, 2023 (unaudited)

Net loss available to AEON common stockholders	\$ (15,379)
Weighted average common shares outstanding, basic and diluted	138,825,356
Net loss per share attributable to AEON common stockholders, basic and diluted	\$ (0.11)

Basic and diluted net loss per share for the six months ended June 30, 2022 was calculated as follows (in thousands, except share and per share amounts):

Six Months Ended June 30, 2022 (unaudited)

Net loss available to AEON common stockholders	\$ (7,553)
Weighted average common shares outstanding, basic and diluted	138,825,356
Net loss per share attributable to AEON common stockholders, basic and diluted	\$ (0.05)

Basic and diluted net loss per share for the six months ended June 30, 2023 was calculated as follows (in thousands, except share and per share amounts):

Six Months Ended June 30, 2023 (unaudited)

Net loss available to AEON common stockholders	\$ (33,018)
Weighted average common shares outstanding, basic and diluted	138,825,356
Net loss per share attributable to AEON common stockholders, basic and diluted.	\$ (0.24)

The following potentially dilutive securities outstanding have been excluded from the computation of diluted weighted average shares outstanding because such securities have an anti-dilutive impact:

	December 31,		June 30, (unaudited)	
	2022	2021	2023	2022
Convertible preferred stock outstanding	21,257,708	21,257,708	21,257,708	21,257,708
Convertible preferred stock warrants outstanding	342,011	342,011	—	342,011
Common stock options	9,694,890	10,516,525	9,694,890	10,516,525
Restricted Stock Units	—	—	1,169,366	—
	<u>31,294,609</u>	<u>32,116,244</u>	<u>32,121,964</u>	<u>32,116,244</u>

Contingencies

The Company may be, from time to time, a party to various disputes and claims arising from normal business activities. The Company continually assesses litigation to determine if an unfavorable outcome would lead to a probable loss or reasonably possible loss which could be estimated. The Company accrues for all contingencies at the earliest date at which the Company deems it probable that a liability has been incurred and the amount of such liability can be reasonably estimated. If the estimate of a probable loss is a range and no amount within the range is more likely than another, the Company accrues the minimum of the range. In the cases where the Company believes that a reasonably possible loss exists, the Company discloses the facts and circumstances of the litigation, including an estimable range, if possible.

Recently Adopted Accounting Standards

In June 2016, the FASB issued an accounting standards update (ASU 2016-13) that amended the guidance on the measurement of credit losses on financial instruments. The guidance amended the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain financial instruments. In November 2019, the FASB issued an update to the guidance to defer the effective date for all entities except SEC filers that are not smaller reporting companies to fiscal years beginning after December 15, 2022, including interim periods within those years. The Company adopted this standard on January 1, 2023. The adoption of this standard did not have an impact on the Company's consolidated financial statements or related disclosures.

In August 2020, the FASB issued Accounting Standards Update (ASU 2020-06) that simplified the accounting for certain financial instruments with characteristics of liabilities and equity by reducing the number of accounting models for convertible debt and convertible preferred stock instruments. It also amended the accounting for certain contracts in an entity's own equity that are currently accounted for as derivatives because of specific settlement provisions. In addition, the new guidance modified how particular convertible instruments and certain contracts that may be settled in cash or shares impact the diluted EPS computation. The Company adopted this standard on January 1, 2023. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

New Accounting Standards Not Yet Adopted

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the Securities and Exchange Commission (the "SEC") did not, or are not believed by management to, have a material impact on the Company's financial position, results of operations or cash flows.

Note 3. Contribution and Distribution of Affiliated Companies

In January 2020, the Company formed a wholly owned subsidiary, named Alphaeon 1 LLC (A1). The Company's Board of Directors approved the contribution of its equity method interest in Evolus, Inc., which was a wholly owned subsidiary of the Company prior to Evolus' completion of an initial public offering ("IPO") in February 2018, to A1. At the time of this contribution, the Company owned 8,662,346 shares of Evolus, representing approximately 26% of the outstanding shares of Evolus. The Company then distributed all of the units of A1 to its current stockholders on a one common unit or one preferred unit for one share of its common stock or preferred stock, as applicable, basis. In connection with the distribution of the units of A1 to the Company's stockholders, each of the holders of the Company's 2019 Convertible Notes were granted contingent warrants by A1 to purchase shares of Evolus from A1. See Note 4, "Related Party Transactions" for further discussion.

As a result of the distribution, the Company no longer holds any membership interests in A1 nor any equity interest in Evolus. The Company derecognized the equity investment in Evolus from its balance sheet in January 2020 at the carrying value, which was the fair value. Upon the concurrent distribution to its current stockholders, the Company recorded an in-kind dividend of \$105.8 million for the value equal to the fair value of the equity investment in Evolus.

In September 2020, the Company formed Alphaeon Credit HoldCo LLC (AC HoldCo) and contributed all of its stock in Alphaeon Credit to AC HoldCo in exchange for all the interests in AC HoldCo, which the Company then distributed to its stockholders, pro-rata. At the time of this contribution, the Company owned 100% of the outstanding stock of Alphaeon Credit. In connection with the contribution and distribution, AC HoldCo issued to the holders of the 2019 Convertible Notes a contingent warrant to purchase, upon a qualifying listing (defined as the Company's first underwritten public offering) or an event of default, the common stock of Alphaeon Credit. See Note 4, "Related Party Transactions" for further discussion. As a result, the Company no longer holds any interest in Alphaeon Credit or AC HoldCo.

In September 2020, the Company formed Zelegent HoldCo LLC (Z HoldCo) and contributed all of its equity investment in Zelegent, Inc. (Zelegent), a privately held clinical trial stage medical device manufacturer focusing on creating tools to treat disorders, to Z HoldCo in exchange for all the interests in Z HoldCo, which the Company then distributed to its shareholders, pro-rata. At the time of this contribution, the Company had approximately a 35% ownership interest in Zelegent. In connection with the contribution and distribution, Z HoldCo issued to the holders of the 2019 Convertible Notes a contingent warrant to purchase, upon a qualifying listing (defined as the Company's first underwritten public offering) or event of default, the common stock of Zelegent. See Note 4, "Related Party Transactions" for further discussion. As a result, the Company no longer holds any equity interest in Zelegent or Z HoldCo.

The Company derecognized the assets and liabilities of Alphaeon Credit and the equity investment in Zelegent from its consolidated balance sheet effective September 30, 2020 at the carrying value. Upon the concurrent distribution to its current stockholders of its interests in AC HoldCo and Z HoldCo, the Company recorded an in-kind dividend of \$2.5 million for the value equal to the carrying amount of its investments in Alphaeon Credit and Zelegent.

On December 12, 2022, Priveterra and AEON executed the Business Combination Agreement. Concurrent with the execution of the Business Combination Agreement, Priveterra also entered into the Sponsor Support Agreement, the AEON Stockholder Support Agreement and the AEON Noteholder Support Agreement, in each case, with the applicable other parties thereto.

Note 4. Related Party Transactions

2019 Debt Financings

In June 2019, the Company entered into a senior unsecured note purchase agreement (the "Original 2019 Note Purchase Agreement"), with Dental Innovations, pursuant to which the Company issued Dental Innovations a promissory note (the "Original 2019 Note") with a principal amount of \$5.0 million. Pursuant to the terms of the Original 2019 Note, the Company was required to repay a total of \$8.75 million, representing all principal and interest owed, upon the earliest to occur of (i) June 19, 2022, (ii) Dental Innovations' demand for repayment following the Company's completion of an initial public offering and (iii) the Company's election to repay the Original 2019 Note in full.

Under the Original 2019 Note Purchase Agreement, Dental Innovations committed to purchase from the Company an additional promissory note with a principal amount of \$5.0 million, subject to the Company issuing and selling an additional promissory note with a principal amount of \$5.0 million to a lender not affiliated with Dental Innovations. Any such additional promissory notes would have the same payment terms as the Original 2019 Notes.

In December 2019, the Company entered into an amendment to the Original 2019 Note Purchase Agreement that provided for the exchange of the Original 2019 Note for a convertible promissory note with a principal amount of \$5.0 million. In addition, Dental Innovations was no longer committed to purchase from the Company an additional promissory note with a principal amount of \$5.0 million subject to the Company issuing and selling an additional promissory note with a principal amount of \$5.0 million to a lender not affiliated with Dental Innovations. In December 2019, the Company issued and sold five additional convertible promissory notes, each with a principal amount of \$1.0 million, including one to SCH and one to a member of the Company's board of directors (all such convertible promissory notes, the "2019 Convertible Notes").

The Company's payment and performance under the 2019 Convertible Notes are guaranteed by ABP Sub Inc., its wholly owned subsidiary. Pursuant to the terms of the 2019 Convertible Notes, the Company is required to repay 175% of the principal amount to the holders on the third anniversary of their issuance. In the event of an underwritten public offering of the Company's common stock, the 2019 Convertible Notes will automatically convert into a number of shares of the Company's common stock equal to 175% of the principal amount of the 2019 Convertible Notes, divided by the per share price at which shares are offered to the public in such offering.

Due to certain embedded features within the 2019 Convertible Notes, the Company elected to account for the 2019 Convertible Notes and all their embedded features at fair value at inception. Subsequent changes in fair value are recorded as a component of other (loss) income in the consolidated statements of operations and comprehensive loss or as a component of other comprehensive income (loss) for changes to instrument-specific credit risk. As a result of electing the fair value option, direct costs and fees related to the 2019 Convertible Notes were expensed as incurred.

In January 2020, in connection with the distribution of the units of A1 to the Company's stockholders, each of the holders of the Company's 2019 Convertible Notes were granted contingent warrants by A1 to purchase shares of Evolus from A1. The contingent warrants are exercisable at the option of the holders only prior to the Company's first underwritten public offering of common stock under the Securities Act of 1933, as amended (the "Securities Act"), or upon an event of default under the 2019 Convertible Notes. The 2019 Convertible Notes were concurrently amended to provide the noteholders the option, prior to the notes' conversion, to cancel a portion of the indebtedness represented by such noteholder's 2019 Convertible Note and receive a number of shares of Evolus from A1 having a market value equal to the value of such cancelled indebtedness, in lieu of automatic conversion of all of the noteholder's 2019 Convertible Note into shares of the Company's common stock. The amount of cancelled indebtedness that can be so applied in exercise of the contingent warrant is capped as the ratio that the value of Evolus shares held by A1 bears to the combined value of (i) the Evolus shares held by A1 and (ii) the Company immediately prior to consummation of the Company's first underwritten public offering of common stock under the Securities Act.

In September 2020, in connection with the distribution of the units of AC HoldCo and Z HoldCo to the Company's stockholders, each of the holders of the Company's 2019 Convertible Notes were granted contingent warrants by AC HoldCo and Z HoldCo to purchase shares of Alphaeon Credit and Zelegent from AC HoldCo and Z HoldCo. The contingent warrants are exercisable at the option of the holders only prior to the Company's first underwritten public offering of common stock under the Securities Act, or upon an event of default under the 2019 Convertible Notes. The 2019 Convertible Notes were concurrently amended to provide the noteholders the option, prior to the notes' conversion, to cancel a portion of the indebtedness represented by such noteholder's 2019 Convertible Note and receive a number of shares of Alphaeon Credit and/or Zelegent from AC HoldCo and Z HoldCo having a market value equal to the value of such cancelled indebtedness, in lieu of automatic conversion of all of the noteholder's 2019 Convertible Note into shares of the Company's common stock. The amount of cancelled indebtedness that can be so applied in exercise of the contingent warrant is capped as the ratio of aggregate indebtedness held by the convertible note holder as a proportion of the value of Alphaeon Credit or Zelegent to the value of the Company.

As of December 31, 2022 and 2021 and June 30, 2023, no contingent warrants were exercised by the Company's stockholders to reduce the Company's convertible note obligations. During the years ended December 31, 2022 and 2021 and the six months ended June 30, 2023 and 2022, the Company recognized \$(1.7) million, \$0.1 million, \$(0.7) million and \$(0.1) million, respectively, of (expense) income related to the (increase) decrease in the fair value of the 2019 Convertible Notes. During the three months ended June 30, 2023 and 2022, the Company recognized \$(0.1) million and \$(2.0) million, respectively, of expense related to the increase in the fair value of the 2019 Convertible Notes. In April 2023, the contingent warrants were amended to include the merger between AEON, Priveterra Acquisition Corp., and Priveterra Merger Sub, Inc. as a qualifying listing under the warrant agreement, state that the holders of the contingent warrants will exercise the warrants, and that the holders will receive 85% of the shares the holders would have been entitled to receive via the previous warrant agreement. The Company determined that the contingent warrants amendment modified the settlement provision in the 2019 Convertible Notes. The Company determined that the amendment should be accounted for as a debt extinguishment. Since Evolus and Alphaeon Credit are related parties of AEON, the debt extinguishment is accounted for as a capital transaction. As such, during the three and six months ended June 30, 2023, due to the warrant modification, the Company recognized a \$5.2 million reduction to the underlying fair value of the convertible notes and recorded a corresponding increase of \$5.2 million to additional paid in capital. As of December 31, 2022 and 2021 and as of June 30, 2023, the principal amount outstanding under the 2019 Convertible Notes was \$6.0 million, \$10.0 million and \$6.0 million, respectively, with an estimated fair value of \$13.3 million, \$15.6 million and \$8.7 million, respectively.

Additionally, on July 22, 2022, the 2019 debt was amended. The Dental Innovations note's maturity date was extended from June 19, 2022 to December 29, 2023. The original note had a principal of \$5.0 million. Upon the original maturity date, the total due was 175% of principal, which equals \$8.7 million (includes an additional amount of \$3.7 million). Interest was increased from 0.0% to 15.79% on the total payable of \$8.7 million from the original maturity date of June 19, 2022 to the new maturity date of December 29, 2023.

On July 22, 2022, the Simhambhatla, Jaywin, Willis, and Malik notes' maturity dates were extended from November 1, 2022, December 12, 2022, December 12, 2022 and December 18, 2022, respectively, to December 29, 2023. Each of the four notes had a principal of \$1.0 million. Upon the original maturity date, the total due on each of the four notes was 175% of principal, which equals \$1.7 million (includes an additional amount of \$0.7 million). At the original maturity dates, the principal sum of \$1.0 million was paid back to each of the note holders. The remaining \$0.7 million is due at the extended maturity date of December 29, 2023. The interest rate was increased from 0.0% to 10.0% interest on the remaining \$0.7 million from the original maturity date to the new maturity date.

The 2019 Strathspey Crown Note's maturity date was extended from December 18, 2022 to December 29, 2023. The original Note had a principal of \$1.0 million. Upon the original maturity date, the total due was 175% of principal, which equals \$1.7 million. The interest rate was increased from 0.0% to 15.79% on the total of \$1.7 million from the original maturity date to the new maturity date.

SCH Convertible Note

Since December 2013, the Company had been party to an intercompany credit line promissory note (the "Strathspey Crown Note"), pursuant to which SCH, the Company's majority stockholder, had advanced borrowings to the Company to fund its capital requirements. Effective as of January 2, 2020, the Company and SCH cancelled all obligations under the Strathspey Crown Note and in exchange the Company issued a convertible promissory note to SCH (the "SCH Convertible Note") with a principal amount of \$17.5 million. The Company accounted for the debt exchange as an extinguishment of the Strathspey Crown Note and recognized a loss on debt extinguishment of \$11.2 million, representing the difference between the fair value of the SCH Convertible Note of \$26.5 million at January 2, 2020 and total obligations outstanding under the Strathspey Crown Note of \$15.8 million less the unamortized borrowing cost of \$0.5 million.

The Company's payment and performance under the SCH Convertible Note are guaranteed by ABP Sub Inc. Pursuant to the terms of the SCH Convertible Note, the Company is required to repay 175% of the principal amount to SCH on the third anniversary of its issuance. In the event of an underwritten public offering of the Company's common stock, the SCH Convertible Note will automatically convert into a number of shares of the Company's common stock equal to 175% of the principal amount of the SCH Convertible Note, divided by the per share price at which shares are offered to the public in such offering.

Due to certain embedded features within the SCH Convertible Note, the Company elected to account for the SCH Convertible Note and the embedded features at fair value at inception. Subsequent changes in fair value are recorded as a component of other (loss) income in the consolidated statements of operations and comprehensive loss or as a component of other comprehensive income (loss) for changes to instrument-specific credit risk. As a result of electing the fair value option, any direct costs and fees related to the SCH Convertible Note were expensed as incurred.

During the years ended December 31, 2022 and 2021 and the six months ended June 30, 2023 and 2022, the Company recognized \$(2.1) million, \$1.8 million, \$(2.1) million and \$1.8 million, respectively, of (expense) income related to the (increase) decrease in the fair value of the SCH Convertible Note. During the three months ended June 30, 2023 and 2022, the Company recognized \$(0.6) million and \$(0.2) million, respectively, of expense related to the increase in the fair value of the SCH Convertible Note. In April 2023, the contingent warrants were amended to include the merger between AEON, Priveterra Acquisition Corp., and Priveterra Merger Sub, Inc. as a qualifying listing under the warrant agreement, state that the holders of the contingent warrants will exercise the warrants, and that the holders will receive 85% of the shares the holders would have been entitled to receive via the previous warrant agreement. The Company determined that the contingent warrants amendment modified the settlement provision in the 2019 Convertible Notes. The Company determined that the amendment should be accounted for as a debt extinguishment. Since Evolus and Alphaeon Credit are related parties of AEON, the debt extinguishment is accounted for as a capital transaction. As such, during the three and six months ended June 30, 2023 due to the warrant modification, the Company recognized a \$11.8 million reduction to the underlying fair value of the convertible notes and recorded a corresponding increase of \$11.8 million to additional paid in capital. As of December 31, 2022 and 2021 and as of June 30, 2023 the principal amount outstanding under the SCH Convertible Note was \$18.0 million with an estimated fair value of \$27.6 million, \$25.5 million and \$18.0 million, respectively.

Additionally, the 2020 Strathspey Crown note's maturity date was extended from January 2, 2023 to December 29, 2023. The original note had a principal of \$17.5 million. Upon the original maturity date, the total due was \$30.6 million. The interest rate was increased from 0.0% to 15.79% on the total of \$30.6 million from the original maturity date to the new maturity date.

A1 Convertible Notes

In December 2021, the Company entered into an agreement with A1 (the "A1 Purchase Agreement"), pursuant to which the Company issued subordinated convertible promissory notes to A1 with an aggregate principal amount of \$25.0 million. On December 8 and 15, 2021, the Company issued two convertible notes (collectively, the "2021 A1 Convertible Notes"), each with a principal amount of \$5.0 million and totaling \$10.0 million, that mature on the third anniversary of its issuance. The A1 Convertible Notes are unsecured and subordinated to the Company's other convertible notes.

The 2021 A1 Convertible Notes bear interest, compounded daily, at the lesser of 10% per annum or the maximum rate permissible by law. Interest is paid in-kind by adding the accrued amount thereof to the principal amount on a monthly basis on the last day of each calendar month for so long as any principal amount remains outstanding (such paid in-kind interest, in the aggregate at any time, the "PIK Principal").

Immediately prior to an initial public offering, all of the then outstanding principal amount and accrued and unpaid interest under the 2021 A1 Convertible Notes will automatically convert into shares of the Company's common stock. The number of shares of common stock issuable upon conversion of the 2021 A1 Convertible Notes is equal to (i) the outstanding loan amount (including the PIK Interest) divided by (ii) the product of (a) the price per share of such common stock issued to the public in the Initial Public Offering *multiplied by* (b) the applicable discount rate. The discount rate is determined for each note based on the number of days elapsed between the date the applicable note was executed and the date on which a conversion event is formally announced and shall be equal to (x) 10% if between zero and 90 days, (y) 15% if between 91 and 180 days, or (z) 20% if greater than 180 days.

Due to certain embedded features within the 2021 A1 Convertible Notes, the Company elected to account for the 2021 A1 Convertible Notes and the embedded features at fair value at inception. Subsequent changes in fair value are recorded as a component of other (loss) income in the accompanying consolidated statements of operations and comprehensive loss or as a component of other comprehensive income (loss) for changes to instrument-specific credit risk.

During the years ended December 31, 2022 and 2021 and the six months ended June 30, 2023 and 2022, the Company recognized \$0.6 million, \$(0.2) million \$(1.2) million and \$1.6 million, respectively of income (expense) related to the change in the fair value of the 2021 A1 Convertible Notes. During the three months ended June 30, 2023 and 2022, the Company recognized \$(0.7) million and \$(0.2) million, respectively, of expense related to the increase in the fair value of the 2021 A1 Convertible Notes. As of December 31, 2022 and 2021 and as of June 30, 2023, the principal amount outstanding under the 2021 A1 Convertible Notes was \$10 million with an estimated fair value of \$9.6 million and \$10.2 million, and \$10.8 million, respectively.

During the year ended December 31, 2022, the Company issued five additional tranches of subordinated convertible promissory notes to A1 on February 18, 2022, March 9, 2022, April 14, 2022, June 3, 2022 and July 1, 2022 (collectively, the "2022 A1 Convertible Notes"), the first four with a principal amount of \$3.0 million each and the fifth issued July 1, 2022, for a principal amount of \$2.5 million and totaling \$14.5 million. The terms of the 2022 A1 Convertible Notes are similar to those of the 2021 A1 Convertible Notes. During the year ended December 31, 2022 and the six months ended June 30, 2023 and 2022, the Company recognized \$(1.0) million, \$1.7 million and \$(1.9) million of income (expense), respectively related to the change in the fair value of the 2022 A1 Convertible Notes. During the three months ended June 30, 2023 and 2022, the Company recognized \$(1.0) million and \$(0.9) million, respectively, of expense related to the increase in the fair value of the 2022 A1 Convertible Notes. As of December 31, 2022 and June 30, 2023, the principal balance was \$14.5 million with an estimated fair value of \$13.5 million and \$15.2 million, respectively.

Additionally, on March 30, 2022, the Company amended the 2021 A1 Convertible Notes and the convertible notes issued on February 18, 2022 and March 9, 2022 to remove the discount rate associated with the automatic conversion of any outstanding convertible notes into share of common stock in connection with an initial public offering.

