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

FORM 10-K

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2021
OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to
Commission file number: 001-36440

Avanos Medical, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**46-4987888**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

5405 Windward Parkway
Suite 100 South
Alpharetta, Georgia 30004
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (844) 428-2667

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

Common Stock—$0.01 Par Value	**AVNS**	**New York Stock Exchange**
(Title of each class)	(Trading Symbol)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of common stock held by non-affiliates or registrant on June 30, 2021 was $1,747,564,461.

As of February 15, 2022, there were 47,317,916 shares of Avanos Medical, Inc. common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the definitive Proxy Statement for the Avanos Annual Meeting of Stockholders to be held on April 28, 2022 is incorporated by reference into Part III.

AVANOS MEDICAL, INC.

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PART I

ITEM 1. BUSINESS

Overview

Avanos Medical, Inc. is a medical technology company focused on delivering clinically superior breakthrough medical device solutions to improve patients' quality of life. Headquartered in Alpharetta, Georgia, Avanos is committed to addressing some of today's most important healthcare needs, such as reducing the use of opioids while helping patients move from surgery to recovery. We develop, manufacture and market clinically superior solutions in more than 90 countries. Unless the context indicates otherwise, the terms "Avanos," "Company," "we," "our" and "us" refer to Avanos Medical, Inc. and its consolidated subsidiaries. We were originally incorporated in Delaware in 2014. The address of our principal executive offices is 5405 Windward Parkway, Suite 100 South, Alpharetta, Georgia 30004, and our telephone number is (844) 428-2667.

We conduct our business in one operating and reportable segment that provides our medical device products to healthcare providers and patients. We have manufacturing facilities in the United States and Mexico. We provide a portfolio of innovative product offerings focused on chronic care and pain management to improve patient outcomes and reduce the cost of care.

Chronic care is a portfolio of products that include the following:

- Digestive health products such as our Mic-Key enteral feeding tubes, Corpak patient feeding solutions and NeoMed neonatal and pediatric feeding solutions. In the years ended December 31, 2021 and 2020, our legacy enteral feeding tubes, which includes our Mic-Key enteral feeding tubes, and our Corpak feeding solutions each accounted for more than 10% of our consolidated net sales. In the year ended December 31, 2019, only our legacy digestive health products accounted for more than 10% of our consolidated net sales.
- Respiratory health products such as our closed airway suction systems and other airway management devices under the Ballard, Microcuff and Endoclear brands. In the years ended December 31, 2021, 2020 and 2019, our closed airway suction systems accounted for more than 10% of our consolidated net sales.

Pain management is a portfolio of non-opioid pain solutions including:

- Acute pain products such as On-Q and ambIT surgical pain pumps and Game Ready cold and compression therapy systems. In the years ended December 31, 2021, 2020 and 2019, our surgical pain products, which includes both On-Q and ambIT pumps, accounted for more than 10% of our consolidated net sales.
- Interventional pain solutions, which provide minimally invasive pain relieving therapies, such as our Coolief pain therapy. In the years ended December 31, 2021, 2020 and 2019, products associated with our Coolief pain therapy accounted for more than 10% of our consolidated net sales.

Effects of the COVID-19 Pandemic

The COVID-19 global pandemic, which began in the first quarter of 2020, continues to disrupt global supply and distribution channels, and affect the way companies do business. We continue to monitor the developments associated with the COVID-19 pandemic and its effects on our employees, customers, supply chain and distribution channels. In addition, we will implement measures recommended by federal, state, local or relevant foreign authorities, or those that we determine are in the best interests of our employees, suppliers, shareholders and other stakeholders.

Our manufacturing sites are operational and have implemented new safety protocols and guidelines as recommended by federal, state, local and foreign governments. Employees at our administrative offices have been encouraged to work remotely; where offices have reopened, they have done so with strict safety and hygiene guidelines. The COVID-19 situation remains dynamic and is subject to rapid and possibly material changes due to variant strains or otherwise. It is not clear what the potential effects may be to our business going forward, including the impact on our revenues, results of operations or financial condition, particularly if pandemic conditions exacerbate over an extended period of time. Additional negative impacts may also arise from the COVID-19 pandemic that we are unable to foresee. The nature and extent of such impacts will depend on future developments, which are highly uncertain and cannot be predicted, including the availability and efficacy of COVID-