On March 6, 2023, the Company entered into an agreement with A1, pursuant to which the Company issued subordinated convertible promissory notes to A1 with an aggregate principal amount of \$6.0 million ("March 2023 A1 Convertible Notes") that mature on the earlier of (x) the date of the consummation of the merger by the Company and Priveterra Merger Sub pursuant to such business combination and (y) December 29, 2023. The March 2023 A1 Convertible Notes bear interest at 15.79%, based on simple interest daily, unless issued at least five days prior to maturity date. The March 2023 A1 Convertible Notes are unsecured and subordinated to the Company's other convertible notes. At June 30, 2023, the principal amount outstanding was \$6 million with an estimated fair value of \$6.1 million. The Company recognized \$(0.1) million of expense in the six months ended June 30, 2023, related to the change in fair market value of the March 2023 A1 Convertible Notes. The Company recognized \$1.9 million of income during the three months ended June 30, 2023, related to the change in fair market value of the March 2023 A1 Convertible Notes.

On May 2, 2023, the Company entered into an agreement with A1, pursuant to which the Company issued subordinated convertible promissory notes to A1 with an aggregate principal amount of \$6.0 million ("May 2023 A1 Convertible Notes") that mature on the earlier of (x) the date of the consummation of the merger by the Company and Priveterra Merger Sub pursuant to such business combination and (y) December 29, 2023. The May 2023 A1 Convertible Notes bear interest at 15.79%, based on simple interest daily, unless issued at least five days prior to maturity date. The May 2023 A1 Convertible Notes are unsecured and subordinated to the Company's other convertible notes. At June 30, 2023, the principal amount outstanding was \$6 million with an estimated fair value of \$5.9 million. The Company recognized \$0.1 million of income during the six months ended and three months ended June 30, 2023, related to the change in fair market value of the May 2023 A1 Convertible Notes.

On June 27, 2023, the Company entered into an agreement with A1, pursuant to which the Company issued subordinated convertible promissory notes to A1 with an aggregate principal amount of \$2.0 million ("June 2023 A1 Convertible Notes") that mature on the earlier of (x) the date of the consummation of the merger by the Company and Priveterra Merger Sub pursuant to such business combination and (y) December 29, 2023. The June 2023 A1 Convertible Notes bear interest at 15.79%, based on simple interest daily, unless issued at least five days prior to maturity date. The June 2023 A1 Convertible Notes are unsecured and subordinated to the Company's other convertible notes. At June 30, 2023, the principal amount outstanding was \$2.0 million with an estimated fair value of \$1.9 million. The Company recognized \$0.1 million of income during the six months ended and three months ended June 30, 2023, related to the change in fair market value of the June 2023 A1 Convertible Notes.

Clarion Unwind Fee

In 2014, the Company acquired all outstanding voting equity interests of Clarion Medical Technologies Inc. ("Clarion") pursuant to a shareholders' agreement (the "Shareholders' Agreement"). The Shareholders' Agreement provided the previous equity holders of Clarion the right (the "Unwind Right") to an unwind fee of approximately \$9.55 million (the "Unwind Fee") to unwind the Company's acquisition of Clarion. In 2016, the previous equity holders of Clarion exercised the Unwind Right and the Unwind Fee became a joint and several obligation of the Company and SCH, its majority stockholder.

In November 2017, the Company and SCH entered into a side letter and guarantee agreement ("Side Letter") with Clarion and the previous equity holders of Clarion in which the Company agreed to cause Evolus to enter into an exclusive distribution and supply agreement, dated as of November 30, 2017 (the "Distribution Agreement") with Clarion. The Distribution Agreement provided terms pursuant to which Evolus would exclusively supply DWP-450 to Clarion in Canada, if Evolus obtained the necessary regulatory approval from Health Canada. Evolus received approval from Health Canada in August 2018 for the temporary improvement in the appearance of moderate to severe glabellar lines in adult patients under 65 years of age. The Distribution Agreement also sets forth that a portion of the proceeds received by Evolus from each unit of DWP-450 purchased by Clarion shall be paid directly to the previous equity holders of Clarion, and will reduce, on a dollar-for-dollar basis, the amount of the Unwind Fee owed by the Company until paid in full.

Pursuant to the Side Letter, the Company and SCH are obligated to pay the Unwind Fee upon an acceleration event within 30 days of such event. For purposes of the Side Letter, each of the following events constitutes an acceleration event (each, an Acceleration Event): (i) the Unwind Fee is not paid in full by December 31, 2022, (ii) there is a material default of obligations by Evolus under the Distribution Agreement, (iii) a claim or interruption of more than 60 days occurs under the Distribution Agreement that impairs Clarion's ability to sell DWP-450 in Canada as the sole distributor, (iv) an initial public offering or any change in control involving the Company or Evolus that results in either company receiving net proceeds of \$700 million, (v) the bankruptcy or assignment for the benefit of creditors of the Company or Evolus, or (vi) the termination of the License and Supply Agreement, dated as of September 30, 2013, as amended (the "Evolus Supply Agreement"), by and between Evolus and Daewoong.

In addition, pursuant to the Side Letter, the Company and SCH re-affirmed to the previous equity holders of Clarion the obligation of the Company and SCH to pay the Unwind Fee should Evolus fail to supply DWP-450 to Clarion or cause the Distribution Agreement to terminate. The Company and SCH further agreed to pay the unpaid amount of the Unwind Fee on December 31, 2022, if demanded by the previous equity holders of Clarion.

On March 23, 2021, Evolus, Clarion, and Daewoong entered into an addendum to the Distribution Agreement to provide for Clarion to purchase DWP-450 directly from Daewoong. As a result, the Company's obligation under the Distribution Agreement to pay the Unwind Fee to the previous equity holders of Clarion was cancelled. The Company recognized a gain on cancellation of the Unwind Fee of \$9.55 million during the year ended December 31, 2021 with a corresponding decrease in other liabilities in the accompanying consolidated financial statements.

Shared Services Agreements with Strathspey Crown Limited, LLC

In August 2019, the Company entered into services agreements with Strathspey Crown Limited, LLC, an affiliate of SCH with an effective date of January 2019. Pursuant to the services agreements, Strathspey Crown Limited, LLC provides the Company certain administrative and development support services, including certain general management, communication, human resources, office, rent and information technology services. The Company pays Strathspey Crown Limited, LLC an allocable share of the actual cost incurred by Strathspey Crown Limited, LLC in providing such services, plus a 10% markup, as well as an allocable share of Strathspey Crown Limited, LLC's overhead expenses, including office rent, depreciation, maintenance, utilities and supplies. The services agreements have a one-year term and will renew for successive one-year terms unless sooner terminated by either party. The Company or Strathspey Crown Limited, LLC may terminate the services agreements upon sixty days' notice to the other party. The services agreements were terminated in December 2021. For the years ended December 31, 2022 and 2021 the costs related to the shared services agreements of \$0 million and \$0.1 million, respectively, included in selling, general and administrative expenses in the accompanying consolidated statements of operations and comprehensive loss. There were no cost incurred for the three and six months ended June 30, 2023 and 2022.

Note 5. Daewoong Convertible Notes

In August 2020, the Company entered into a Convertible Promissory Note Purchase Agreement with Daewoong (the "Daewoong Purchase Agreement"), pursuant to which the Company issued Daewoong two subordinated convertible promissory notes (collectively, the "2020 Daewoong Convertible Notes") with an aggregate principal amount of \$25.0 million. The 2020 Daewoong Convertible Notes have similar terms, of which one was issued on August 27, 2020 with a principal amount of \$10.0 million and the other was issued on September 18, 2020 with a principal amount of \$15.0 million. The 2020 Daewoong Convertible Notes are unsecured and subordinated to the Company's 2019 Convertible Notes. The Company's payment and performance under the 2020 Daewoong Convertible Notes are guaranteed by ABP Sub Inc., its wholly owned subsidiary.

The 2020 Daewoong Convertible Notes bear interest daily at 3% per annum with semiannual compounding. Interest is paid in-kind by adding the accrued amount thereof to the principal amount on a semi-annual basis on June 30th and December 31st of each calendar year for so long as any principal amount remains outstanding (such paid in-kind interest, in the aggregate at any time, the “PIK Principal”). The 2020 Daewoong Convertible Notes mature on September 18, 2025.

Pursuant to its terms, Daewoong may elect to convert all of the then outstanding principal amount and all accrued and unpaid interest into the Company’s common stock at any time following the date that is 12 months after September 18, 2020, provided, that such election shall be made at the same time with respect to all notes issued to Daewoong. The number of shares issuable upon any conversion shall be equal to (i) the outstanding principal amount (excluding PIK Principal) divided by \$25.0 million and (ii) multiplied by 9.99% of the aggregate of all of the shares of the Company’s common stock then outstanding, the Company’s common stock issuable upon conversion or exercise of all of the outstanding convertible or exercisable securities, all outstanding vested or unvested options or warrants to purchase the Company’s capital stock, but excluding all out-of-the-money options, and all shares of common stock issuable upon conversion of any convertible debt (whether or not such debt is convertible at such time).

Immediately prior to an initial public offering, all of the then outstanding principal amount and accrued and unpaid interest under the 2020 Daewoong Convertible Notes will automatically convert into shares of the Company’s common stock. The number of shares of common stock issuable upon conversion of the 2020 Daewoong Convertible Notes is equal to (i) the outstanding principal amount (excluding PIK Principal) divided by \$25.0 million and (ii) multiplied by the greater of (A) 9.99% of the pre-IPO shares of the Company, and (B) that number of shares having an aggregate value of \$20.0 million immediately prior to the IPO based upon a price per share of such common stock issued to the public in the IPO; provided, however, that in no event shall Daewoong’s ownership exceed 15% of the pre-IPO shares of the Company after taking into account conversion of the 2020 Daewoong Convertible Notes. In the event, and only in the event, that shares of the Company are sold in the IPO whereby the pre-money valuation of the Company is \$200.0 million or greater, within five business days of the conversion of the 2020 Daewoong Convertible Notes, the Company shall pay to Daewoong the PIK Principal plus all accrued and unpaid interest either in cash or by the issuance of additional shares of common stock at the price per share in the IPO, which payment method shall be at the Company’s sole election.

In May 2021, the Daewoong Purchase Agreement was amended to provide for the issuance of an additional subordinated convertible promissory note by the Company to Daewoong at an initial principal amount of \$5.0 million. The subordinated convertible promissory note was issued with terms similar to the two subordinated convertible promissory notes issued in 2020 and matures on May 12, 2026 (all such convertible promissory notes, the “Daewoong Convertible Notes”).

Pursuant to the terms of the amended Daewoong Purchase Agreement, Daewoong may elect to convert all of the then outstanding principal amount and all accrued and unpaid interest into the Company’s common stock at any time following the date that is 12 months after September 18, 2020, provided, that such election shall be made at the same time with respect to all notes issued to Daewoong. The number of shares of common stock issuable upon conversion is equal to (i) the outstanding principal amount (excluding PIK Principal) divided by \$30.0 million and (ii) multiplied by 11.99% of the aggregate of all of the shares of the Company’s common stock then outstanding, the Company’s common stock issuable upon conversion or exercise of all of the outstanding convertible or exercisable securities, all outstanding vested or unvested options or warrants to purchase the Company’s capital stock, but excluding all out-of-the-money options, and all shares of common stock issuable upon conversion of any convertible debt (whether or not such debt is convertible at such time).

In addition, immediately prior to an initial public offering, all of the then outstanding principal amount and accrued and unpaid interest under the convertible notes will automatically convert into shares of the Company’s common stock. The number of shares of common stock issuable upon conversion of the convertible notes is equal to (i) the outstanding principal amount (excluding PIK Principal) divided by \$30.0 million and (ii) multiplied by the greater of (A) 11.99% of the pre-IPO shares of the Company, and (B) that number of shares having an aggregate value of \$24.0 million immediately prior to the IPO based upon a price per share of such common stock issued to the public in the IPO; provided, however, that in no event shall Daewoong’s ownership exceed 18% of the pre-IPO shares of the Company after taking into account conversion of the Daewoong Convertible Notes.

Due to certain embedded features within the Daewoong Convertible Notes, the Company elected to account for the Daewoong Convertible Notes, including the paid-in-kind principal and interest, and the embedded features at fair value at inception. Subsequent changes in fair value are recorded as a component of other (loss) income in the consolidated statements of operations and comprehensive loss or as a component of other comprehensive income (loss) for changes to instrument-specific credit risk. As a result of electing the fair value option, any direct costs and fees related to the Daewoong Convertible Notes were expensed as incurred.

On July 29, 2022, the Company entered into a Convertible Promissory Note Purchase Agreement (the “Agreement”) between the Company and Daewoong Co., LTD. and received \$30 million. The Note has a stated interest rate of 15.79% per annum. The note matures on December 29, 2023. The Notes may be prepaid, in whole, without premium or penalty at any time prior to the maturity date.

During the years ended December 31, 2022 and 2021, and the six months ended June 30, 2023 and 2022, the Company recognized \$(2.2) million, \$(0.8) million, and \$(0.4) million and \$10.8 million of (expense) income, respectively, related to the change in the fair value of the Daewoong Convertible Notes and the 2022 Daewoong Note. The Company recognized \$(0.9) and \$11.1 million of (expense) income during the three months ended June 30, 2023 and 2022, related to the change in fair market value of the Daewoong Convertible Notes and 2022 Daewoong Note. As of December 31, 2022 and 2021, and June 30, 2023, the principal amount outstanding (excluding the PIK Principal) under the Daewoong Convertible Notes and the 2022 Daewoong Note was \$60.0 million, \$30.0 million, and \$60.0 million, respectively, with an estimated fair value of \$67.3 million, \$35.0 million, and \$67.7 million, respectively.

Note 6. Fair Value Measurements

The Company measures fair value based on the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The carrying value of cash, accounts receivables, accounts payable, accrued liabilities, convertible notes approximate fair value because of the short-term nature of those instruments. The following are other financial assets and liabilities that are measured at fair value on a recurring basis.

Convertible Notes at Fair Value

Due to certain embedded features within the convertible notes, the Company elected the fair value option to account for its convertible notes, including any paid-in-kind principal and interest, and the embedded features. During the years ended December 31, 2022 and 2021, and the six months ended June 30, 2023 and 2022, the Company recognized \$(4.4) million, \$0.8 million, \$(6.1) million and \$15.9 million respectively, of (expense) income related to the (increase) decrease in the fair value of the convertible notes. During the three months ended June 30, 2023 and 2022, the Company recognized \$(1.5) million and \$3.7 million of (expense) income in the fair value of the convertible notes. As of December 31, 2022 and 2021, and June 30, 2023, the principal amount outstanding under the convertible notes was \$108.0 million, \$67.5 million, and \$121.9 million respectively, with an estimated fair value of \$131.3 million, \$86.4 million, and \$134.4 million respectively. In April 2023, the contingent warrants were amended to include the merger between AEON, Priveterra Acquisition Corp., and Priveterra Merger Sub, Inc. as a qualifying listing under the warrant agreement, state that the holders of the contingent warrants will exercise the warrants, and that the holders will receive 85% of the shares the holders would have been entitled to receive via the previous warrant agreement. The Company determined that the contingent warrants amendment modified the settlement provision in the 2019 Convertible Notes. The Company determined that the amendment should be accounted for as a debt extinguishment. Since the convertible note holders are related parties of AEON, the debt extinguishment is accounted for as a capital transaction. As such, during the three and six months ended June 30, 2023 due to the warrant modification, the Company recognized a \$17.0 million reduction to the underlying fair value of the convertible notes and recorded a corresponding increase of \$17.0 million to additional paid in capital. See Note 4, “Related Party Transaction,” and Note 5, “Daewoong Convertible Notes” for more information on the convertible notes.

The fair value of the convertible notes is determined based on Level 3 inputs using a scenario-based analysis that estimates the fair value of the convertible notes based on the probability-weighted present value of expected future investment returns, considering each of the possible outcomes available to the noteholders, including various initial public offering, settlement, equity financing, corporate transaction and dissolution scenarios. The significant unobservable input assumptions that can significantly change the fair value include (i) the weighted average cost of capital, (ii) the timing of payments, (iii) the discount for lack of marketability, (iv) the probability of certain corporate scenarios, and (v) the long-term pretax operating margin. During the years ended December 31, 2022 and 2021 and the six months ended June 30, 2023 and 2022 the Company utilized discount rates ranging from 20% to 40% and 15% to 28% and 15% to 40% and 25% to 35%, respectively, reflecting changes in the Company's risk profile, time-to-maturity probability, and key terms when modified to the convertible notes.

Preferred Stock Warrant Liability

In 2016, in connection with an earlier debt issuance that has been subsequently settled, the Company issued to one of its investors, Longitude Venture Partners II, L.P. ("Longitude"), warrants to purchase 342,011 shares of the Company's Series B convertible preferred stock at an exercise price of \$7.3097 per share. The Company accounts for the warrants as a liability included in Other liabilities in the accompanying consolidated balance sheets, which were initially recorded at their fair value of \$0.8 million on the date of issuance and are subject to remeasurement at each subsequent balance sheet date. Any change in fair value of the warrants as a result of the remeasurement is recognized as a component of other (loss) income, net in the accompanying consolidated statements of operations and comprehensive loss.

The fair value of the warrant liability is determined based on Level 3 inputs using the Black-Scholes option-pricing model, which includes expected volatility, risk-free interest rate, expected life and expected dividend yield. The warrant liability was not material as of December 31, 2022, 2021, and June 30, 2023 and there were no material changes in fair value in each of the years ended December 31, 2022, 2021 and the six months ended June 30, 2023 and 2022.

Note 7. Commitments and Contingencies

Operating Leases

The Company subleased office space from SCH pursuant to shared services agreements entered into in August 2019 with Strathspey Crown Limited, LLC, an affiliate of SCH, with an effective date of January 2019. The services agreements had a one-year term and renewed for successive one-year terms unless sooner terminated by either party upon sixty days' notice to the other party. In connection with the termination of the shared services agreements with Strathspey Crown Limited, LLC, the office sublease was terminated in December 2021. The Company accounted for the previously subleased office lease as a short-term lease as of December 31, 2020.

In December 2021, the Company entered into a three-year non-cancellable lease for office space. The lease does not include variable or contingent lease payments. An operating lease asset and liability are recognized based on the present value of the remaining lease payments discounted using the Company's incremental borrowing rate. Lease expense is recognized on a straight-line basis over the lease term. The following table summarizes supplemental balance sheet information related to the operating lease as of December 31, 2022 (in thousands):

Minimum lease payments by fiscal year		
2023	\$	309
2024		292
Total future minimum lease payments		601
Less: Imputed interest		(77)
Present value of lease payments		524
Less: Current portion (included in other accrued expenses)		(282)
Noncurrent operating lease liability	\$	242
Operating lease right-of-use asset	\$	475
Remaining lease term in years		1.9
Discount rate		10%

The following table summarizes supplemental balance sheet information related to the operating lease as of December 31, 2021 (in thousands):

Minimum lease payments by fiscal year	
2022	\$ 248
2023	309
2024	292
Total future minimum lease payments	849
Less: Imputed interest	(117)
Present value of lease payments	732
Less: Current portion	(208)
Noncurrent operating lease liability	\$ 524
Operating lease right-of-use asset	\$ 729
Remaining lease term in years	2.9
Discount rate	10%

The following table summarizes supplemental disclosures of operating cost and cash flow information related to operating leases for the year ended December 31, 2022 and six months ended June 30, 2023:

	Years Ended December 31,		Six Months Ended June 30,	
	2022	2021	2023	2022
Cost of operating leases	\$ 279	\$ 124	\$ 138	\$ 141
Cash paid for operating leases	248	21	154	99

Daewoong License and Supply Agreement

On December 20, 2019, the Company entered the Daewoong Agreement, pursuant to which Daewoong agreed to manufacture and supply ABP-450 and grant the Company an exclusive license for therapeutic indications to import, distribute, promote, market, develop, offer for sale and otherwise commercialize and exploit ABP-450 in the United States, the European Union, the United Kingdom, Canada, Australia, Russia, the Commonwealth of Independent States and South Africa (collectively the “covered territories”).

Daewoong has agreed to supply the Company with ABP-450 at an agreed-upon transfer price, with no milestone or royalty payments and no minimum purchase requirements. Daewoong is responsible for all costs related to the manufacturing of ABP-450, including costs related to the operation and upkeep of its manufacturing facility, and the Company is responsible for all costs related to obtaining regulatory approval, including clinical expenses, and commercialization of ABP-450. The Company’s exclusivity is subject to its exercise of commercially reasonable efforts to: (i) achieve all regulatory approvals necessary for ABP-450 to be marketed in the territory for therapeutic indications and (ii) commercialize ABP-450 in the territory for therapeutic indications. During the term of the Daewoong Agreement, the Company cannot purchase, sell or distribute any competing products in a covered territory or sell ABP-450 outside a covered territory.

The initial term of the Daewoong Agreement is from December 20, 2019 to the later of (i) the fifth anniversary of approval from the relevant governmental authority necessary to market and sell ABP-450 or (ii) December 20, 2029, and automatically renews for unlimited additional three-year terms, provided the Daewoong Agreement is not earlier terminated. The Daewoong Agreement will terminate upon written notice by either the Company or Daewoong upon a continuing default that remains uncured within 90 days (or 30 days for a payment default) by the other party, or without notice upon the bankruptcy or insolvency of the Company.

The Company has accrued \$0.2 million, \$0.5 million, and \$0.4 million for ABP-450 supplies as of December 31, 2022 and 2021, and June 30, 2023, respectively.

Legal Proceedings

The Company, from time to time, is involved in various litigation matters or regulatory encounters arising in the ordinary course of business that could result in unasserted or asserted claims or litigation. Other than as described below, the Company is not subject to any currently pending legal matters or claims that would have a material adverse effect on its accompanying financial position, results of operations or cash flows.

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and provide for general indemnifications. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. No amounts were accrued as of December 31, 2022 and 2021, and June 30, 2023.

Medytox Litigation

Evolus, the Company, SCH and Daewoong were defendants to a lawsuit brought by Medytox, Inc. ("Medytox") alleging, among other things, that Daewoong stole Medytox's botulinum toxin bacterial strain and that Daewoong misappropriated certain trade secrets of Medytox, including the process used to manufacture ABP-450 (the "Superior Court Medytox Litigation"). The lawsuit was stayed pending resolution of a civil lawsuit against Daewoong brought by Medytox in South Korea (the "Korea Litigation"). Effective February 18, 2021, Evolus, Medytox and Allergan entered into a settlement agreement pursuant to which Medytox agreed to dismiss the Superior Court Medytox Litigation. On February 23, 2021, the Superior Court Medytox Litigation was dismissed.

The Company and Daewoong were named as defendants in a lawsuit brought by Medytox in the United States District Court for the Central District of California in May 2021 (the "District Court Medytox Litigation"), alleging, among other things, that Daewoong stole Medytox's botulinum toxin bacterial strain (the "BTX strain"), and misappropriated certain trade secrets of Medytox, including the process used to manufacture ABP-450 using the BTX strain, and that the Company's and Daewoong's activities conducted in the United States give rise to liability for misappropriation of trade secrets. Medytox sought, among other things, (i) actual, consequential and punitive damages, (ii) a reasonable royalty, as appropriate, (iii) disgorgement of any proceeds or profits, (iv) injunctive relief prohibiting the Company from using Medytox's trade secrets to manufacture, offer to sell, or sell therapeutic BTX products, including ABP-450, and (v) attorneys' fees and costs.

Effective June 21, 2021, the Company and Medytox entered into a settlement and license agreement (the "Settlement Agreement") pursuant to which, among other things, Medytox agreed (a) to dismiss all claims against the Company in the District Court Medytox Litigation, (b) to pursue dismissal of the appeals related to the December 2020 final determination of the United States International Trade Commission and agreed that as a result of such dismissal the final determination would be vacated, (c) to file appropriate documents in the Korea Litigation and related actions in support of the terms of the settlement, and (d) not to revive or otherwise pursue the Superior Court Medytox Litigation with respect to the Company; the Company and Medytox agreed to enter into a share issuance agreement pursuant to which the Company issued 26,680,511 shares of the Company's common stock, par value \$0.0001 per share, to Medytox; and the Company agreed to pay Medytox single-digit royalties on the net sales of licensed products for 15 years following the Company's first \$1.0 million in product sales. In the event the shares of AEON common stock the Company issued to Medytox represent less than 10% of the Company's total outstanding shares immediately prior to the consummation of the Business Combination (the "Target Ownership"), the Company will issue additional shares of AEON common stock to Medytox sufficient to cause Medytox to achieve the Target Ownership. On May 5, 2022, the Company and Medytox amended the Settlement Agreement to clarify that the Target Ownership would be calculated on the earlier of the Company's initial public offering or the conversion of the Company's preferred stock into common stock.

On June 28, 2021, the claims against the Company in the District Court Medytox Litigation were dismissed with prejudice. In connection with the issuance of 26,680,511 shares of its common stock to Medytox, the Company recognized \$29.0 million as litigation settlement in June 2021.

Note 8. Income Taxes

The Company's loss before income taxes was entirely generated from its U.S. operations. As a result of its continuing losses, the Company had no provision for income taxes in the years ended December 31, 2022 and 2021, and the three and six months ended June 30, 2023 and 2022.

As of December 31, 2022 and 2021, the Company had federal net operating loss ("NOL") carryforwards of \$67.5 and \$54.3 million, respectively, which will begin to expire in 2036. The Company had state NOLs of \$67.4 and \$24.0 million as of December 31, 2022 and 2021, respectively, which will begin to expire in 2036. As of December 31, 2022 and 2021, the Company has federal research and development ("R&D") credit carryforwards of \$3.9 million and \$1.7 million, respectively, which will begin to expire in 2039. As of December 31, 2022 and 2021, the Company also has California R&D credit carryforwards of \$3.0 million and \$1.5 million, respectively, which have an indefinite carryforward period.

In general, if the Company experiences a greater than 50 percentage point aggregate change in ownership of certain significant stockholders over a three-year period (a "Section 382 ownership change"), utilization of its pre-change NOL carryforwards and the R&D credit carryforwards is subject to an annual limitation under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, and similar state laws. The annual limitation generally is determined by multiplying the value of the Company's stock at the time of such ownership change, subject to certain adjustments, by the applicable long-term tax-exempt rate. Such limitations may result in expiration of a portion of the NOL carryforwards and R&D credit carryforwards before utilization and may be material. As of December 31, 2022, the Company has not determined to what extent a potential ownership change will impact the annual limitation that may be placed on the Company's utilization of its NOL carryovers and R&D credit carryforwards.

The components of deferred tax assets and liabilities were as follows (in thousands):

	December 31,	
	2022	2021
Deferred tax assets:		
Accrued compensation	\$ 296	\$ 289
Accrued other expense	123	114
Stock compensation	5,303	3,913
Start-up costs and other intangibles	13,727	14,104
Lease liability	157	219
Net operating losses	20,131	13,536
Capitalized Research and Development Expenses	6,387	—
Other	32	22
	46,156	32,197
Less: valuation allowance	(45,928)	(31,939)
Total deferred tax assets	228	258
Deferred tax liabilities:		
Depreciation	(89)	(40)
ROU Asset	(139)	(218)
Total deferred tax liabilities	(228)	(258)
Net deferred income taxes	\$ —	\$ —

A reconciliation of the difference between the provision (benefit) for income taxes and income taxes at the statutory U.S. federal income tax rate is as follows:

	December 31,	
	2022	2021
Income tax at statutory rate	21.0%	21.0%
Convertible notes	(1.8)%	0.3%
Stock compensation	(0.5)%	(0.4)%
Change in valuation allowance	(18.7)%	(20.9)%
Effective tax rate	0.0%	0.0%

A reconciliation of unrecognized tax benefits at the beginning and end of 2022 and 2021 is as follows (in thousands):

	December 31,	
	2022	2021
Balance, beginning of year	\$ 7,270	\$ 4,989
Increases due to current year tax positions	3,791	2,281
Decreases due to prior year tax positions	—	—
Balance, end of year	\$ 11,061	\$ 7,270

The Company has considered the amounts and probabilities of the outcomes that can be realized upon ultimate settlement with the tax authorities and determined unrecognized tax benefits should be established of \$11.1 million, \$7.3 million as of December 31, 2022 and 2021, respectively. The Company's effective income tax rate would not be impacted if the unrecognized tax benefits are recognized. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

The Company's policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense. There were no accrued interest and penalties associated with uncertain tax positions as of December 31, 2022. The Company's tax returns for all years since inception are open for audit.

The Company measures deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid.

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") into law. The CARES Act broadly provides entities tax payment relief and significant business incentives and makes certain technical corrections to the 2017 Tax Cuts and Jobs Act, or the Tax Act. The tax relief measures for entities include a five-year net operating loss carry back, increases interest expense deduction limits, acceleration of alternative minimum tax credit refunds, payroll tax relief, and a technical correction to allow accelerated deductions for qualified improvement property. On December 27, 2020, Congress passed, and President Trump signed into law, the Consolidated Appropriations Act, 2021 (the "Act"), which includes certain business tax provisions. ASC Topic 740, Income Taxes, requires the effect of changes in tax law be recognized in the period in which new legislation is enacted. The enactment of the CARES Act and Consolidated Appropriations Act, 2021 did not have a material impact on the Company's consolidated financial position and results of operations as of December 31, 2022.

Note 9. Convertible Preferred Stock

As of December 31, 2022 and 2021, and June 30, 2023, the Company's certificate of incorporation, as amended and restated, authorized the Company to issue up to 44,666,035 shares of preferred stock at a par value of \$0.0001 per share. The Company has the following convertible preferred stock issued and outstanding at December 31, 2022 and 2021, and June 30, 2023:

Series	Shares Authorized	Shares Issued and Outstanding	Per Share Preference	Preferential Liquidation Value (in thousands)	Carrying Value, Net of Issuance Costs (in thousands)
Series A	7,393,333	2,505,508	\$ 5.4779	\$ 13,725	\$ 13,819
Series A-1	4,107,414	—	5.4779	—	—
Series A-2	4,846,750	4,846,750	5.4779	26,550	26,379
Series B	20,520,678	6,244,395	7.3097	45,645	43,896
Series B-1	136,805	—	7.3097	—	—
Series B-2	7,661,055	7,661,055	7.3097	56,000	53,855
	<u>44,666,035</u>	<u>21,257,708</u>		<u>\$ 141,920</u>	<u>\$ 137,949</u>

The holders of the convertible preferred stock have various rights and preferences as follows:

Voting Rights

The holders of each share of convertible preferred stock have the right to one vote for each share of common stock into which such preferred stock could be converted, and with respect to such vote, such holder shall have full voting rights and powers equal to the voting rights and powers of the holders of common stock. Each holder of convertible preferred stock is entitled to vote, together with holders of common stock, with respect to any question upon which holders of common stock have the right to vote.

Election of Directors

The holders of Series A and Series A-2 convertible preferred stock, voting together as a single class are entitled to elect one director of the Company. The holders of Series B and Series B-2 convertible preferred stock, voting together as a single class, are entitled to together elect one director of the Company. The holders of the convertible preferred stock and common stock (voting together as a single class and not as separate series, and with the preferred stock voting on an as-converted basis using then-effective conversion prices) are entitled to elect any remaining directors of the Company.

Dividends

The holders of shares of Series B, Series B-1 and Series B-2 convertible preferred stock are entitled to non-cumulative dividends, out of any assets legally available therefor, on a pari passu basis and prior and in preference to any declaration or payment of any dividend on the Series A, Series A-1 and Series A-2 convertible preferred stock, or common stock of the Company, at the rate of \$0.5847768 per calendar year for each share of Series B, Series B-1 and Series B-2 convertible preferred stock, payable when, as and if declared by the Board of Directors.

The holders of shares of Series A, Series A-1 and Series A-2 convertible preferred stock are entitled to non-cumulative dividends, out of any assets legally available therefor, on a pari passu basis and prior and in preference to any declaration or payment of any dividend on the common stock of the Company, at the rate of \$0.4382 per calendar year for each share of Series A, Series A-1 and Series A-2 preferred stock, payable when, as and if declared by the Board of Directors.

Declared but unpaid dividends with respect to a share of preferred stock shall, upon conversion of such share to common stock, be paid to the extent assets are legally available therefor in cash. As of December 31, 2022 and 2021 and June 30, 2023, no cash dividends have been declared to date. During 2020, the Company distributed in-kind dividends to its stockholders. See Note 3, "Contribution and Distribution of Affiliated Companies" for more information on the distribution of in-kind dividends.

Liquidation

In the event of any liquidation event, the holders of Series B-2 convertible preferred stock would be entitled to receive, on a pari passu basis and prior and in preference to any distribution of the proceeds of such liquidation event (“Proceeds”) to the holders of Series A-2 convertible preferred stock, Series B convertible preferred stock, Series B-1 convertible preferred stock, Series A convertible preferred stock, Series A-1 convertible preferred stock and common stock, an amount per share equal to the Series B original issue price of \$7.3097 per share, plus declared but unpaid dividends on each such share (the “Series B-2 Liquidation Preference”).

Subject to the payments set forth above, in the event of any liquidation event, the holders of Series A-2 convertible preferred stock would be entitled to receive, on a pari passu basis and prior and in preference to any distribution of the Proceeds of such liquidation event to the holders of Series B convertible preferred stock, Series B-1 convertible preferred stock, Series A convertible preferred stock, Series A-1 convertible preferred stock and common stock, an amount per share equal to the Series A original issue price of \$5.4779 per share, plus declared but unpaid dividends on each such share (the “Series A-2 Liquidation Preference”).

Subject to the payments set forth above, in the event of any liquidation event, the holders of Series B convertible preferred stock and Series B-1 convertible preferred stock would be entitled to receive, on a pari passu basis and prior and in preference to any distribution of the Proceeds of such liquidation event to the holders of Series A convertible preferred stock, Series A-1 convertible preferred stock and common stock, an amount per share equal to the Series B original issue price of \$7.3097 per share, plus declared but unpaid dividends on each such share (the “Series B Liquidation Preference”).

Subject to the payments set forth above, the holders of Series A convertible preferred stock and Series A-1 convertible preferred stock would be entitled to receive, on a pari passu basis and prior and in preference to any distribution of the Proceeds of such Liquidation Event to the holders of common stock, an amount per share equal to the Series A issue price of \$5.4779, plus declared but unpaid dividends on each such share (the “Series A Liquidation Preference”).

Upon the completion of the distributions above, the remaining Proceeds available for distribution to stockholders, if any, would be distributed ratably among the holders of convertible preferred stock and common stock in proportion to the number of shares of common stock that would be held by each such holder if all shares of convertible preferred stock were converted into common stock at the then effective conversion price.

Conversion

Each share of convertible preferred stock can be converted, at the option of the holder thereof, at any time after the date of issuance of such share into such number of fully paid and non-assessable shares of common stock. The conversion rate is 1:1 initially.

Each share of convertible preferred stock would automatically convert into shares of common stock based on the applicable conversion rate at the time in effect upon the earlier of (A) immediately prior to the closing, and conditioned upon such closing, of the sale of the Company’s common stock in an underwritten public offering at a public offering price per share of not less than (w) \$7.3097 minus the sum of (x) the fair market value of the per unit membership interest of A1, as determined by the Board of Directors of the Company in good faith (the “A-1 Per Unit Price”) plus (y) the fair market value of the per unit membership interest of AC HoldCo, as determined by the Board of Directors of the Company in good faith (the “AC Per Unit Price”) plus (z) the fair market value of the per unit membership interest of Z HoldCo, as determined by the Board of Directors of the Company in good faith (together with the A-1 Per Unit Price and the AC Per Unit Price, the “Aggregate Spin-Out Value”), and yielding net proceeds (after discounts and commissions) to the Company of at least \$50 million, or (B) on the date specified by affirmative vote at a meeting or by written consent from the holders of at least two-thirds of the convertible preferred stock then outstanding, voting as a single class on an as-converted-to-common stock basis (the “Preferred Supermajority”).

In the event that the Preferred Supermajority enacts a conversion of the Series A Preferred Stock in conjunction with the consummation of an initial public offering of the common stock in which the public offering price per share of the common stock (the “IPO Per Share Price”) is less than 71.4286% of the then effective per share Series A-2 Liquidation Preference (the “Adjusted Series A-2 Preference Amount”), then the number of shares of common stock issuable with respect to each share of Series A convertible preferred stock, each share of Series A-1 convertible Preferred Stock and each share of Series A-2 convertible preferred stock will be equal to the greater of (A) the quotient obtained by dividing (x) the Adjusted Series A-2 Preference Amount by (y) the IPO Per Share Price, or (B) the quotient obtained by dividing the Series A original issue price of \$5.4779 per share by the applicable conversion price for such series of the Series A Preferred Stock, each as in effect on the date of effective conversion.

In the event of an automatic conversion in conjunction with the consummation of an initial public offering of the common stock in which the IPO Per Share Price is less than the Series B original issue price of \$7.3097 per share, then the applicable conversion price for the Series B convertible preferred stock, the Series B-1 convertible preferred stock and the Series B-2 convertible preferred stock for purposes of the approved conversion will be the IPO Per Share Price, rounded to the nearest whole cent with one-half cent rounded up.

Redemption

The convertible preferred stock is not redeemable. The Company has classified the convertible preferred stock as temporary equity on the accompanying consolidated balance sheets as these shares could be redeemed upon the occurrence of certain change in control events that are outside of the Company’s control.

Convertible Preferred Stock Warrants

Pursuant to the terms of the Company’s Bridge Note, in 2016 the Company issued Longitude warrants to purchase 342,011 shares of the Company’s Series B convertible preferred stock at an exercise price of \$7.3097 per share. The warrants were exercisable, in whole or in part, from the date of issuance and expired on May 31, 2023.

Note 10. Common Stock

As of December 31, 2022 and 2021 and June 30, 2023, the Company’s certificate of incorporation, as amended and restated, authorized the Company to issue up to 207,450,050 shares of common stock at a par value of \$0.0001 per share. As of December 31, 2022 and 2021 and June 30, 2023, 138,848,177 shares were issued and 138,825,356 shares were outstanding. The holders of common stock are entitled to receive dividends whenever funds are legally available, when and if declared by the Company’s Board of Directors, subject to the prior rights of the holders of the Company’s convertible preferred stock. As of December 31, 2022, 2021 and June 30, 2023, no cash dividend has been declared to date. Each share of common stock is entitled to one vote.

The number of authorized shares of common stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of shares of preferred stock and common stock, voting together as a single class.

As of December 31, 2022 and 2021, and June 30, 2023, the Company had reserved common stock for future issuance as follows:

	December 31,		June 30,
	2022	2021	2023
			(unaudited)
Conversion of convertible preferred stock	21,257,708	21,257,708	21,257,708
Stock options issued and outstanding	9,694,890	10,516,525	9,694,890
Shares available for future issuance under the stock incentive plan	27,884,000	27,884,000	27,884,000
Restricted stock units	—	—	15,059
Convertible preferred stock warrants outstanding	342,011	342,011	—
Total common stock reserved	59,178,609	60,000,244	58,851,657

The total common stock reserved does not include shares of common stock issuable upon conversion of the outstanding convertible notes, which amount is not determinable at this time.

Note 11. Share-based Compensation Stock Incentive Plans

AEON 2013 Stock Incentive Plan

In 2013, the Company established its 2013 Stock Incentive Plan (the “2013 Stock Incentive Plan”) as amended from time to time, that provides for the granting of nonqualified stock options, restricted stock and stock appreciation rights to employees, members of the Board of Directors and non-employee consultants. As of December 31, 2022 and 2021, and June 30, 2023 the aggregate number of shares available for future grant under the 2013 Stock Incentive Plan was 27,884,000 shares, 27,884,000 shares and 27,884,000 shares, respectively.

The 2013 Stock Incentive Plan provides for stock options to be granted with exercise prices not less than the estimated fair value of the Company’s common stock, and incentive options to be granted to individuals owning more than 10% of the total combined voting power of all classes of stock of the Company with exercise prices not less than 110% of the estimated fair value of the Company’s common stock on the date of grant. Stock options granted generally expire ten years after their original date of grant and generally vest between three years to four years with 25% vesting on the first anniversary of the date of grant and then monthly vesting after that. Stock options granted to a 10% stockholder are exercisable up to five years from the date of grant. Restricted stock awards granted generally become fully vested between one to three years.

ABP Sub Inc. 2019 Incentive Award Plan

In June 2019, ABP Sub Inc., the Company’s wholly owned subsidiary, established its 2019 Incentive Award Plan (the “2019 Incentive Award Plan”), as amended from time to time, that provides for the granting of incentive and nonqualified stock options, restricted stock units, restricted stock and stock appreciation rights to its employees, members of the Board of Directors and non-employee consultants. As of December 31, 2022 and 2021, and June 30, 2023 the aggregate number of shares available for future grant under the 2019 Incentive Award Plan was 199,328 shares, 199,328 shares, and 199,328 shares, respectively. The ABP Sub Inc. 2019 Incentive Award Plan has similar grant terms as the Company’s 2013 Stock Incentive Plan.

Share-based Award Activity

AEON 2013 Stock Incentive Plan

The following table summarizes stock option activity under the Company's 2013 Stock Incentive Plan:

	December 31				Six months ended June 30, 2023	
	2022		2021		(unaudited)	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	10,516,525	\$ 1.51	10,516,525	\$ 1.51	9,694,890	1.53
Options granted	—	—	—	—	—	—
Options forfeited	(821,635)	\$ 1.23	—	—	—	—
Outstanding, end of period	9,694,890	\$ 1.53	10,516,525	\$ 1.51	9,694,890	\$ 1.53
Exercisable, end of period	9,694,890	\$ 1.53	10,516,525	\$ 1.51	9,694,890	\$ 1.53

The Company did not grant any options during the years ended December 31, 2022 and 2021 and the six months ended June 30, 2023. As of December 31, 2022 and 2021, and June 30, 2023, the weighted average remaining contractual life of options outstanding and options exercisable were 2.5, 3.6, and 2.2 years, respectively. The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2022 and 2021, and June 30, 2023 were \$0.3 million, \$0.3 million and \$0.2 million, respectively. The aggregate intrinsic value was calculated as the difference between the exercise price of the underlying options and the estimated fair value of the Company's common stock at December 31, 2022 and 2021, and June 30, 2023.

During the years ended December 31, 2022 and 2021, and the six months ended June 30, 2023, the Company recognized no share-based compensation expense related to stock options granted under the 2013 Stock Incentive Plan. As of December 31, 2022 and 2021, and June 30, 2023, there was no unrecognized compensation expense related to non-vested stock options.

ABP Sub Inc. 2019 Incentive Award Plan

The following table summarizes stock option activity under ABP Sub Inc.'s 2019 Incentive Award Plan:

	December 31				Six months ended June 30, 2023	
	2022		2021		(unaudited)	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	38,172	\$ 986.36	27,555	\$ 929.08	45,534	\$ 958.75
Options granted	16,437	898.58	13,192	1,089.41	—	—
Options forfeited	9,075	965.92	2,575	901.40	303	1,021.98
Outstanding, end of period	45,534	\$ 958.75	38,172	\$ 986.36	45,231	\$ 959.20
Exercisable, end of period	23,155	\$ 958.56	13,061	\$ 942.69	24,660	\$ 951.97

The weighted average fair value of options granted during the years ended December 31, 2022 and 2021 was \$488.02 and \$598.07, respectively. During the six months ended June 30, 2023, there were no options granted. As of December 31, 2022, the weighted average remaining contractual life of options outstanding and options exercisable was 8.1 years and 7.4 years, respectively. As of December 31, 2021, the weighted average remaining contractual life of options outstanding and options exercisable was 8.6 years and 8.2 years, respectively. As of June 30, 2023, the weighted average remaining contractual life of options outstanding and options exercisable was 7.6 years and 7.2 years, respectively. The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2021 was \$0.3 million and \$0.1 million, respectively. The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2022 was \$0.0 million and \$0.0 million, respectively. The aggregate intrinsic value of options outstanding and options exercisable at June 30, 2023 was \$0.0 million and \$0.0 million, respectively. The aggregate intrinsic value was calculated as the difference between the exercise price of the underlying options and the estimated fair value of ABP Sub Inc.'s common stock at December 31, 2022 and 2021, and June 30, 2023.

During the years ended December 31, 2022 and 2021 and six months ended June 30, 2023 and 2022, the Company recognized \$5.9 million and \$5.2 million, and \$2.5 million and \$3.2 million, respectively, of share-based compensation expense related to stock options granted with a corresponding increase in noncontrolling interest. During the three months ended June 30, 2023 and 2022, the Company recognized \$1.1 million and \$1.7 million, respectively, of share-based compensation expense related to stock options granted with a corresponding increase in noncontrolling interest. As of December 31, 2022 and 2021, and June 30, 2023, total unrecognized compensation expense related to nonvested stock options was \$12.3 million, \$10.6 million, and \$6.3 million, respectively, which is expected to be recognized over the weighted-average remaining requisite service period of 24 months, 30 months, and 19 months, respectively.

During the years ended December 31, 2022 and 2021, and the six months ended June 30, 2023 and 2022, the Company recognized \$0.1 million, \$0.3 million, \$0.0 million and \$0.0 million, respectively, of compensation expense related to stock options for services completed by nonemployee consultants upon grant of the stock option award with a corresponding increase to noncontrolling interest. During the three months ended June 30, 2023 and 2022, the Company recognized \$0.0 million and \$0.0 million, respectively, of compensation expense related to stock options for services completed by nonemployee consultants. During the year ended December 31, 2021, upon granting stock options to the nonemployee consultants, the Company reclassified \$0.9 million from other accrued expenses to non-controlling interest in the accompanying consolidated balance sheets.

Share-based Compensation Expense and Valuation Information

The Company accounts for the measurement and recognition of compensation expense for all share-based awards based on the estimated fair value of the awards. The fair value of share-based awards is amortized on a straight-line basis over the requisite service period. The Company records share-based compensation expense net of actual forfeitures.

During the years ended December 31, 2022 and 2021, and the six months ended June 30, 2023, the Company recognized share-based compensation expense of \$5.9 million, \$5.2 million, and \$2.5 million, respectively, consisting of \$4.6 million, \$4.4 million, and \$2.2 million in selling, general and administrative expenses, respectively, and \$1.3 million, \$0.8 million, and \$0.3 million, respectively, in research and development expenses in the accompanying consolidated statements of operations and comprehensive loss. During the three months ended June 30, 2023 and 2022, the Company recognized share-based compensation expense of \$1.1 million and \$1.7 million, respectively, consisting of \$1.0 million and \$1.5 million in selling, general and administrative expenses, respectively, and \$0.1 million and \$0.2 million, respectively, in research and development expenses in the accompanying consolidated statements of operations and comprehensive loss.

The fair value of stock options under the 2019 Stock Incentive Award Plan was estimated using the following assumptions:

	December 31,	
	2022	2021
Expected volatility	47% – 61%	56% – 60%
Risk-free interest rate	1.87% – 3.92%	0.79% – 1.33%
Expected life (in years)	5.75 – 6.25	5.30 – 6.25
Expected dividend yield	—	—

Fair Value of the Underlying Common Stock. Since the Company's common stock is not traded in a public stock market exchange, the Board of Directors considers numerous factors including new business and economic developments affecting the Company and independent appraisals, when appropriate, to determine the fair value of the Company's common stock. Independent appraisal reports were prepared using valuation techniques, such as discounted cash flow analyses, from which a discount factor for lack of marketability was applied. This determination of the fair value of the common stock was performed on a contemporaneous basis. The Board of Directors determined the Company's common stock fair value on an as needed basis.

Expected Life. The expected life is calculated using the simplified method as the Company does not have sufficient historical information to provide a basis for the estimate. The simplified method is based on the average of the vesting tranches and the contractual life of each grant.

Expected Volatility. The expected volatility is estimated based on a study of selected publicly traded peer companies as the Company does not have any trading history for its common stock. The Company selected the peer group based on similarities in industry, stage of development, size and financial leverage with the Company's principal business operations. For each grant, the Company measured historical volatility over a period equivalent to the expected life.

Risk-free Interest Rate. The risk-free interest rate is based on the yield available on U.S. Treasury zero-coupon issues whose term is similar in duration to the expected life of the respective stock option.

Expected Dividend Yield. The Company has not paid and does not anticipate paying any dividends on its common stock in the foreseeable future. Accordingly, the Company has estimated the dividend yield to be zero.

Note 12. Subsequent Events

The Company has evaluated subsequent events for the financial statements as of and for the year ended December 31, 2022, through March 9, 2023, the date the financial statements were issued.

The Company has further evaluated subsequent events for recognition and remeasurement purposes and for disclosure purposes as of and for the six months ended June 30, 2023, through August 11, 2023. After review and evaluation, management has concluded that there were no material subsequent events as of the date that the financial statements were available to be issued other than as noted below.

On July 21, 2023, the Company announced the closing of its previously announced business combination with Priveterra Acquisition Corp. (NASDAQ: PMGM) ("Priveterra"), a special purpose acquisition company. Upon the closing of the merger, Priveterra changed its name to "AEON Biopharma, Inc." and transitioned the listing of its securities to the New York Stock Exchange American, where its common stock and warrants began trading on July 24, 2023, under the symbols AEON and AEON WS, respectively. The Company also announced the closing of its previously announced funding arrangements of up to \$125 million. The funding includes approximately \$50 million of committed financing (including \$20 million of previously announced financing) from existing and new AEON investors, as well as the cash remaining in Priveterra's trust account after redemptions. These committed financings provided the capital necessary to consummate the business combination and are expected to provide sufficient proceeds to fund the Company beyond the announcement of topline data from the Company's Phase 2 study with ABP-450 for the preventive treatment of episodic migraine, anticipated in the fall of 2023. The balance of the \$125 million in funding arrangements is in the form of certain forward purchase agreements of up to \$75 million of potential financing with third-party financing providers.

AEON MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our consolidated financial condition and results of operations should be read together with our audited and unaudited consolidated financial statements and related notes appearing elsewhere in this Current Report on Form 8-K, filed by AEON Biopharma, Inc. with the Securities and Exchange Commission on July 27, 2023 and amended on August 11, 2023, to which this Exhibit 99.8 is attached (the "Report"). Some of the information contained in this discussion and analysis or set forth elsewhere in this Report, including information with respect to our plans, objectives, expectations, projections and strategy for our business, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors identified below and in our other public filings, our actual results and the timing of selected events could differ materially from the forward-looking statements contained in the following discussion and analysis. Please also see the section of the Report titled "Cautionary Note Regarding Forward-Looking Statements." Unless the context otherwise requires, references to "we", "us", "our" and "the Company" refer to the business and operations of AEON Biopharma, Inc. and its consolidated subsidiaries prior to the Business Combination ("Old AEON") and to AEON Biopharma, Inc. ("AEON") following the consummation of the Business Combination.

Overview

We are a clinical stage biopharmaceutical company focused on developing our proprietary botulinum toxin complex, ABP-450 (prabotulinumtoxinA) injection, or ABP-450, for debilitating medical conditions, with an initial focus on the neurology and gastroenterology markets. We recently completed a Phase 2 study of ABP-450 for the treatment of cervical dystonia and have an ongoing Phase 2 study of ABP-450 for the treatment of both chronic and episodic migraine. ABP-450 is the same botulinum toxin complex that is currently approved and marketed for cosmetic indications by Evolus, Inc. under the name Jeuveau in the United States and Nuceiva in Canada and the European Union. ABP-450 is manufactured by Daewoong Pharmaceutical Co. Ltd., or Daewoong, in compliance with current good manufacturing processes, or cGMP, in a facility that has been approved by the U.S. Food and Drug Administration, or the FDA, Health Canada and the European Medicines Agency, or the EMA. We have exclusive development and distribution rights for therapeutic indications of ABP-450 in the United States, Canada, the European Union, the United Kingdom, and certain other international territories. We have built a highly experienced management team with specific experience in biopharmaceutical and botulinum toxin development and commercialization.

Botulinum toxins have proven to be a highly versatile therapeutic biologic, with over 230 therapeutic uses documented in published scientific literature and nine approved therapeutic indications in the United States. Our initial development programs for ABP-450 are directed at migraine, cervical dystonia and gastroparesis. We selected these initial indications based on a comprehensive product assessment screen designed to identify indications where we believe ABP-450 can deliver significant value to patients, physicians and payors and where its clinical, regulatory and commercial characteristics suggest viability. We believe that ABP-450 has application in a broad range of indications and we plan to continue to explore additional indications that satisfy our product assessment screens.

The FDA accepted our IND application for ABP-450 as a preventative treatment for migraine in October 2020, and we began treating patients in our Phase 2 clinical study beginning in March 2021. We plan to announce topline data related to episodic migraine in the fall of 2023, and topline data related to chronic migraine in the second half of 2024.

The FDA accepted our investigational new drug, or IND, application for ABP-450 as a treatment for cervical dystonia in October 2020, and we began treating patients in our Phase 2 clinical study beginning in April 2021. Topline data from the Phase 2 study, released in September 2022, confirmed that ABP-450 met all primary endpoints and a number of other key secondary endpoints, supporting the safety and efficacy of ABP-450 in reducing signs and symptoms associated with cervical dystonia. ABP-450 demonstrated adverse event rates similar to, or lower than, other botulinum toxin products for the treatment of cervical dystonia. ABP-450 also demonstrated potential for efficacy similar to, or better than, other botulinum toxin products for the treatment of cervical dystonia. We are in discussions with the FDA regarding the design of our Phase 3 study in cervical dystonia, which we expect to commence based on the availability of capital resources.

In December 2020, we initiated a preclinical gastroparesis study with 42 primates receiving multiple injections of ABP-450 across four dose ranges. We completed this preclinical study in January 2022. Following the preclinical study, we submitted an IND to the FDA and received a letter in May 2022 confirming that the IND- opening Phase 2a clinical study may proceed. We continue to evaluate various pathways to most efficiently advance this clinical development program.

ABP-450 has the same 900 kDa complex size as Botox. We believe physicians generally prefer the performance characteristics of the complete 900 kDa botulinum toxin complex for therapeutic uses and that this characteristic will provide ABP-450, if approved, a competitive advantage over other non-Botox therapeutic botulinum toxins currently on the market or in development. ABP-450, if approved, will be the only therapeutic botulinum toxin with significantly similar physiochemical properties as Botox.

We license ABP-450 from Daewoong, a South Korean pharmaceutical manufacturer, and have exclusive development and distribution rights for therapeutic indications in the United States, Canada, the European Union, the United Kingdom, and certain other international territories. Daewoong licenses the same 900 kDa botulinum toxin to Evolus for cosmetic indications, which it markets and sells under the name Jeuveau in the United States and Nuceiva in Canada and the European Union.

We have never been profitable from operations and, as of June 30, 2023, we had a consolidated accumulated deficit of \$507.9 million. We have never generated revenue from ABP-450. Losses from operations were \$48.4 million, \$65.8 million, \$27.0 million and \$23.5 million for the years ended December 31, 2022 and 2021 and the six months ended June 30, 2023 and 2022, respectively. Consolidated net losses attributable to our common stockholders were \$52.6 million, \$55.6 million, \$33.0 million and \$7.6 million for the years ended December 31, 2022 and 2021 and the six months ended June 30, 2023 and 2022, respectively. As of June 30, 2023, we had \$2.6 million in cash. We have concluded that we do not have sufficient cash to fund our operations for 12 months from the date of our financial statements without additional financing, and as a result, there is substantial doubt about our ability to continue as a going concern.

We do not expect to receive any revenue from ABP-450 or any future product candidates that we develop unless and until we obtain regulatory approval and commercialize ABP-450 or any future product candidates. We expect to continue to incur significant expenses and increasing net operating losses for the foreseeable future as we seek regulatory approval, prepare for and, if approved, proceed to commercialization of ABP-450.

We utilize clinical research organizations, or CROs, to carry out our clinical development and we do not yet have a sales organization. We expect to incur significant expenses related to building our commercialization infrastructure, including marketing, sales and distribution functions, inventory build prior to commercial launch, training and deploying a specialty sales force and implementing a targeted marketing campaign.

Historical Background and Business Combination

We were formed in 2012 and, in our early history, acquired numerous controlling and non-controlling ownership interests in several different businesses that we have since disposed of and in which we now have no interest. For example, we were the sole owner of Evolus common stock prior to its initial public offering in February 2018. As a result, we included Evolus in our consolidated results of operations through May 2019, when we determined that we no longer held control and deconsolidated the entity and recorded the fair value of the retained equity interest in Evolus. Until September 2020, we also operated Alphaeon Credit, Inc., or Alphaeon Credit, a business that provided introductory financing services on a limited basis to patients to pay for elective medical procedures, and we owned a non- controlling interest in Zelegent, Inc., or Zelegent, a private company.

In January 2020, we contributed our interest in Evolus to Alphaeon 1 LLC (“A1”), then a newly formed entity, in exchange for member units, and then distributed all of the units of A1 to our existing stockholders. In September 2020, we contributed each of Alphaeon Credit and Zelegent to a newly formed entity, and then distributed all of the units in those entities to our existing stockholders. We refer to these transactions collectively as the Divestiture Transactions. Following the Divestiture Transactions, our business was exclusively focused on developing ABP-450 for debilitating medical conditions.

On December 12, 2022, Old AEON and Priveterra Acquisition Corp, or Priveterra, (Nasdaq: PMGM), a SPAC, entered into a Business Combination Agreement. On July 3, 2023, Priveterra held the special meeting of stockholders, at which the Priveterra stockholders considered and adopted, among other matters, a proposal to approve the Business Combination Agreement and related transactions, including the Business Combination. On July 21, 2021, the parties consummated the Business Combination. In connection with the closing of the Business Combination, or the Closing, Priveterra changed its name from Priveterra Acquisition Corp. to AEON Biopharma, Inc. Following the consummation of the Business Combination, AEON became a registrant with the Securities and Exchange Commission, or the SEC, and its common stock, par value \$0.0001 per share, or our Common Stock, and its warrants, or the Warrants, commenced trading on the New York Stock Exchange American or NYSE American, under the symbols “AEON” and “AEON WS,” respectively.

In connection with the Business Combination, on January 6, 2023, Priveterra and Old AEON entered into separate subscription agreements for convertible notes with each of A1 and Daewoong, or the Original Committed Financing Agreements, pursuant to which A1 and Daewoong agreed to purchase, and Priveterra and Old AEON agreed to sell to each of them, \$20 million aggregate of principal of interim notes convertible into an aggregate of 2,857,143 shares of Priveterra Class A common stock for a purchase price of \$7.00 per share. Further, on June 8, 2023, Old AEON and Priveterra entered into a committed financing agreement with A1, or the Additional Committed Financing Agreement, pursuant to which A1 agreed to purchase, and Priveterra and Old AEON agreed to sell to A1, an additional 20 million aggregate principal of interim notes convertible into 2,857,143 shares of Priveterra Class A common stock, for a purchase price of \$7.00 per share.

As a result of the Business Combination, each share of Old AEON preferred stock and common stock was converted into the right to receive approximately 2.328 shares of Common Stock. Additionally, the shares of Priveterra Class B common stock held by Priveterra Sponsor LLC automatically converted into 6,900,000 shares of Common Stock (of which 3,450,000 shares are subject to vesting under certain conditions). Upon Closing, an aggregate of \$15.36 million was paid from Priveterra’s trust account to holders that properly exercised their right to have initial shares redeemed in connection with the Business Combination.

In addition, Priveterra entered into separate Forward Purchase Agreements with each of ACM ARRT J LLC, or ACM, and Polar Multi-Strategy Master Fund, or Polar, on June 29, 2023, for an OTC Equity Prepaid Forward Transaction. The Forward Purchase Agreements provide that each of Polar and ACM will separately be paid directly an aggregate cash amount, or the Prepayment Amount, equal to the product of the Number of Shares as set forth in each Pricing Date Notice and (ii) the redemption price per share as defined in Section 9.2(a) of Priveterra’s Second Amended and Restated Certificate of Incorporation.

In satisfaction of the Prepayment Amount, on July 21, 2023, \$66.7 million was paid from the purchase of Additional Shares by each of ACM and Polar pursuant to the terms of certain FPA Funding Amount PIPE Subscription Agreements between Priveterra and each of ACM and Polar. We will not have access to the Prepayment Amount immediately following the Closing and, depending on the manner in which the Forward Purchase Transactions are settled, may never have access to the Prepayment Amount, which may adversely affect our liquidity and capital needs.

As a result of becoming a public company, we will need to hire additional staff and implement processes and procedures to address public company regulatory requirements and customary practices. We expect to incur additional annual expenses for, among other things, directors’ and officers’ liability insurance, director fees and additional internal and external accounting, legal and administrative resources and fees.

Components of Our Results of Operations

Revenue

We have generated no revenue from the sale of products and do not anticipate deriving any product revenue unless and until we receive regulatory approval for, and are able to successfully commercialize, ABP-450.

Operating Expenses

Selling, General and Administrative Expenses

Selling, general and administrative expenses, or SG&A expenses, consist primarily of compensation for personnel, including stock-based compensation, management, finance, legal, and regulatory functions. Other SG&A expenses include travel expenses, market research and analysis, conferences and trade shows, professional services fees, including legal, audit and tax fees, insurance costs, general corporate expenses, and allocated facilities-related expenses. We anticipate that our SG&A expenses will increase in the future to support our continued research and development, or R&D, activities. Additionally, we anticipate increased costs associated with being a public company, including expenses related to services associated with maintaining compliance with the requirements of the NYSE American and the SEC, insurance, and investor relations costs. We expect to incur increased costs associated with establishing sales, marketing, and commercialization functions in advance of potential future regulatory approvals and commercialization of our product candidates. If ABP-450 obtains United States regulatory approval for any indication, we expect that we would incur significantly increased expenses associated with building a sales and marketing team and funding commercial activities.

Research and Development Expenses

Our R&D expenses are primarily attributed to the development of ABP-450 for migraine, cervical dystonia and gastroparesis. Due to the stage of our development and our ability to use resources across all of our programs, most of our R&D costs are not recorded on a program-specific basis. We expect our R&D expenses to continue to increase as we continue our Phase 2 clinical studies for ABP-450 to treat migraine, commence a Phase 2 study of ABP-450 for gastroparesis, and as we develop and initiate a Phase 3 study of ABP-450 in cervical dystonia. R&D expenses associated with these studies will include third-party costs such as expenses incurred under agreements with CROs, the cost of consultants who assist with the development of ABP-450 on a program-specific basis, investigator grants, sponsored research, product costs in connection with acquiring ABP-450 from Daewoong for use in conducting preclinical and clinical studies, and other third-party expenses attributable to the development of our product candidates.

R&D activities will be critical to achieving our business strategy. As our pipeline programs enter the later stages of clinical development, we will generally incur greater development costs than those programs incurred in the earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical studies. We expect our R&D expenses to be significant over the next several years as we advance the clinical development of ABP-450 and prepare to seek regulatory approval.

It is difficult to determine with certainty the duration and completion costs of any clinical study we may conduct. The duration, costs and timing of clinical studies of our current and future product candidates will depend on a variety of factors that include:

- the number of studies required for approval;
- the per patient study costs;
- the number of patients that participate in the studies;
- the number of sites included in the studies;
- the countries in which any study may be conducted;
- the length of time required to enroll eligible patients;
- the number of doses that patients receive;
- the drop-out or discontinuation rates of patients;
- the potential additional safety monitoring or other studies requested by regulatory agencies;
- the duration of patient follow-up;
- the timing and receipt of regulatory approvals;

- the costs of clinical study material; and
- the efficacy and safety profile of the product candidate.

As a result, we are unable to determine the duration and completion costs of our programs or when and to what extent we will generate revenue from commercialization and sale of any of our product candidates. Our R&D activities may be subject to change from time to time as we evaluate our priorities and available resources.

Litigation Settlement

Litigation settlement primarily consists of the fair value of Old AEON common stock issued in June 2021 pursuant to a settlement and license agreement with Medytox, Inc, or Medytox.

Other (Loss) Income, Net

Other (loss) income, net primarily consists of gains and losses resulting from the remeasurement of the fair value of our preferred stock warrant liability and changes in the fair value of our convertible notes, each described below, at each balance sheet date. We will continue to record adjustments to the estimated fair value of the preferred stock warrants until they are exercised or expire.

We elected to account for our convertible notes, each described below under the heading “Convertible Notes,” at fair value. We recorded our convertible notes at fair value at inception with subsequent changes in fair value recorded as a component of other income (loss) in the consolidated statements of operations and comprehensive income (loss) or other comprehensive income (loss) for changes related to instrument-specific credit risk.

Clarion Unwind Fee

In 2014, we acquired all outstanding voting equity interests of Clarion Medical Technologies Inc., or Clarion, pursuant to a shareholders’ agreement. The shareholders’ agreement provided the previous equity holders of Clarion the right to an unwind fee of approximately \$9.6 million to unwind our acquisition of Clarion. In 2016, the previous equity holders of Clarion exercised the unwind right and the unwind fee became a joint and several obligation of us and Strathspey Crown Holdings Group, LLC, or SCH, our majority stockholder.

In November 2017, we and SCH entered into a side letter and guarantee agreement with Clarion and the previous equity holders of Clarion in which we agreed to cause Evolus to enter into an exclusive distribution and supply agreement, dated as of November 30, 2017, or the Distribution Agreement, with Clarion. The Distribution Agreement provided terms pursuant to which Evolus would exclusively supply DWP-450 to Clarion in Canada, if Evolus obtained the necessary regulatory approval from Health Canada. Evolus received approval from Health Canada in August 2018 for the temporary improvement in the appearance of moderate to severe glabellar lines in adult patients under 65 years of age. The Distribution Agreement also sets forth that a portion of the proceeds received by Evolus from each unit of DWP-450 purchased by Clarion shall be paid directly to the previous equity holders of Clarion, and would reduce, on a dollar-for-dollar basis, the amount of the unwind fee owed by us until paid in full.

On March 23, 2021, Evolus, Clarion, and Daewoong entered into an addendum to the Distribution Agreement to provide for Clarion to purchase Jeuveau directly from Daewoong. Our obligation under the Distribution Agreement to pay the unwind fee to the previous equity holders of Clarion was therefore cancelled. We recognized a gain on cancellation of the unwind fee of \$9.6 million during the year ended December 31, 2021, with a corresponding decrease in other liabilities in the consolidated financial statements.

Income Tax Benefit

Our tax provision is comprised of United States and state income taxes. We currently record a full valuation allowance against our net deferred tax assets. We have provided for the tax effects of uncertain tax positions in our tax provision.

Results of Operations

The following table summarizes our results of operations for the periods indicated (in thousands):

	Years Ended December 31,		Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2023	2022	2023	2022
			(unaudited)		(unaudited)	
Operating costs and expenses:						
Selling, general and administrative	\$ 13,675	\$ 11,153	\$ 4,946	\$ 3,189	\$ 8,787	\$ 5,734
Research and development	34,754	25,728	9,025	8,964	18,230	17,747
Litigation settlement	—	28,966	—	—	—	—
Total operating costs and expenses	48,429	65,847	13,971	12,153	27,017	23,481
Loss from operations	(48,429)	(65,847)	(13,971)	(12,153)	(27,017)	(23,481)
Other (loss) income:						
Change in fair value of convertible notes	(4,416)	795	(1,453)	9,657	(6,110)	15,928
Gain on cancellation of Clarion unwind fee	—	9,550	—	—	—	—
Other (loss) income, net	289	(135)	45	(1)	109	—
Total other (loss) income	(4,127)	10,210	(1,408)	9,656	(6,001)	15,928
(Loss) before taxes	(52,556)	(55,637)	(15,379)	(2,497)	(33,018)	(7,553)
Income tax benefit	—	—	—	—	—	—
Net loss and comprehensive loss	\$ (52,556)	\$ (55,637)	\$ (15,379)	\$ (2,497)	\$ (33,018)	\$ (7,553)

Comparison of Years Ended December 31, 2022 and 2021 and the Three and Six Months Ended June 30, 2023 and 2022

Operating Expenses

Selling, General and Administrative (SG&A) Expenses

SG&A expenses were \$13.7 million during the year ended December 31, 2022, an increase of \$2.5 million, or 22.6%, compared to \$11.2 million during the year ended December 31, 2021. The increase in SG&A expense was primarily attributable to \$3.0 million in expenses related to the Business Combination Agreement and the transactions in connection therewith, or the Transactions, entered into on December 12, 2022 that did not occur in the year ended December 31, 2021 and an increase in employee compensation and benefits of \$1.1 million offset by a decrease in professional fees of \$1.6 million.

SG&A expenses were \$5.0 million during the three months ended June 30, 2023, an increase of \$1.8 million, or 56%, compared to \$3.2 million during the three months ended June 30, 2022. The increase in SG&A expense was primarily attributable to \$2.6 million in expenses related to the Business Combination Agreement and the Transactions entered into on December 12, 2022 that did not occur in the three months ended June 30, 2022 offset by a decrease in stock compensation expense of \$0.5 million and professional fees of \$0.3 million.

SG&A expenses were \$8.8 million during the six months ended June 30, 2023, an increase of \$3.1 million, or 53%, compared to \$5.7 million during the six months ended June 30, 2022. The increase in SG&A expense was primarily attributable to \$3.5 million in expenses related to the Business Combination Agreement and the Transactions entered into on December 12, 2022 that did not occur in the six months ended June 30, 2022.

Research and Development (R&D) Expenses

R&D expenses were \$34.8 million during the year ended December 31, 2022, an increase of \$9.1 million, or 35.1%, compared to \$25.7 million during the year ended December 31, 2021. The increase was primarily attributable to an \$8.6 million increase in clinical expenses associated with the development of ABP-450 in both migraine and cervical dystonia, and a \$0.5 million increase in employee expenses.

R&D expenses were \$9.0 million during the three months ended June 30, 2023 and 2022.

R&D expenses were \$18.2 million during the six months ended June 30, 2023, an increase of \$0.5 million, or 3%, compared to \$17.7 million during the six months ended June 30, 2022. The increase was primarily attributable to a \$0.5 million increase in clinical expenses associated with the development of ABP-450 in both migraine and cervical dystonia.

Litigation Settlement

As a result of a settlement and license agreement executed with Medytox in June 2021, and corresponding share issuance agreement, we issued 26,680,511 shares of Old AEON common stock, which was valued at \$29.0 million. There were no corresponding expenses in the year ended December 31, 2022 nor in the three or six months ended June 30, 2023 and 2022, respectively.

Other Income (Loss), Net

Other income (loss), net was loss of \$(4.1) million for the year ended December 31, 2022, compared to income of \$10.2 million for the year ended December 31, 2021. Other income (loss), net for the year ended December 31, 2022, included \$4.4 million of loss related to the change in value of convertible notes compared to an income of \$0.8 million in the year ended December 31, 2021. The year ended December 31, 2021, included a non-cash gain of \$9.6 million recognized upon the cancellation of the unwind fee to Clarion that was previously recorded as a liability with no corresponding amount in the year ended December 31, 2022.

Other income (loss), net was loss of \$(1.4) million for the three months ended June 30, 2023, compared to income of \$9.7 million for the three months ended June 30, 2022. Other income (loss), net for the three months ended June 30, 2023, included \$(1.5) million of loss related to the change in value of convertible notes compared to income of \$9.7 million in the three months ended June 30, 2022.

Other income (loss), net was loss of \$(6.1) million for the six months ended June 30, 2023, compared to income of \$15.9 million for the six months ended June 30, 2022. Other income (loss), net for the six months ended June 30, 2023, included \$(6.0) million of loss related to the change in value of convertible notes compared to income of \$15.9 million in the six months ended June 30, 2022.

Liquidity and Capital Resources

To date, our primary sources of capital have been private placements of preferred stock, sales of shares of Evolus, debt financing agreements and revenue from introductory financing services. As of June 30, 2023, we had \$2.6 million of cash, a consolidated total deficit of \$283.9 million, and \$134.4 million of convertible notes at fair value.

On July 21, 2023 the Company announced the Merger along with the closing of its funding arrangements of up to \$125 million. The funding includes approximately \$50 million of committed financing (including \$20 million of previously announced financing) from existing and new AEON investors, as well as the cash remaining in Priveterra's trust account after redemptions. Additionally, the Company entered into a \$75 million Forward Purchase Agreement. These committed financings provided the capital necessary to consummate the business combination and are expected to provide sufficient proceeds to fund the Company beyond the announcement of topline data from the Company's Phase 2 study with ABP-450 for the preventive treatment of episodic migraine, anticipated in the fall of 2023.

We have incurred operating losses and negative cash flows from operating activities since inception and expect to continue to incur significant operating losses for the foreseeable future and may never become profitable. We expect to continue to incur substantial costs in order to conduct R&D activities necessary to develop and commercialize our product candidates. Until such time, if ever, as we can generate substantial product revenue from sales of ABP-450, we will need additional capital to undertake these activities and commercialization efforts, and, therefore, we intend to raise such capital through the issuance of additional equity, borrowings, and potentially strategic alliances with other companies. However, if such financing is not available at adequate levels or on acceptable terms, we could be required to significantly reduce operating expenses and delay, reduce the scope of or eliminate some of our development programs or commercialization efforts, out-license intellectual property rights to our product candidates or sell unsecured assets, or a combination of the above, any of which may have a material adverse effect on our business, results of operations, financial condition and/or our ability to fund our scheduled obligations on a timely basis or at all. Our ability to continue as a going concern is dependent upon our ability to successfully accomplish these plans and secure sources of financing and ultimately attain profitable operations.

Our primary use of cash is to fund operating expenses, which consist of R&D expenditures as well as SG&A expenditures. Cash used to fund operating expenses is impacted by the timing of when we pay or prepay these expenses.

To the extent that we raise additional capital through marketing and distribution arrangements or other collaborations, strategic alliances, or licensing arrangements with third parties, we may have to relinquish valuable rights to our product candidates, future revenue streams, research programs or product licenses on terms that may not be favorable to us. If these sources are insufficient to satisfy our liquidity requirements, we will seek to raise additional funds through future equity or debt financings. If we raise additional funds by issuing equity securities, our stockholders would experience dilution. Additional debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. There can be no assurance that our efforts to procure additional financing will be successful or that, if they are successful, the terms and conditions of such financing will be favorable to us or our stockholders. If we are unable to raise additional financing when needed, we may be required to delay, reduce, or terminate the development, commercialization and marketing of our products and scale back our business and operations.

As a result of these conditions, management has concluded that substantial doubt about our ability to continue as a going concern exists as conditions and events, considered in the aggregate, indicate that it is probable that we will be unable to meet our obligations as they become due within one year after the date that the financial statements included in this Report are issued. Our financial information throughout this Report and our financial statements included elsewhere in this Report have been prepared on a basis that assumes that we will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. This financial information and our consolidated financial statements do not include any adjustments that may result from an unfavorable outcome of this uncertainty. Our ability to continue as a going concern is dependent upon our ability to successfully accomplish our business plans and secure sources of financing and ultimately attain profitable operations.

Net Cash Used in Operating Activities

Net cash used in operating activities for the year ended December 31, 2022 was \$35.6 million, consisting primarily of a net loss of \$52.6 million and non-cash charges of \$10.7 million, consisting primarily of \$4.4 million related to the change in fair value of the convertible notes and a \$5.9 million non-cash expense related to stock-based compensation for our executives and directors.

Net cash used in operating activities for the year ended December 31, 2021 was \$28.4 million, consisting primarily of a net loss of \$55.6 million and non-cash charges of \$25.8 million. Non-cash increases included \$29.0 million related to the non-cash litigation settlement with Medytox, \$5.2 million related to stock-based compensation for our executives and directors, and \$2.0 million related to the write-off of deferred offering costs. These increases were offset by a non-cash decrease of \$9.6 million related to the gain recognized upon the cancellation of the unwind fee to Clarion and \$0.8 million from the change in fair value of the convertible notes.

Net cash used in operating activities for the six months ended June 30, 2023 was \$21.1 million, consisting primarily of a net loss of \$33.0 million and non-cash charges of \$8.7 million, consisting primarily of \$6.1 million related to the change in fair value of the convertible notes and a \$2.5 million non-cash expense related to stock-based compensation for our executives and directors.

Net cash used in operating activities for the six months ended June 30, 2022 was \$15.6 million, consisting primarily of a net loss of \$7.5 million and non-cash items of \$12.8 million, consisting primarily of \$15.9 million related to the change in the fair value of the convertible notes offset by a \$3.1 million non-cash expense related to stock-based compensation for our executives and directors.

Cash Flows from Investing Activities

Net cash used in investing activities in the year ended December 31, 2022 was \$0.3 million and related to the purchase of property and equipment.

Net cash used in investing activities in the year ended December 31, 2021 was \$0.2 million and related to the purchase of property and equipment.

Net cash used in investing activities in the six months ended June 30, 2023 was \$0 million and less than \$0.1 million in the six months ended June 30, 2022 related to the purchase of property and equipment.

Cash Flows from Financing Activities

Net cash provided by financing activities in the year ended December 31, 2022 was \$40.5 million which was related to the issuance of \$44.5 million of convertible notes offset by the repayment of convertible notes of \$4.0 million.

Net cash provided by financing activities in the year ended December 31, 2021 was \$13.6 million, which was primarily related to a \$15.0 million issuance of the Daewoong and Alphaeon Convertible Notes (each as defined below) in May, November and December 2021. In addition, financing activities included \$1.4 million for payment of offering costs incurred related to a contemplated initial public offering that was not consummated.

Net cash provided by financing activities in the six months ended June 30, 2023 was \$14 million which was related to the issuance of \$14 million of convertible notes.

Net cash provided by financing activities in the six months ended June 30, 2022 was \$12 million which was related to the issuance of \$12 million of convertible notes.

Pre-Business Combination Convertible Notes

Our convertible notes prior to the Business Combination included the Strathspey Crown Note, the SCH Convertible Note, the 2019 Convertible Notes, 2021 A1 Convertible Notes and the Daewoong Convertible Note, each described in more detail below.

Strathspey Crown Note and SCH Convertible Note. Since December 2013, we had been party to an intercompany credit line promissory note, or the Strathspey Crown Note, pursuant to which SCH, our majority stockholder, had advanced borrowings to us to fund our capital requirements. Effective as of January 2, 2020, we and SCH cancelled all obligations under the Strathspey Crown Note and in exchange we issued a convertible promissory note to SCH, or the SCH Convertible Note, with a principal amount of \$17.5 million. We accounted for the debt exchange as an extinguishment of the Strathspey Crown Note and recognized a loss on debt extinguishment of \$11.2 million, representing the difference between the fair value of the SCH Convertible Note of \$26.5 million, the fair value of which included the principal plus the value of the embedded features as described below at January 2, 2020 and total obligations outstanding under the Strathspey Crown Note of \$15.8 million less the unamortized borrowing cost of \$0.5 million.

The SCH Convertible Note and the interest due thereupon was paid out in shares of Old AEON common stock immediately prior to the consummation of the Business Combination.

2019 Debt Financings. In June 2019, we entered into a senior unsecured note purchase agreement, or the Original 2019 Note Purchase Agreement, with Dental Innovations BVBA, or Dental Innovations, pursuant to which we issued Dental Innovations a promissory note, or the Original 2019 Note, with a principal amount of \$5.0 million. Pursuant to the terms of the Original 2019 Note, we were required to repay a total of \$8.75 million, representing all principal and interest owed, upon the earliest to occur of (i) June 19, 2022, (ii) Dental Innovations' demand for repayment following our completion of an initial public offering and (iii) our election to repay the Original 2019 Note in full.

Under the Original 2019 Note Purchase Agreement, Dental Innovations committed to purchase from us an additional promissory note with a principal amount of \$5.0 million, subject to our issuing and selling an additional promissory note with a principal amount of \$5.0 million to a lender not affiliated with Dental Innovations. Any such additional promissory notes were to have the same payment terms as the Original 2019 Note.

In December 2019, we entered into an amendment to the Original 2019 Note Purchase Agreement that provided for the exchange of the Original 2019 Note for a convertible promissory note with a principal amount of \$5.0 million. In addition, Dental Innovations was no longer committed to purchase from us an additional promissory note with a principal amount of \$5.0 million subject to us issuing and selling an additional promissory note with a principal amount of \$5.0 million to a lender not affiliated with Dental Innovations. In December 2019, we issued and sold five additional convertible promissory notes, each with a principal amount of \$1.0 million, including one to SCH and one to a member of our board of directors. All six such convertible promissory notes are referred to as the 2019 Convertible Notes.

The 2019 Convertible Notes and the interest due thereupon was converted into in shares of Old AEON common stock immediately prior to the consummation of the Business Combination.

A1 Convertible Notes. In December 2021, we entered into an agreement with A1, or the A1 Purchase Agreement, pursuant to which we expected to issue subordinated convertible promissory notes to A1 with an aggregate principal amount of \$25.0 million. On December 8 and 15, 2021, we issued two convertible notes (together, the “2021 A1 Convertible Notes”), each with a principal amount of \$5.0 million and totaling \$10.0 million, that each matures on the third anniversary of its issuance. The 2021 A1 Convertible Notes were unsecured and subordinated to our other convertible notes.

The 2021 A1 Convertible Notes bore interest daily at the lesser of 10% per annum or the maximum rate permissible by law. Interest was paid in-kind by adding the accrued amount thereof to the principal amount on a monthly basis on the last day of each calendar month for so long as any principal amount remained outstanding.

Subsequent to December 31, 2021, we issued five additional tranches of subordinated convertible promissory notes to A1 on February 18, 2022, March 9, 2022, April 14, 2022, June 3, 2022 and July 1, 2022 (collectively, the “2022 A1 Convertible Notes”), the first four with a principal amount of \$3.0 million each and the fifth issued July 1, 2022, for a principal amount of \$2.5 million and totaling \$14.5 million. The terms of the 2022 A1 Convertible Notes are similar to those of the 2021 A1 Convertible Notes. As of December 31, 2022 and June 30, 2023, the principal balance was \$14.5 million, with an estimated fair value of \$13.5 million and \$15.2 million, respectively.

Additionally, on March 30, 2022, we amended the 2021 A1 Convertible Notes and the convertible notes issued on February 18, 2022 and March 9, 2022 to remove the discount rate associated with the automatic conversion of any outstanding convertible notes into share of common stock in connection with an initial public offering.

On March 6, 2023, we entered into an agreement with A1, or the Original A1 Note Subscription Agreement, pursuant to which we issued subordinated convertible promissory notes to A1 with an aggregate principal amount of \$6.0 million, or the March 2023 A1 Convertible Notes, that matured upon the earlier of (x) the date of the consummation of the Business Combination and (y) December 29, 2023. The March 2023 A1 Convertible Notes bore interest at 15.79% based on simple interest daily, unless issued at least five days prior to maturity date. The March 2023 A1 Convertible Notes were unsecured and subordinated to the Company’s other convertible notes. As of June 30, 2023, the principal amount outstanding was \$6 million with an estimated fair value of \$7.9 million.

On May 2, 2023, we entered into an agreement with A1, pursuant to which we issued subordinated convertible promissory notes to A1 with an aggregate principal amount of \$6.0 million (“May 2023 A1 Convertible Notes”) that matured on the earlier of (x) the date of the consummation of the Business Combination and (y) December 29, 2023. The May 2023 A1 Convertible Notes bore interest at 15.79%, based on simple interest daily. The May 2023 A1 Convertible Notes were unsecured and subordinated to the Company’s other convertible notes.

On June 23, 2023, A1 entered into an amendment to its Original A1 Note Subscription Agreement, or the Amended A1 Note Subscription Agreement, to add the subscription of \$20 million additional aggregate principal of subordinated convertible promissory notes. In connection therewith, on June 8, 2023, we and Priveterra entered into a Committed Financing Agreement with A1, or the Additional Committed Financing Agreement, pursuant to which A1 agreed to purchase, and Priveterra and we agreed to sell to A1, an additional \$20 million aggregate principal of interim notes convertible into 2,857,143 shares of Priveterra Class A common stock, for a purchase price of \$7.00 per share pursuant to the Additional Committed Financing Agreement.

On June 27, 2023, we entered into an agreement with A1, pursuant to which we issued subordinated convertible promissory notes to A1 with an aggregate principal amount of \$2.0 million (“June 2023 A1 Convertible Notes”) that matured on the earlier of (x) the date of the consummation of the Business Combination and (y) December 29, 2023. The June 2023 A1 Convertible Notes bore interest at 15.79%, based on simple interest daily. The June 2023 A1 Convertible Notes were unsecured and subordinated to the Company’s other convertible notes.

The 2021 A1 Convertible Notes and 2022 A1 Convertible Notes and the interest due thereupon were repaid in shares of Old AEON common stock immediately prior to the consummation of the Business Combination. The March 2023 A1 Convertible Notes, the May 2023 A1 Convertible Notes and the convertible notes subscribed for under the Amended A1 Note Subscription Agreement and Additional Committed Financing Agreement were repaid in shares of Priveterra Class A Common Stock immediately prior to the consummation of the Business Combination and are not subject to any contractual lock-up.

Daewoong Convertible Notes. In August 2020, we entered into a Convertible Promissory Note Purchase Agreement with Daewoong, or the Daewoong Purchase Agreement, pursuant to which we issued Daewoong two subordinated convertible promissory notes, or the 2020 Daewoong Convertible Notes, with an aggregate principal amount of \$25.0 million. The 2020 Daewoong Convertible Notes have similar terms, of which one was issued on August 27, 2020 with a principal amount of \$10.0 million and the other was issued on September 18, 2020 with a principal amount of \$15.0 million. The 2020 Daewoong Convertible Notes were unsecured and subordinated to the 2019 Convertible Notes.

The 2020 Daewoong Convertible Notes bore interest daily at 3% per annum with semiannual compounding. Interest was paid in-kind by adding the accrued amount thereof to the principal amount on a semi-annual basis on June 30th and December 31st of each calendar year for so long as any principal amount remained outstanding (such paid in-kind interest, in the aggregate at any time, the “PIK Principal”). The 2020 Daewoong Convertible Notes had a maturity date of September 18, 2025.

In May 2021, the Daewoong Purchase Agreement was amended to provide for the issuance of an additional subordinated convertible promissory note by us to Daewoong at an initial principal amount of \$5.0 million. The subordinated convertible promissory note was issued with terms similar to the two subordinated convertible promissory notes issued in 2020 and matures on May 12, 2026 (together with the 2020 Daewoong Convertible Notes, the “Daewoong Convertible Notes”).

On July 29, 2022, we entered into a Convertible Promissory Note Purchase Agreement between us and Daewoong, or the 2022 Daewoong Note Purchase Agreement, for total available financing of \$30 million. The note purchased under the 2022 Daewoong Note Purchase Agreement, or the 2022 Daewoong Note, had a stated interest rate of 15.79% per annum. The 2022 Daewoong Note had a maturity date of December 29, 2023.

As of December 31, 2022 and 2021, and June 30, 2023, the principal amount outstanding (excluding the PIK Principal) under the Daewoong Convertible Notes and the 2022 Daewoong Note was \$60.0 million and \$30.0 million, and \$60.0 million, respectively, with an estimated fair value of \$67.3 million and \$35.0 million, and \$67.7 million, respectively.

On June 27, 2023, we entered into an agreement with Daewoong, or the Daewoong Note Subscription Agreement, pursuant to which we issued subordinated convertible promissory notes to Daewoong with an aggregate principal amount of \$5.0 million, or the 2023 Daewoong Convertible Notes, that matured upon the date of the consummation of the Business Combination. The 2023 Daewoong Convertible Notes were unsecured and subordinated to the Company’s other convertible notes.

The Daewoong Convertible Notes and the 2022 Daewoong Note and the interest due thereupon were repaid in shares of Old AEON common stock immediately prior to the consummation of the Business Combination. The 2023 Daewoong Convertible Notes were repaid in shares of Priveterra Class A Common Stock immediately prior to the consummation of the Business Combination and are not subject to any contractual lock-up.

Committed Financings and Forward Purchase Agreements in Connection with the Business Combination

In connection with the Business Combination, Priveterra entered into subscription agreements (the “Subscription Agreements”) with certain investors (the “PIPE Investors”). Pursuant to these agreements, upon the Closing on July 21, 2023, Priveterra issued an aggregate of 1,001,000 shares of Priveterra Class A common stock to the PIPE Investors at \$7.00 per share. Also pursuant to the Closing, all of the shares of Priveterra Class A common stock issued to the PIPE Investors were converted, on a one-for-one basis, for shares of Common Stock.

Forward Purchase Agreements

On June 29, 2023, Priveterra and Old AEON entered into the Forward Purchase Agreements with each of (i) ACM and (ii) Polar (each of ACM ARRT J LLC and Polar, individually, a “Seller”, and together, the “Sellers”) for OTC Equity Prepaid Forward Transactions. For purposes of each Forward Purchase Agreement, Priveterra is referred to as the “Counterparty” prior to the consummation of the Business Combination, while AEON is referred to as the “Counterparty” after the consummation of the Business Combination. Capitalized terms used herein but not otherwise defined shall have the meanings ascribed to such terms in the Forward Purchase Agreements, which are filed as exhibits to the Report to which this Exhibit 99.3 is attached. Any reference herein to the “Forward Purchase Agreement” are to be treated as a reference to each Seller’s separate agreement and should be construed accordingly and any action taken by a Seller should be construed as an action under its own respective agreement.

Pursuant to the terms of the Forward Purchase Agreements, the Sellers intended, but were not obligated, to purchase up to 7,500,000 shares of Priveterra Class A common stock in the aggregate concurrently with the Closing pursuant to each Seller’s respective FPA Funding Amount PIPE Subscription Agreement (as defined below), less the number of shares of Priveterra Class A common stock purchased by each Seller separately from third parties through a broker in the open market (“Recycled Shares”). No Seller shall be required to purchase an amount of shares of Priveterra Class A common stock such that following such purchase, that Seller’s ownership would exceed 9.9% of the total shares of Priveterra Class A common stock outstanding immediately after giving effect to such purchase, unless such Seller, at its sole discretion, waives such 9.9% ownership limitation. The Number of Shares subject to a Forward Purchase Agreement is subject to reduction following a termination of the Forward Purchase Agreements with respect to such shares as described under “Optional Early Termination” in the respective Forward Purchase Agreements.

Each Forward Purchase Agreement provides that a Seller will be paid directly the “Prepayment Amount, which is equal to the product of (i) the Number of Shares as set forth in each Pricing Date Notice and (ii) the redemption price per share as defined in Section 9.2(a) of Priveterra’s Second Amended and Restated Certificate of Incorporation (the “Initial Price”).

On July 21, 2023, the Counterparty paid to each Seller separately the Prepayment Amount required under the respective Forward Purchase Agreement directly from the Counterparty’s Trust Account maintained by Continental Stock Transfer and Trust Company holding the net proceeds of the sale of the units in the Counterparty’s initial public offering and the sale of private placement warrants (the “Trust Account”), except that to the extent the Prepayment Amount payable to a Seller was to be paid from the purchase of Additional Shares by such Seller pursuant to the terms of its FPA Funding Amount PIPE Subscription Agreement, such amount was netted against such proceeds, with such Seller being able to reduce the purchase price for the Additional Shares by the Prepayment Amount. For the avoidance of doubt, any Additional Shares purchased by a Seller will be included in the Number of Shares for its respective Forward Purchase Agreement for all purposes, including for determining the Prepayment Amount.

Following the Closing, the reset price (the “Reset Price”) will initially be the Initial Price and subject to a \$7.00 floor (the “Reset Price Floor”). The Reset Price will be subject to reset on a monthly basis (each a “Reset Date”) with the first such Reset Date occurring 90 days after the Closing Date to be the lowest of (a) the then- current Reset Price, (b) the Initial Price and (c) the 30-day VWAP Price of the Shares immediately preceding such Reset Date; provided, however, that the Reset Price may be reduced immediately to any lower price at which the Counterparty sells, issues or grants any shares or securities convertible or exchangeable into shares (other than, among other things, grants or issuances under the Counterparty’s equity compensation plans, any securities issued in connection with the Business Combination or any securities issued in connection with the PIPE Subscription Agreements (as defined below)), subject to certain exceptions, in which case the Reset Price Floor would be eliminated.

From time to time and on any date following the Business Combination (any such date, an “OET Date”), any Seller may, in its absolute discretion, terminate its Forward Purchase Agreement in whole or in part by providing written notice to the Counterparty (the “OET Notice”), no later than the next Payment Date following the OET Date (which shall specify the quantity by which the Number of Shares shall be reduced (such quantity, the “Terminated Shares”). The effect of an OET Notice shall be to reduce the Number of Shares by the number of Terminated Shares specified in such OET Notice with effect as of the related OET Date. As of each OET Date, the Counterparty shall be entitled to an amount from the Seller, and the Seller shall pay to the Counterparty an amount, equal to the product of (x) the number of Terminated Shares and (y) the Reset Price in respect of such OET Date. The payment date may be changed within a quarter at the mutual agreement of the parties.

The valuation date will be the earliest to occur of (a) the second anniversary of the Closing Date, (b) the date specified by a Seller in a written notice to be delivered to the Counterparty at a Seller’s discretion (which Valuation Date shall not be earlier than the day such notice is effective) after the occurrence of any of (w) a VWAP Trigger Event, (x) a Delisting Event, (y) a Registration Failure or (z) unless otherwise specified therein, upon any Additional Termination Event and (c) 90 days after delivery by the Counterparty of a written notice in the event that for any 20 trading days during a 30 consecutive trading day-period that occurs at least six months after the Closing Date, the VWAP Price is less than the then applicable Reset Price, provided that a Registration Statement was effective and available for the entire measurement period and remains continuously effective and available during the entire 90 day notice period (the “Valuation Date”).

On the Cash Settlement Payment Date, which is the tenth local business day following the last day of the valuation period commencing on the Valuation Date, a Seller shall pay the Counterparty a cash amount equal to (1) (A) the Number of Shares as of the Valuation Date less the number of Unregistered Shares, multiplied by (B) the volume-weighted daily VWAP Price over the Valuation Period less (2) if the Settlement Amount Adjustment is less than the cash amount to be paid, the Settlement Amount Adjustment. The Settlement Amount Adjustment is equal to (1) the Number of Shares as of the Valuation Date multiplied by (2) \$2.00 per share, and the Settlement Amount Adjustment will be automatically netted from the Settlement Amount. If the Settlement Amount Adjustment exceeds the Settlement Amount, the Counterparty will pay the Seller in shares of Common Stock or, at the Counterparty’s election, in cash.

Each Forward Purchase Agreement has been structured, and all activity in connection with such agreement has been undertaken, to comply with the requirements of all tender offer regulations applicable to the Business Combination, including Rule 14e-5 under the Securities Exchange Act of 1934.

FPA Funding Amount PIPE Subscription Agreements

On June 29, 2023, Priveterra entered into separate subscription agreements, or the FPA Funding Amount PIPE Subscription Agreements with each of ACM and Polar (collectively, the “FPA Funding PIPE Investors”). Any reference herein to the ‘FPA Funding Amount PIPE Subscription Agreements’ are to be treated as a reference to each FPA Funding PIPE Investor’s separate agreement and should be construed accordingly and any action taken by a FPA Funding PIPE Investor should be construed as an action under its own respective agreement.

Pursuant to the FPA Funding PIPE Subscription Agreements, the FPA Funding PIPE Investors agreed to subscribe for and purchase, and Priveterra agreed to issue and sell to the FPA Funding PIPE Investors, at the Closing, an aggregate of 7,500,000 shares of Priveterra Class A common stock, less the Recycled Shares in connection with the Forward Purchase Agreements.

Shared Services Agreements with Strathspey Crown Limited, LLC

In August 2019, we entered into services agreements with Strathspey Crown Limited, LLC, or Strathspey Crown Limited, an affiliate of SCH, with effective dates of January 2019. Pursuant to the services agreements, Strathspey Crown Limited provided us certain administrative and development support services, including certain general management, communication, human resources, office, rent and information technology services. We paid Strathspey Crown Limited an allocable share of the actual cost incurred by Strathspey Crown Limited in providing such services, plus a 10% markup, as well as an allocable share of Strathspey Crown Limited's overhead expenses, including office rent, depreciation, maintenance, utilities and supplies. The services agreements had a one-year term and renewed for successive one-year terms unless sooner terminated by either party. We or Strathspey Crown Limited were able to terminate the services agreements upon 60 days' notice to the other party. The services agreements were terminated in December 2021.

Medytox Settlement and License Agreement

Effective June 21, 2021, we entered into the Settlement Agreement with Medytox, or the Medytox Settlement Agreement, pursuant to which, among other things, Medytox agreed (a) to dismiss all claims against us in a case Medytox had brought against Old AEON in the United States District Court of California, or the Medytox Litigation, (b) to pursue dismissal of the appeals related to the December 2020 final determination of the United States ITC and agreed that as a result of such dismissal the final determination would be vacated, (c) to file appropriate documents in the a similar litigation Medytox had brought against Daewoong in South Korea and related actions in support of the terms of the settlement, and (d) not to revive or otherwise pursue a third lawsuit Medytox had brought against Evolus, Daewoong and us in the Superior Court of the State of California with respect to us. In addition, Medytox granted us a non-exclusive, royalty bearing, irrevocable license to Medytox's botulinum strain and specific trade secrets alleged to have been misappropriated in the Medytox Litigation to commercialize and manufacture specific botulinum neurotoxin products including ABP-450 worldwide, with the exception of South Korea. In exchange for the Medytox Settlement Agreement, we issued Medytox 26,680,571 shares of Old AEON common stock, par value \$0.0001 per share and valued at \$29.0 million. We also agreed to pay Medytox single-digit royalties on the net sales of licensed products for 15 years following our first \$1.0 million in commercial sales of neurotoxin products. On June 28, 2021, the claims against us in the Medytox Litigation were dismissed with prejudice.

Quantitative and Qualitative Disclosures about Market Risk

As a smaller reporting company, we are not required to disclose information under this section.

Critical Accounting Policies

Management's discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with United States generally accepted accounting principles, or GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities, revenue and expenses at the date of the financial statements as well as the expenses incurred during the reporting period. Generally, we base our estimates on historical experience and on various other assumptions in accordance with United States GAAP that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions and such differences could be material to the financial position and results of operations. On an ongoing basis, we evaluate our judgments and estimates in light of changes in circumstances, facts and experience.

While our significant accounting policies are more fully described in the notes to our financial statements appearing elsewhere in this Report, we believe the following accounting policies to be most critical for fully understanding and evaluating our financial condition and results of operations, as these policies relate to the more significant areas involving management's judgments and estimates.

The following critical accounting policies are applicable to our operations and accounting policies can be found in Note 2 of the financial statements.

Fair Value Option

We elected to account for our convertible promissory notes, which met the required criteria, at fair value at inception. Subsequent changes in fair value are recorded as a component of other (loss) income in the consolidated statements of operations and comprehensive loss or as a component of other comprehensive income (loss) for changes related to instrument-specific credit risk. As a result of electing the fair value option, direct costs and fees related to the convertible promissory notes are expensed as incurred.

Convertible Preferred Stock

Prior to the Business Combination, we recorded convertible preferred stock at their respective issuance price, less issuance costs on the dates of issuance. The convertible preferred stock was classified outside of permanent equity as temporary equity in the accompanying consolidated balance sheets. Although the convertible preferred stock was not redeemable, upon certain change in control events that were outside of our control, including liquidation, sale or transfer of control of us, holders of the convertible preferred stock had the right to receive their liquidation preference to any distribution of the proceeds under the terms of our amended and restated certificate of incorporation.

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or an exit price paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair value measurements are based on a three-tiered valuation hierarchy, which is classified and disclosed by us in one of the three categories as follows:

- Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly, or can be corroborated by observable market data for substantially the full term of the asset or liability; and
- Level 3 — Prices or valuation techniques that require unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

R&D Expenses

R&D costs are expensed as incurred. R&D expenses consist primarily of costs associated with clinical studies including clinical trial design, clinical site reimbursement, data management, travel expenses and the cost of products used for clinical trials and internal and external costs associated with our regulatory compliance and quality assurance functions, including the costs of outside consultants and contractors that assist in the process of submitting and maintaining regulatory filings, and overhead costs. Additionally, R&D expenses include employee compensation, including stock-based compensation, supplies, consulting, prototyping, testing, materials, travel expenses and an allocation of facility overhead expenses. Costs incurred in obtaining technology licenses are charged to R&D expense as acquired in process R&D expense if the technology licensed has not reached technological feasibility and has no alternative future use.

We accrue the expenses for our clinical trial activities performed by third parties, including CROs and other service providers, based upon estimates of the work completed over the life of the individual study in accordance with associated agreements. We determine these estimates through discussion with internal personnel and outside service providers as to progress or stage of completion of trials or services pursuant to contracts with CROs and other service providers and the agreed-upon fee to be paid for such services. Payments made to outside service providers in advance of the performance of the related services are recorded as prepaid expenses and other current assets until the services are rendered. As of December 31, 2022 and June 30, 2023, no prepayments made to outside service providers were included in "Prepaid expenses and other current assets" in the accompanying unaudited consolidated balance sheet. Prepaid R&D was de minimis as of December 31, 2021. Research and liability accruals were \$2.1 million as of December 31, 2022 and \$2.2 million as of December 31, 2021 and \$5.1 million as of June 30, 2023, respectively. There have been no material adjustments to our accrued estimates for clinical trial activities through June 30, 2023.

Stock-Based Compensation

We recognize compensation expense for all stock-based awards. We account for stock-based compensation as measured at grant date, based on the fair value of the award. We measure the fair value of awards granted using the Black-Scholes option pricing model, which requires the input of subjective assumptions, including the estimated fair value of Common Stock, the expected volatility of Common Stock, expected risk-free interest rate, and the option's expected life. We also evaluate the impact of modifications made to the original terms of equity awards when they occur.

The fair value of equity awards that are expected to vest is amortized on a straight-line basis over the requisite service period. Stock-based compensation expense is recognized net of actual forfeitures when they occur, as an increase to additional paid-in capital or noncontrolling interest in the consolidated balance sheets and in SG&A or R&D expenses in the consolidated statements of operations and comprehensive loss. All stock-based compensation costs are recorded in the consolidated statements of operations and comprehensive loss based upon the underlying employee's role with us.

Income Taxes

We account for income taxes under the asset and liability method, which requires, among other things, that deferred income taxes be provided for temporary differences between the tax basis of our assets and liabilities and their financial statement reported amounts. In addition, deferred tax assets are recorded for the future benefit of utilizing net operating losses and R&D credit carryforwards and are measured using the enacted tax rates and laws that will be in effect when such items are expected to reverse. A valuation allowance is provided against deferred tax assets unless it is more likely than not that they will be realized.

We record uncertain tax positions on the basis of a two-step process whereby (i) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (ii) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

We recognize interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statements of operations and comprehensive loss. Any accrued interest and penalties related to uncertain tax positions will be reflected as a liability in the balance sheet.

Contingencies

We may be, from time to time, a party to various disputes and claims arising from normal business activities. We continually assess litigation to determine if an unfavorable outcome would lead to a probable loss or reasonably possible loss which could be estimated. We accrue for all contingencies at the earliest date at which we deem it probable that a liability has been incurred and the amount of such liability can be reasonably estimated. If the estimate of a probable loss is a range and no amount within the range is more likely than another, we accrue the minimum of the range. In the cases where we believe that a reasonably possible loss exists, we disclose the facts and circumstances of the litigation, including an estimable range, if possible.

ABP Sub Inc. Merger

Immediately prior to the closing of the Business Combination, ABP merged with and into us so that we are the surviving corporation, which we refer to as the Subsidiary Merger. Pursuant to the Subsidiary Merger, all options and RSU awards of ABP that are outstanding immediately prior to the merger converted into substantially similar awards covering shares of our common stock, with an adjustment to the number of shares subject to the award and, with respect to the options, the exercise price to reflect the economic value of the new award within our capital structure. Additionally, we, in each case, determined the conversion ratio of the ABP awards by dividing the number of shares of our common stock outstanding on an as-converted basis by the number of shares of common stock of ABP outstanding, and then dividing by a number equal to the number of ABP options outstanding divided by the number of ABP awards outstanding plus the ABP shares held by the Company to account for the awards representing 21.63% of ABP's fully diluted shares outstanding. This resulted in a conversion ratio of 77.65 to 1 shares. As of the date of this Report, ABP had granted options to purchase a total of 45,272 ABP Sub options which converted into options to purchase 3,515,218 shares of our common stock, and a total of 15,059 RSU awards which converted into RSU awards covering 1,169,366 shares of our common stock, although 127,801 of such RSU awards accelerated and vested at the closing of the Business Combination, which resulted in 1,041,565 shares of our common stock subject to RSU awards remaining outstanding following the closing of the Business Combination. We do not anticipate any additional stock-based compensation expense to result from the ABP merger and the conversion of the awards.

The following table summarizes by grant date the number of shares of our common stock subject to outstanding stock options and RSU awards granted from September 2020 through June 30, 2023 reflecting the conversion described in the preceding paragraph, as well as the per share fair value of the underlying common stock, and for stock options, the associated per share exercise price:

Grant Date	# of Shares Underlying Option Grants/ RSU Award	Exercise Price per Share	Common Stock Value Per Share on Grant Date
2/26/2021	154,207	\$ 12.98	\$ 12.98
3/5/2021	104,047	\$ 12.98	\$ 12.98
8/23/2021	223,235	\$ 13.45	\$ 13.45
9/9/2021	324,448	\$ 14.93	\$ 14.93
10/20/2021	32,068	\$ 14.14	\$ 14.14
10/25/2021	19,024	\$ 14.14	\$ 14.14
3/9/2022	972,919	\$ 11.57	\$ 11.57
10/5/2022	32,456	\$ 11.57	\$ 11.57

In connection with the Subsidiary Merger, AEON assumed the ABP 2019 Plan and the outstanding stock options and RSU awards under the ABP 2019 Plan converted into awards covering AEON common stock, and such options, all of which have "underwater" exercise prices, were repriced such that the per share exercise price is equal to the fair market value of AEON's common stock on the date of the Subsidiary Merger.

JOBS Act; Smaller Reporting Company

We are an emerging growth company, as defined in the Securities Act, as modified by the JOBS Act. For so long as we remain an emerging growth company, we are permitted and intend to rely on certain exemptions from various public company reporting requirements, including not being required to have our internal control over financial reporting audited by our independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and any golden parachute payments not previously approved. In particular, in this Report, we have provided only two years of audited financial statements and unaudited financial statements and have not included all of the executive compensation-related information that would be required if we were not an emerging growth company. Section 102(b)(2) of the JOBS Act allows us to delay adoption of the new or revised accounting standards until those standards apply to non-public business entities. Accordingly, the information contained herein may be different than the information you receive from other public companies in which you hold stock.

We will remain an emerging growth company until the earliest of (i) the last day of the fiscal year following the fifth anniversary of Priveterra’s initial public offering (December 31, 2026), (ii) the last day of the fiscal year in which we have total annual gross revenue of at least \$1.235 billion, (iii) the last day of the fiscal year in which we are deemed to be a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock held by non-affiliates exceeded \$700.0 million as of the last business day of the second fiscal quarter of such year, or (iv) the date on which we have issued more than \$1.0 billion in non-convertible debt securities during the prior three-year period.

We are also a “smaller reporting company,” as such term is defined in Rule 12b-2 of the Exchange Act, meaning that the market value of our common stock held by non-affiliates plus the proposed aggregate amount of gross proceeds to us as a result of this offering is less than \$700 million and our annual revenue is less than \$100 million during the most recently completed fiscal year. We will continue to be a smaller reporting company if either (i) the market value of our common stock held by non-affiliates is less than \$250 million or (ii) our annual revenue is less than \$100 million during the most recently completed fiscal year and the market value of our common stock held by non-affiliates is less than \$700 million. If we are a smaller reporting company at the time we cease to be an emerging growth company, we may continue to rely on exemptions from certain disclosure requirements that are available to smaller reporting companies. Specifically, as a smaller reporting company, we may choose to present only the two most recent fiscal years of audited financial statements in our Annual Report on Form 10-K and, similar to emerging growth companies, smaller reporting companies have reduced disclosure obligations regarding executive compensation. Investors could find our Common Stock less attractive to the extent we rely on these exemptions. If some investors find our Common Stock less attractive as a result, there may be a less active trading market for our Common Stock and the trading price may be more volatile.

Recently Issued and Adopted Accounting Pronouncements

We describe the recently issued accounting pronouncements that apply to us in Note 2, “*Summary of Significant Accounting Policies — Recently Adopted Accounting Standards*” and “*New Accounting Standards Not Yet Adopted*.”

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED COMBINED FINANCIAL INFORMATION

Defined terms included below have the same meaning as terms defined and included elsewhere in the Current Report on Form 8-K (the “Form 8-K”) filed by AEON BioPharma, Inc. with the Securities and Exchange Commission (the “SEC”) on July 27, 2023 and, if not defined in the Form 8-K, the Proxy Statement. Unless the context otherwise requires, “AEON” refers to AEON BioPharma, Inc. prior to the Closing, and “Priveterra” refers to Priveterra Acquisition Corporation prior to the Closing.

The following unaudited pro forma condensed consolidated combined financial information presents the combination of the financial information of Priveterra and AEON adjusted to give effect to the Business Combination and related transactions. The following unaudited pro forma condensed consolidated combined financial information has been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 “Amendments to Financial Disclosures about Acquired and Disposed Businesses.”

The historical financial information of Priveterra was derived from the unaudited financial statements of Priveterra as of and for the six months ended June 30, 2023 and the audited financial statements of Priveterra for the year ended December 31, 2022. The historical financial information of AEON was derived from the unaudited condensed consolidated financial statements of AEON as of and for the six months ended June 30, 2023 and the audited consolidated financial statements of AEON for the year ended December 31, 2022. Such unaudited pro forma financial information has been prepared on a basis consistent with the audited financial statements of Priveterra and AEON, respectively, and should be read in conjunction with the audited historical financial statements and related notes. This information should be read together with Priveterra’s and AEON’s audited financial statements and related notes, the sections titled “*Priveterra Management’s Discussion and Analysis of Results of Financial Condition and Results of Operations of Priveterra*” and “*AEON Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and other financial information as filed in the Company’s proxy statement/prospectus on May 9, 2023.

The unaudited pro forma condensed consolidated combined balance sheet as of June 30, 2023 combines the historical balance sheet of Priveterra and the historical consolidated balance sheet of AEON on a pro forma basis as if the Business Combination and the related transactions contemplated by the Business Combination Agreement, summarized below, had been consummated on June 30, 2023. The unaudited pro forma condensed consolidated combined statement of operations for the six months ended June 30, 2023 and the year ended December 31, 2022 combine the historical statement of operations of Priveterra and historical consolidated statement of operations of AEON for such periods on a pro forma basis as if the Business Combination and the transactions contemplated by the Business Combination Agreement, summarized below, had been consummated on January 1, 2022, the beginning of the earliest period presented. There were no pro forma adjustments required to eliminate activities between the companies.

These unaudited pro forma condensed consolidated combined financial statements are for informational purposes only. They do not purport to indicate the results that would have been obtained had the Business Combination and related transactions actually been completed on the assumed date or for the period presented, or which may be realized in the future. The pro forma adjustments are based on the information currently available and the assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes. Actual results may differ materially from the assumptions within the accompanying unaudited pro forma condensed consolidated combined financial information.

Description of the Business Combination

On December 12, 2022, Priveterra entered into the Business Combination Agreement, pursuant to which the Business Combination between Priveterra and AEON was effected in two steps. At July 21, 2023, “the Closing”, the merger was effected by Merger Sub merging with and into AEON, with AEON surviving such merger as the surviving entity. Upon consummation of the Business Combination, AEON became a wholly owned subsidiary of Priveterra. Priveterra then changed its name to “AEON Biopharma, Inc.”

On January 6, 2023, Priveterra and AEON entered into Committed Financing Arrangements with Alphaeon 1 LLC and Daewoong Co., LTD, pursuant to which each agreed to purchase \$15.0 million and \$5.0 million, respectively, worth of shares of Class A Common Stock, at a purchase price of \$7.00 per share as detailed in the Committed Financing Agreements.

On June 8, 2023, Priveterra and AEON entered into an additional Committed Financing Arrangement with Alphaeon 1 LLC, pursuant to which Alphaeon 1 LLC agreed to purchase \$20.0 million worth of shares of Class A Common Stock, at a purchase price of \$7.00 per share as detailed in the Committed Financing Agreements.

On June 29, 2023, Priveterra and AEON entered into the Forward Purchase Agreements, each of the Sellers. Pursuant to the terms of the Forward Purchase Agreements, the Sellers purchased 236,236 shares of Class A Common Stock from redeeming shareholders, and an additional 6,038,764 shares of Common Stock were purchased from Priveterra. In order to fund such purchases, Counterparty paid to the Sellers the Prepayment Amount of \$66.7 million directly from the Trust Account.

The “Valuation Date” will be the earlier to occur of (a) the date that is two years after the Closing Date pursuant to the Business Combination Agreement, by and among Priveterra, Merger Sub and Target; (b) the date specified by Seller in a written notice to be delivered to Counterparty at Seller’s discretion (which Valuation Date shall not be earlier than the day such notice is effective) after the occurrence of any of (w) a VWAP Trigger Event (x) a Delisting Event, (y) a Registration Failure or (z) unless otherwise specified therein, upon any Additional Termination Event; and (c) 90 days after delivery by the Counterparty of a written notice in the event that for any 20 trading days during a 30 consecutive trading day-period that occurs at least 6 months after the Closing Date, the VWAP Price is less than the Reset Price Floor.

In all other cases, the settlement amount shall be a cash amount equal to the Number of Shares as of the Valuation Date which are registered for resale under an effective resale Registration Statement or may be transferred without any restrictions pursuant to an exemption from the registration requirements of Section 5 of the Securities Act, including as a result of the satisfaction of the requirement for the Counterparty to be in compliance with the current public information required under Rule 144(c)(1) (or Rule 144(i)(2), if applicable) or the volume and manner of sale limitations under Rule 144(e), (f) and (g) under the Securities Act, multiplied by the volume weighted daily VWAP Price over the Valuation Period.

On June 29, 2023, Priveterra entered into separate subscription agreements (the “New Money PIPE Subscription Agreements” and together with the FPA Funding Amount PIPE Subscription Agreements, the “PIPE Subscription Agreements” or the “PIPE”) with each of ACM ASOF VIII Secondary-C LP, the Polar Affiliate and certain other investors (collectively, the “New Money PIPE Investors”). Pursuant to the New Money PIPE Subscription Agreements, the New Money PIPE Investors subscribed for and purchased, and Priveterra issued and sold to the New Money PIPE Investors, on the Closing Date, an aggregate of 1,001,000 shares of Priveterra Common Stock for a purchase price of \$7.00 per share, for aggregate gross proceeds of \$7.0 million.

On June 29, 2023, the Sponsor entered into separate letter agreements (each, “Letter Agreement” and collectively, the “Letter Agreements”) with each of ACM ASOF VIII Secondary-C LP and Polar. Pursuant to the Letter Agreements, in the event that the Transfer VWAP for the shares of Priveterra Common Stock purchased pursuant to the New Money PIPE Subscription Agreements that are Transferred during the Measurement Period (the “Transferred PIPE Shares”) is less than \$7.00 per share, then (i) ACM ASOF VIII Secondary-C LP and Polar shall be entitled to receive a number of additional shares of Priveterra Common Stock that have been registered for resale by the Company under an effective resale registration statement pursuant to the Securities Act, under which ACM ASOF VIII Secondary-C LP and Polar may sell or transfer such shares of Priveterra Common Stock in an amount that is equal to the lesser of (A) a number of shares of Priveterra Common Stock equal to the Make-Whole Amount divided by the VWAP (measured as of the date the Additional Shares are Transferred to ACM ARRT J LLC or Polar, as applicable) and (B) 400,000 shares of Priveterra Common Stock (the “Additional Shares”) and (ii) Sponsor shall promptly (but in any event within fifteen (15) business days) after the Measurement Date, transfer the Additional Shares to ACM ASOF VIII Secondary-C LP or Polar, as applicable. For the avoidance of doubt, in the event the Transfer VWAP for the Transferred PIPE Shares is equal to or more than \$7.00 per share, then neither ACM ASOF VIII Secondary-C LP nor Polar shall be entitled to any Additional Shares. “Make-Whole Amount” means an amount equal to the product of (A) \$7.00 minus the Transfer VWAP multiplied by (B) the number of Transferred PIPE Shares.

On April 27, 2023, Priveterra and AEON amended the Business Combination Agreement. Concurrently with the amendment to the Business Combination Agreement, Priveterra amended the Sponsor Support Agreement to include restriction and forfeiture provisions related to the Founder Shares.

Effective immediately after the Closing, 50% of the Founder Shares (i.e., 3,450,000 Founder Shares) (the “Contingent Founder Shares”) were unvested and subject to the restrictions and forfeiture provisions set forth in this Sponsor Support Agreement. The remaining 50% of the Founder Shares and 100% of the Private Placement Warrants are not subject to such restrictions and forfeiture provisions. The Contingent Founder Shares shall vest, and shall become free of the provisions as follows:

- 1,000,000 of the Contingent Founder Shares (the “Migraine Phase 3 Contingent Founder Shares”) shall vest upon the achievement of the conditions for the issuance of the Migraine Phase 3 Contingent Consideration Shares on or prior to the Migraine Phase 3 Outside Date;
 - 1,000,000 of the Contingent Founder Shares (the “CD BLA Contingent Founder Shares”) shall vest upon the achievement of the conditions for the issuance of the CD BLA Contingent Consideration Shares on or prior to the CD BLA Outside Date; and
 - 1,450,000 of the Contingent Founder Shares (the “Episodic/Chronic Migraine Contingent Founder Shares”) shall vest upon the earlier of (x) the achievement of the conditions for the issuance of the Episodic Migraine Contingent Consideration Shares on or before the Episodic Migraine Outside Date and (y) the achievement of the conditions for the issuance of the Chronic Migraine Contingent Consideration Shares on or before the Chronic Migraine Outside Date.
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The Sponsor shall not, and hereby waives any right to, vote the Contingent Founder Shares during any period of time that such Contingent Founder Shares are subject to vesting.

On June 6, 2023, Priveterra held the Meeting, at which time the Priveterra shareholders approved the Business Combination Agreement, among other matters.

The consideration paid at Closing by Priveterra to AEON security holders was payable in shares of Class A Common Stock subject to the Exchange Ratio.

Following the Closing, in addition to the consideration received at the Closing and as part of the overall Merger Consideration, certain AEON Stockholders (the “Participating AEON Stockholders”) will be issued a portion of up to 16,000,000 additional shares of Class A Common Stock, as follows:

- 1,000,000 shares of Class A Common Stock, in the aggregate, if, on or before June 30, 2025 (as it may be extended, the “Migraine Phase 3 Outside Date”), AEON shall have commenced a Phase 3 clinical study for the treatment of chronic migraine or episodic migraine, which Phase 3 clinical study will have been deemed to commence upon the first subject having received a dose of a Company Product in connection with such Phase 3 clinical study (such 1,000,000 shares of Class A Common Stock, the “Migraine Phase 3 Contingent Consideration Shares”); and
 - 4,000,000 shares of Class A Common Stock, in the aggregate, if, on or before November 30, 2026 (as it may be extended, the “CD BLA Outside Date”), AEON shall have received from the FDA acceptance for review of the BLA submitted by AEON for the treatment of cervical dystonia (such 4,000,000 shares of Class A Common Stock, the “CD BLA Contingent Consideration Shares”);
 - 4,000,000 shares of Class A Common Stock, in the aggregate, if, on or before June 30, 2029 (as it may be extended, the “Episodic Migraine Outside Date”), AEON shall have received from the FDA acceptance for review of the BLA submitted by AEON for the treatment of episodic migraine (such 4,000,000 shares of Class A Common Stock, the “Episodic Migraine Contingent Consideration Shares”); provided that in the event the satisfaction of the conditions for the issuance of the Episodic Migraine Contingent Consideration Shares occurs prior to the satisfaction of the conditions for the issuance of the Chronic Migraine Contingent Consideration Shares, then the number of Episodic Migraine Contingent Consideration Shares shall be increased to eleven million (11,000,000) shares of Class A Common Stock; and
 - 7,000,000 shares of Class A Common Stock, in the aggregate, if, on or before June 30, 2028 (as it may be extended, the “Chronic Migraine Outside Date”, and together with the Migraine Phase 3 Outside Date, the CD BLA Outside Date and the Episodic Migraine Outside Date, the “Outside Dates”), AEON shall have received from the FDA acceptance for review of the BLA submitted by AEON for the treatment of chronic migraine (such 7,000,000 shares of Class A Common Stock, the “Chronic Migraine Contingent Consideration Shares”); provided that in the event that the number of Episodic Migraine Contingent Consideration Shares is increased to eleven million (11,000,000), then the number of Chronic Migraine Contingent Consideration Shares shall be decreased to zero and no Contingent Consideration Shares will be issued in connection with the satisfaction of the conditions to the issuance of the Chronic Migraine Contingent Consideration Shares.
 - In the event that AEON licenses any of its products (except in connection with migraine or cervical dystonia indications) to a third-party licensor for distribution in the U.S. market (a “Qualifying License”) prior to the satisfaction of (x) the conditions for the issuance of the Episodic Migraine Contingent Consideration Shares and (y) the conditions for the issuance of the Chronic Migraine Contingent Consideration Shares, then upon the entry of AEON into such Qualifying License, two million (2,000,000) shares of Class A Common Stock shall become due and payable to AEON Stockholders and the number of Episodic Migraine Contingent Consideration Shares and (A) the number of Episodic Migraine Contingent Consideration Shares shall be reduced by one million (1,000,000) or by two million (2,000,000) and (B) the number of Chronic Migraine Contingent Consideration Shares shall be reduced by one million (1,000,000), but not below zero.
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AEON accounts for the Contingent Consideration Shares as either equity-classified or liability-classified instruments based on an assessment of the Contingent Consideration Shares specific terms and applicable authoritative guidance in ASC 480, *Distinguishing Liabilities from Equity* (“ASC 480”) and ASC 815, *Derivatives and Hedging* (“ASC 815”). AEON determined that the Contingent Consideration Shares were not indexed to New AEON’s stock and therefore are classified as a liability. The unaudited pro forma condensed combined financial information reflects the fair value of the Contingent Consideration liability, but does not reflect pro forma adjustments on a per share basis for the Contingent Consideration Shares because the contingencies have not yet been met and because the Contingent Consideration Shares would be anti-dilutive.

The issuance of such Contingent Consideration Shares would dilute the value of all shares of New AEON common stock outstanding at the time of issuance. Assuming the current capitalization structure, the 1,000,000 Phase 3 Migraine Contingent Consideration Shares that would become vested if, on or before June 30, 2025, AEON has commenced a Phase 3 clinical study for the treatment of chronic or episodic migraines, would represent approximately 4% of total shares outstanding for the redemption scenarios set forth. Assuming the current capitalization structure, the 4,000,000 BLA Cervical Success Contingent Consideration Shares that would become vested if, on or before November 30, 2026, AEON has received from the FDA acceptance for review of the BLA submitted by AEON for the treatment of cervical dystonia, would represent approximately 16% of total shares outstanding for the redemption scenarios set forth. Assuming the current capitalization structure, the 4,000,000 BLA Episodic Success Contingent Consideration Shares that would become vested if, on or before June 30, 2029, AEON has received from the FDA acceptance for review of the BLA submitted by AEON for the treatment of episodic migraines, would represent approximately 16% of total shares outstanding for the redemption scenarios set forth. Assuming the current capitalization structure, the 7,000,000 BLA Chronic Success Contingent Consideration Shares that would become vested if, on or before June 30, 2028, AEON has received from the FDA acceptance for review of the BLA submitted by AEON for the treatment of chronic migraines, would represent approximately 28% of total shares outstanding for the redemption scenarios set forth. If all redemption scenarios set forth are met, assuming current capitalization structure, Contingent Consideration Shares would represent approximately 64% of total shares outstanding.

Each share of AEON capital stock, if any, that is owned by Priveterra, Merger Sub, or AEON, or any of their subsidiaries (as treasury stock or otherwise) was automatically cancelled and extinguished without any conversion or consideration.

At the Effective Time, each issued and outstanding share of AEON common and preferred stock (other than any such shares of AEON common and preferred stock cancelled as described above and any dissenting shares) was converted into the right to receive (1) a number of shares of New AEON common stock equal to the Merger Consideration, and (2) Contingent Consideration Shares as, and subject to the contingencies, described above.

Each share of Merger Sub common stock issued and outstanding immediately prior to the Effective Time was converted into and became one newly issued share of New AEON common stock as the surviving corporation in the merger.

At the Effective Time, each outstanding option to purchase shares of AEON common stock and restricted stock unit were converted into an option to purchase, subject to substantially the same terms and conditions as were applicable under such options prior to the Effective Time, shares of New AEON common stock equal to the number of shares subject to such option or a restricted stock unit, subject to substantially the same terms and conditions as were applicable under such restricted stock units prior to the Effective Time, which will vest into shares of New AEON common stock equal to the number of shares subject to such or restricted stock unit prior to the Effective Time multiplied by the Exchange Ratio, at an exercise price per share of New AEON common stock equal to the exercise price per share of AEON common stock subject to such option or restricted stock unit divided by the Exchange Ratio.

Effective as of immediately prior to the Effective Time, each outstanding warrant to purchase shares of AEON capital stock was exercised in accordance with the terms of the relevant agreements governing such warrants.

Extension Proposal

On February 10, 2023, Priveterra filed a proxy statement detailing a Special Meeting held to approve the Extension Amendment from its shareholders to amend the Company’s Existing Charter to extend from February 11, 2023 to August 11, 2023, the date by which, if the Company had not consummated a merger, amalgamation, share exchange, asset acquisition, share purchase, reorganization or similar business combination involving one or more businesses or entities, the Company would have been required to: (i) cease all operations except for the purpose of winding up; (ii) as promptly as reasonably possible, but not more than ten business days thereafter, redeem the Public Shares; and (iii) as promptly as reasonably possible following such redemption, liquidate and dissolve.

The submission of the Extension Amendment to amend Priveterra’s Existing Charter entitled holders of public shares to redeem their shares for their pro rata portion of the funds held in the trust account established at the time of the Priveterra initial public offering. In connection with the Special Meeting, as of February 10, 2023, 25,597,728 shares of Priveterra Class A Common Stock were redeemed.

Business Combination Approval

On July 5, 2023, Priveterra held a Special Meeting to confirm final approval of the Business Combination Agreement. In connection with the Special Meeting, 1,681,348 shares of Priveterra Class A Common Stock were redeemed.

The following summarizes the pro forma ownership of Class A Common Stock of New AEON following the Business Combination:

	Number of Shares	Percentage of Outstanding Shares
AEON Stockholders ⁽¹⁾⁽²⁾⁽³⁾	22,218,452	65.9%
Public Stockholders ⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	607,160	1.8%
Sponsor ⁽⁸⁾⁽⁹⁾	3,527,586	10.5%
PIPE Investors ⁽¹⁰⁾	7,351,000	21.8%
Pro forma Class A Common Stock as of June 30, 2023	33,704,198	100.0%

(1) Excludes (i) 16,000,000 Contingent Consideration Shares as the Contingent Consideration conditions have not yet been met, (ii) 3,515,218 shares issuable in connection with outstanding AEON options, (iii) 3,839,892 shares available for issuance pursuant to the Incentive Plan, (iv) 488,146 shares available for issuance pursuant to the ESPP, (v) 77,586 shares (as calculated pursuant to the Exchange Ratio) held by Priveterra parties, and (vi) 1,041,565 unvested Restricted Stock Units issued to AEON shareholders.

(2) Includes 5,797,611 shares issuable on the Closing in connection with Committed Financing Agreements. If disaggregated, Interim Financing Investors would hold approximately 17.2%.

(3) Includes 127,801 Restricted Stock Units issued to AEON shareholders subject to accelerated vesting as of the Closing.

(4) Excludes 9,200,000 shares issuable on exercise of Public Warrants.

(5) Reflects the redemption of 25,597,782 shares of Priveterra Class A Common Stock in connection with the Special Meeting on February 10, 2023 and 1,445,112 shares of Priveterra Class A Common Stock in connection with the Special Meeting held on July 3, 2023.

(6) Includes 50,000 shares issued to Priveterra service providers as payment of transactions fees.

(7) Includes 236,236 shares purchased from redeeming shareholders by ACM and subsequently resold on public markets.

(8) Excludes 3,450,000 Contingent Founder Shares as defined by the Sponsor Support Agreement.

(9) Includes 77,586 AEON Company Shares (as calculated pursuant to the Exchange Ratio) held by Priveterra parties. Excludes 5,280,000 Private Placement Warrants. If all potential sources of dilution were exercised and converted into Class A Common Stock, the Sponsor and related parties would hold approximately 22.6%.

(10) Includes 1,001,000 shares purchased pursuant to the New Money PIPE Subscription Agreements.

The presentation of pro forma financial statements is dependent upon which entity in the Business Combination is considered the accounting acquirer.

The Business Combination was accounted for using the asset acquisition method in accordance with U.S. GAAP. Under this method of accounting, Priveterra was considered to be the accounting acquirer based on the terms of the Business Combination Agreement. Upon consummation of the Business Combination, the cash on hand resulted in the equity at risk being considered insufficient for AEON to finance its activities without additional subordinated financial support. Therefore, AEON was considered a Variable Interest Entity ("VIE") and the primary beneficiary of AEON was treated as the accounting acquirer. Priveterra holds a variable interest in AEON and owns 100% of AEON's equity. Priveterra was considered the primary beneficiary as it retained the obligation to absorb the losses and/or receive the benefits of AEON that could have potentially been significant to AEON. The merger was accounted for as an asset acquisition as substantially all of the fair value was concentrated in IPR&D, an intangible asset. AEON's assets (except for cash) and liabilities were measured and recognized as an allocation of the transaction price based on their relative fair values as of the transaction date with any value associated with IPR&D with no alternative future use expensed.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED COMBINED BALANCE SHEET
AS OF JUNE 30, 2023
(in thousands, except share and per share data)

	Priveterra Acquisition Corp. (Historical)	AEON Biopharma, Inc. (Historical)	Transaction Accounting Adjustments	Pro Forma Combined
ASSETS				
Current assets				
Cash and cash equivalents	\$ 441	\$ 2,603	\$ 26,000 B	\$ 25,933
			3,317 C	
			(8,133) D	
			(4,229) E	
			(1,000) L	
			6,934 N	
Prepaid expenses and other current assets	151	59	—	210
Total current assets	592	2,662	22,889	26,143
Property and equipment, net	—	382	—	382
Operating lease right-of-use assets	—	382	—	382
Other assets	—	34	—	34
Investments held in Trust Account	21,193	—	(17,876) A	—
			(3,317) C	
Total assets	<u>\$ 21,785</u>	<u>\$ 3,460</u>	<u>\$ 1,696</u>	<u>\$ 26,941</u>
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current liabilities				
Accounts payable	\$ 6,961	\$ 6,345	\$ (6,961) D	\$ 3,784
			(2,561) E	
Franchise tax payable	16	—	—	16
Promissory note – related party	1,000	—	(1,000) L	—
Excise tax payable	424	—	—	424
Income tax payable	1,060	—	—	1,060
Accrued clinical trials expenses	—	5,099	—	5,099
Accrued compensation	—	1,591	—	1,591
Other accrued expenses	—	1,871	1,256 F	3,127
Current portion of convertible notes payable	—	73,433	(14,000) B	—
			(59,433) K	
Total current liabilities	9,461	88,339	(82,699)	15,101
Convertible notes payable	—	60,932	(60,932) K	—
Operating lease liability	—	130	—	130
Warrant liabilities, less current portion	1,336	—	—	1,336
Forward purchase agreement derivative liability	—	—	37,876 M	37,876
Contingent consideration liability	—	—	168,325 I	168,325
Deferred underwriters' discount	1,256	—	(1,256) F	—
Total liabilities	<u>12,053</u>	<u>149,401</u>	<u>61,314</u>	<u>222,768</u>
Class A common stock subject to redemption	21,193	—	(17,876) A	—
			(3,317) G	
Convertible preferred stock	—	137,949	(137,949) H	—
Stockholders' equity (deficit)				
Common Stock	—	14	(14) H	—
Class A Common Stock	—	—	— G	3
			— I	
			— J	
			2 K	
			1 M	
			— N	
Class B Common Stock	1	—	(1) J	—
Additional paid-in capital	32	204,384	40,000 B	270,280
			(1,172) D	
			3,317 G	
			(350,325) H	
			180,032 I	
			1 J	
			120,363 K	
			66,714 M	
			6,934 N	
Subscription receivable	—	—	(66,715) M	(66,715)
Accumulated deficit	(11,494)	(507,857)	(1,668) E	(399,395)

			507,857	H
			(348,357)	I
			(37,876)	M
Treasury stock	—	(23)	23	H
Total stockholders' equity (deficit)	(11,461)	(303,482)	119,116	(195,827)
Non-controlling interest	—	19,592	(19,592)	H
Total deficit	\$ (11,461)	\$ (283,890)	\$ 99,524	\$ (195,827)
Total liabilities, redeemable preferred stock and stockholders' equity (deficit)	\$ 21,785	\$ 3,460	\$ 1,696	\$ 26,941

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED COMBINED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30 , 2023
(in thousands, except share and per share data)

	Priveterra Acquisition Corp. (Historical)	AEON Biopharma, Inc. (Historical)	Transaction Accounting Adjustments	Pro Forma Combined
Expenses				
Research and development	\$ —	\$ 18,230	\$ —	\$ 18,230
Selling, general and administrative	5,270	8,787	1,628 E.1	15,685
Total expenses	5,270	27,017	1,628	33,915
Operating loss	(5,270)	(27,017)	(1,628)	(33,915)
Other income (expense)				
Interest income from investments held in Trust Account	1,902	—	(1,902) A.1	—
Unrealized gain on change in fair value of warrants	(667)	—	—	(667)
Gain on extinguishment of deferred underwriters' discount	200	—	—	200
Change in fair value of convertible notes	—	(6,110)	6,110 B.1	—
Other income (loss), net	—	109	—	109
Total other income (expense)	1,435	(6,001)	4,208	(358)
Income (loss) before provision for income taxes	(3,835)	(33,018)	2,580	(34,273)
Provision for income taxes	(496)	—	—	(496)
Net income (loss)	<u>\$ (4,331)</u>	<u>\$ (33,018)</u>	<u>\$ 2,580</u>	<u>\$ (34,769)</u>
Net loss per share (Note 5)				
Basic and diluted weighted average shares outstanding, Class A common stock	7,559,570	138,825,356		33,704,198
Basic and diluted net loss per share	<u>\$ (0.30)</u>	<u>\$ (0.24)</u>		<u>\$ (1.03)</u>
Basic and diluted weighted average shares outstanding, Class B common stock	6,900,000	—		—
Basic and diluted net loss per share	<u>\$ (0.30)</u>	<u>—</u>		<u>—</u>

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2022
(in thousands, except share and per share data)

	Priveterra Acquisition Corp. (Historical)	AEON Biopharma, Inc. (Historical)	Transaction Accounting Adjustments	Pro Forma Combined
Expenses				
Research and development	\$ —	\$ 34,754	\$ 362,406 C.1	\$ 397,160
Selling, general and administrative	3,326	13,675	6,617 E.1	23,618
Total expenses	3,326	48,429	369,023	420,778
Operating loss	(3,326)	(48,429)	(369,023)	(420,778)
Other income (expense)				
Interest income from investments held in Trust Account	3,707	—	(3,707) A.1	—
Unrealized gain on change in fair value of warrants	6,715	—	—	6,715
Gain on extinguishment of deferred underwriters' discount	163	—	—	163
Change in fair value of convertible notes	—	(4,416)	4,416 B.1	—
Loss on issuance of derivative contract	—	—	(37,876) F.1	(37,876)
Other income (loss), net	—	289	—	289
Total other income (expense)	10,585	(4,127)	(37,167)	(30,709)
Income (loss) before provision for income taxes	7,259	(52,556)	(406,190)	(451,487)
Provision for income taxes	(883)	—	589 D.1	(294)
Net income (loss)	\$ 6,376	\$ (52,556)	\$ (405,601)	\$ (451,781)
Net loss per share (Note 5)				
Basic and diluted weighted average shares outstanding, Class A common stock	27,600,000	138,825,356		33,704,198
Basic and diluted net loss per share	\$ 0.18	\$ (0.38)		\$ (13.40)
Basic and diluted weighted average shares outstanding, Class B common stock	6,900,000	—		—
Basic and diluted net loss per share	\$ 0.18	—		—

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED COMBINED FINANCIAL INFORMATION

Note 1. Basis of Presentation

The Business Combination has been accounted for as an asset acquisition in accordance with U.S. GAAP. Under this method of accounting, Priveterra has been treated as the “accounting acquirer” and AEON as the “accounting acquiree” for financial reporting purposes. Accordingly, for accounting purposes, the Business Combination has been accounted for as an asset acquisition as substantially all of the fair value is concentrated in IPR&D, an intangible asset. AEON’s assets (except for cash) and liabilities were measured and recognized as an allocation of the transaction price based on their relative fair values as of the transaction date with any value associated with IPR&D with no alternative future use being expensed. The fair value measurements utilize estimates based on key assumptions of the Business Combination, including historical and current market data. The unaudited pro forma adjustments included herein were adjusted from previous estimates as additional information became available and as additional analyses were performed. The final purchase price allocation will be determined subsequent to the Merger, and the final amounts of the assets acquired, and liabilities assumed may differ materially from the values recorded in the pro forma financial information.

The unaudited pro forma condensed consolidated combined balance sheet as of June 30, 2023 gives effect to the Business Combination and related transactions as if they had been completed on June 30, 2023. The unaudited pro forma condensed consolidated combined statement of operations for the six months ended June 30, 2023 and for the year ended December 31, 2022 give effect to the Business Combination and related transactions as if they had been completed on January 1, 2022. This period is presented on the basis that Priveterra is the acquirer for accounting purposes.

The pro forma adjustments reflecting the consummation of the Business Combination and the related transaction are based on currently available information and certain assumptions and methodologies that Priveterra management believes are reasonable under the circumstances. The unaudited condensed consolidated combined pro forma adjustments, which are described in the accompanying notes, may be revised as additional information becomes available and is evaluated. Therefore, it is likely that the actual adjustments will differ from the pro forma adjustments, and it is possible that the differences may be material. Priveterra management believes that its assumptions and methodologies provide a reasonable basis for presenting all of the significant effects of the Business Combination and the related transactions based on information available to management at this time and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma condensed consolidated combined financial information.

The unaudited pro forma condensed consolidated combined financial information does not give effect to any anticipated synergies, operating efficiencies, tax savings, or cost savings that may be associated with the Business Combination. The unaudited pro forma condensed consolidated combined financial information is not necessarily indicative of what the actual results of operations and financial position would have been had the Business Combination and related transactions taken place on the dates indicated, nor are they indicative the future consolidated results of operations or financial position of the post-combination company. They should be read in conjunction with the historical consolidated financial statements and notes thereto of Priveterra and AEON.

Note 2. Accounting Policies and Reclassifications

Upon consummation of the Business Combination, management performed a comprehensive review of the two entities’ accounting policies. As a result of the review, management did not identify differences between the accounting policies of the two entities that would have had a material impact on the unaudited pro forma condensed consolidated combined financial information. As a result, the unaudited pro forma condensed consolidated combined financial information does not assume any differences in accounting policies.

As part of the preparation of these unaudited pro forma condensed consolidated combined financial statements, certain reclassifications were made to align Priveterra’s financial statement presentation with that of AEON.

Preferred Stock Conversion

At the Effective Time, all shares of AEON preferred stock outstanding were converted into shares of New AEON common stock.

Accounting for Stock Option and Restricted Stock Units Conversion

The Company accounts for stock-based compensation arrangements with employees and non-employee consultants using a fair value method which requires the recognition of compensation expense for costs related to all stock-based payments, including stock options and restricted stock units. As of the Effective Time, each AEON option or restricted stock unit prior to the business combination that was then outstanding was converted into an option to purchase shares of New AEON common stock or restricted stock unit upon substantially the same terms and conditions as are in effect with respect to such option or restricted stock unit immediately prior to the Effective Time, subject to specific terms and conditions. Depending on the fair value measurement of the replacement awards and vesting conditions, either all or a portion of the fair value-based measure of the replacement awards were included in measuring the consideration transferred in the asset acquisition. As there is a decrease in fair value measurement of the replacement awards as compared to the historical awards, no amount was included in consideration transferred.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED COMBINED FINANCIAL INFORMATION

Note 3. Preliminary Purchase Price

The accompanying unaudited pro forma condensed consolidated combined financial statements reflect an estimated preliminary purchase price of approximately \$348.4 million comprised of equity consideration of approximately \$178.9 million, the fair value of the Contingent Consideration Shares of approximately \$1.2 million, and Priveterra transaction costs of \$1.5 million.

The table below represents the total preliminary purchase price (dollars in thousands, except share data):

Number of Class A Common Stock of the combined company issued	16,500,000
Multiplied by the Priveterra Share Value, as of the Close	\$ 10.84
Total	\$ 178,860
Estimated fair value of Contingent Consideration Shares	168,325
Priveterra transaction costs	1,172
Total purchase price	\$ 348,357

For purposes of this pro forma analysis, the above purchase price has been allocated based on the relative fair value of the fair value of assets and liabilities acquired (in thousands):

Purchase Price Allocation:

Net working capital (excluding cash)	\$ (14,847)
Long-term assets	798
Acquired in-process research and development	362,406
Net assets acquired	\$ 348,357

The guidance in ASC 805 requires an initial screen test to determine if substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If that screen is met, the set is not a business. The initial screen test was met as Priveterra determined that substantially all of the fair value was concentrated in the acquired IPR&D. The fair value of the IPR&D was determined to be approximately \$362.4 million before the purchase price was allocated among the assets and liabilities acquired, as shown above.

IPR&D represents the R&D assets of AEON which were in-process, but not yet completed, and which Priveterra has the opportunity to advance. Current accounting standards require that the fair value of IPR&D projects acquired in an asset acquisition with no alternative future use be allocated a portion of the consideration transferred and charged to expense at the acquisition date. The actual purchase price allocated to IPR&D will fluctuate until the closing date of the merger, and the final valuation of the IPR&D consideration could differ significantly from the current estimate.

Note 4. Adjustments to Unaudited Pro Forma Condensed Consolidated Combined Financial Information

The unaudited pro forma condensed consolidated combined financial information has been prepared to illustrate the effect of the Business Combination and related transactions and has been prepared for informational purposes only.

The following unaudited pro forma condensed consolidated combined financial information has been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 “Amendments to Financial Disclosures about Acquired and Disposed Businesses.” Release No. 33-10786 replaces the existing pro forma adjustment criteria with simplified requirements to depict the accounting for the transaction (“Transaction Accounting Adjustments”) and present the reasonably estimable synergies and other transaction effects that have occurred or are reasonably expected to occur (“Management’s Adjustments”). The pro forma adjustments reflecting the consummation of the Business Combination and related transactions are based on certain currently available information and certain estimates, assumptions and methodologies that management believes are reasonable under the circumstances. The unaudited condensed consolidated combined pro forma adjustments, which are described in the accompanying notes, may be revised as additional information becomes available and is evaluated. Priveterra has elected not to present Management’s Adjustments and will only be presenting Transaction Accounting Adjustments in the unaudited pro forma condensed consolidated combined financial information. There were no pro forma adjustments required to eliminate activities between the companies.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED COMBINED FINANCIAL INFORMATION

The unaudited pro forma condensed combined financial information does not include an income tax adjustment. Upon closing of the Business Combination, it is likely that the combined company will record a valuation allowance against the total U.S. and state deferred tax assets as the recoverability of the tax assets is uncertain. The pro forma combined provision for income taxes does not necessarily reflect the amounts that would have resulted had the combined company filed consolidated income tax returns during the period presented.

The pro forma basic and diluted earnings per share amounts presented in the unaudited pro forma condensed consolidated combined statement of operations are based upon the number of shares of New AEON Class A Common Stock outstanding, assuming the Business Combination and related transactions occurred on the beginning of the earliest period presented. The pro forma basic and diluted earnings per share amounts exclude the impact of the Contingent Consideration Shares as the Contingent Consideration conditions have not yet been met and because the contingent shares would be anti-dilutive.

Adjustments to Unaudited Pro Forma Condensed Consolidated Combined Balance Sheet:

The adjustments included in the unaudited pro forma condensed consolidated combined balance sheet as of June 30, 2023 are as follows:

- A. Reflects the redemption of 1,681,348 shares of Priveterra Class A Common Stock for aggregate redemption payments of \$17.9 million using a redemption price of \$10.63 per share, of which 236,236 shares are to be re-issued as part of the Forward Purchase Agreement, as referenced in adjustment (M).
 - B. Reflects the proceeds from 5,797,611 shares of Priveterra Class A Common Stock to be purchased pursuant to the Committed Financing Agreements entered into on January 6, 2023 and June 8, 2023 for \$20.0 million and \$20.0 million respectively, totaling \$40.0 million. Of that \$40.0 million, AEON had received \$14.0 million as of June 30, 2023, which was included in the current portion of convertible notes payable on AEON's historical condensed consolidated balance sheet.
 - C. Reflects the reclassification of the remaining marketable securities of \$3.3 million held in the trust account to cash and cash equivalents.
 - D. Represents Priveterra's transaction costs, included within the purchase price (Note 3), of \$8.2 million inclusive of advisory, banking, printing, legal, accounting fees and other professional fees that were incurred as a direct and incremental part of the Business Combination. \$1.2 million of these costs were incurred at Closing and will be recorded within additional paid-in capital. The \$7.0 million of estimated transaction costs incurred prior to Closing will be expensed as incurred. Of the transaction costs incurred prior to Closing, \$7.1 million was already incurred and reflected in the historical financial statements of Priveterra, of which \$0.1 million has already been paid.
 - E. Represents AEON's transaction costs of \$7.1 million inclusive of advisory, banking, legal and other professional fees that are expensed as a part of the Business Combination within accumulated deficit. Of the transaction costs, \$5.5 million was already incurred and reflected in the historical financial statements of AEON, of which \$2.9 million has already been paid.
 - F. Reflects the reclassification of \$1.3 million in deferred underwriting fee payable reflected within the historical financial statements of Priveterra, as the fee was not settled at Closing.
 - G. Reflects the reclassification of the remaining \$3.3 million of Priveterra Class A Common Stock subject to possible redemption to permanent equity.
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NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED COMBINED FINANCIAL INFORMATION

- H. Reflects the elimination of AEON's outstanding equity and temporary equity comprised of 21,257,708 shares of preferred stock and 138,825,356 shares of common stock, par value of \$0.0001, accumulated deficit of \$507.9 million, 22,821 shares of treasury stock, and \$19.6 million in non-controlling interest, reflected as an increase in additional paid-in capital.
- I. Reflects the Merger Consideration, including the estimated fair value of 16,500,000 shares of Class A Common Stock, estimated transaction costs, and the estimated fair value of the Contingent Consideration for AEON participating stockholders (Note 3), as well as the adjustment to accumulated deficit for the acquired IPR&D as follows:

	December 31, 2022
	(in thousands)
Expensed IPR&D acquired (C.1)	\$ 362,406
Net working capital (excluding cash)	(14,847)
Long-term assets	798
Total adjustment to accumulated deficit (I)	\$ 348,357

AEON has preliminarily determined that the Contingent Consideration for AEON participating stockholders is not indexed to AEON's own stock and is therefore accounted for as a liability which will be remeasured to fair value at subsequent reporting dates with the change in fair value recognized as a gain or loss in the statement of operations. The pro forma estimated fair value of the Contingent Consideration for AEON participating stockholders was calculated as the cumulative probability-adjusted valuation of the milestones. The probability adjusted valuation of each milestone was determined by applying a range of probabilities of success or failure to an estimated stock price assuming such success or failure. The probabilities of success or failure for each milestone ranged from zero to 95% and were provided as management's estimates, based on certain factors, such as the unpredictable nature of clinical trial outcomes and regulatory review, the meaningfully de-risked nature of ABP-450 CMC and its clinical profile, the impact on subsequent milestones of not achieving initial milestones and the potential impact of future financings.

- J. To reflect the conversion of 3,450,000 of the 6,900,000 shares of Priveterra Class B Common Stock to New AEON Class A Common Stock. The 3,450,000 Contingent Founder Shares are subject to certain vesting conditions, and are therefore not considered outstanding. This is reflected as an adjustment to additional paid-in capital to reflect converted shares and contingent shares.
- K. Represents the settlement of the outstanding AEON convertible notes. \$21.1 million of the convertible notes will be settled in exchange for issuance of shares in related party entities. The remaining convertible notes will convert into shares of New AEON Class A Common Stock, in contemplation of the Business Combination and based on the fair value as of June 30, 2023. Final adjustment will reflect the then current fair value.
- L. Represents the repayment of promissory notes issued by Priveterra to the Sponsor at the Closing.
- M. Represents the Forward Purchase Agreement. Per the Forward Purchase Agreement, the Seller will purchase 6,275,000 New AEON Class A Common Stock (inclusive of the Recycled Shares) for an aggregate payment of \$66.7 million. Pursuant to the Forward Purchase Agreement, New AEON will pay the Prepayment Amount to the Seller in the amount of \$66.7 million. As net proceeds for the shares issued are \$0, the shares are reflected as having been issued in exchange for subscription receivable and a related derivative instrument. Based on declines in share prices, the Company could receive less cash than the Prepayment Amount. The Prepayment Amount, reduced by the economics of the downside taken on by the Company is reflected as a derivative liability in the amount of \$37.9 million.

The accounting for the forward purchase agreement derivative liability, and the final fair value, are still under evaluation and may be subject to change.

The difference between the Prepayment Amount and fair value of the forward purchase derivative agreement asset is recorded through earnings as a one-time charge reflecting the cost of entering the Forward Purchase Agreement, as referenced in adjustment (F.1).

- N. Represents the net proceeds from the Seller of \$6.9 million for 1,001,000 shares of Priveterra Class A Common Stock at a price of \$7.00 per share in connection with the New Money PIPE Subscription Agreements. Equity issuance costs of \$0.1 million are presented as a reduction of proceeds.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED COMBINED FINANCIAL INFORMATION

Adjustments to Unaudited Pro Forma Condensed Consolidated Combined Statement of Operations

The pro forma adjustments included in the unaudited pro forma condensed consolidated combined statement of operations for the six months ended June 30, 2023 and for the year ended December 31, 2022 are as follows:

- A.1 Reflects elimination of investment income on the trust account.
- B.1 Reflects the reclassification of the AEON convertible notes liabilities to equity as of January 1, 2022 and the elimination of changes in the fair value of the convertible notes recorded in the statement of operations as referenced in adjustment (K).
- C.1 Reflects the impact of expensing the acquired IPR&D upon consummation of the asset acquisition (Note 3). These costs are non-recurring. These amounts changed since the last filing due to changes in assumptions related to the purchase price allocation, as detailed in Note 3.
- D.1 Reflects the impact of reversal of the income tax expense incurred by Priveterra, resulting in the deferred tax liability, that would not have been incurred due to AEON's unrecognized deferred tax assets.
- E.1 Reflects estimated AEON option and AEON restricted stock unit compensation expense of \$6.6 million and \$1.6 million for the year ended December 31, 2022 and for the six months ended June 30, 2023, respectively. Compensation expense in the unaudited pro forma condensed combined statements of operations assumes the Business Combination occurred on January 1, 2022 and includes \$1.7 million related to restricted stock units vested at Closing, \$1.7 million related to options vested at the Closing and, \$1.5 million and \$0.7 million, respectively, for the year ended December 31, 2022 and for the six months ended June 30, 2023, related to the restricted stock units that vest over a derived remaining service period, and \$1.8 million and \$0.9 million, respectively, for the year ended December 31, 2022 and for the six months ended June 30, 2023, related to the options that vest over a derived remaining service period which is assumed to begin on January 1, 2022, the first day of the fiscal period presented.
- F.1 Reflects the one time charge related to the recognition of the forward purchase agreement derivative liability in adjustment (M).

Note 5. Net Loss per Share

Net loss per share was calculated using the historical weighted average shares outstanding, and the issuance of additional shares in connection with the Business Combination and the related transactions, assuming the shares were outstanding since January 1, 2022. As the Business Combination and the related transactions are being reflected as if they had occurred at the beginning of the period presented, the calculation of weighted average shares outstanding for basic and diluted net loss per share assumes that the shares issuable relating to the Business Combination have been outstanding for the entirety of the period presented.

The following has been prepared to present the net loss per share with respect to the redemptions of Class A Common Stock by Priveterra Stockholders at the time of the Business Combination for the six months ended June 30, 2023:

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED COMBINED FINANCIAL INFORMATION

	Six Months Ended June 30, 2023 ⁽¹⁾	Twelve Months Ended December 31, 2022 ⁽¹⁾
	(in thousands, except share and per share data)	
Pro forma net loss	\$ (34,769)	\$ (451,781)
Weighted average shares outstanding - basic and diluted	33,704,198	33,704,198
Net loss per share - basic and diluted	\$ (1.03)	\$ (13.40)
<i>Excluded securities:</i> ⁽²⁾		
SPAC Private Placement Warrants	5,280,000	5,280,000
SPAC Public Warrants	9,200,000	9,200,000
AEON Options	3,515,218	3,515,218
AEON Restricted Stock Units	1,041,565	1,041,565
Contingent Consideration Shares	16,000,000	16,000,000
Contingent Founder Shares	3,450,000	3,450,000

(1) Pro forma net loss per share includes the related pro forma adjustments as referred to within the section “*Adjustments to Unaudited Pro Forma Condensed Consolidated Combined Financial Information.*”

(2) The potentially dilutive outstanding securities were excluded from the computation of pro forma net loss per share, basic and diluted, because their effect would have been anti-dilutive and/or issuance or vesting of such shares is contingent upon the satisfaction of certain conditions which were not satisfied by the end of the period presented.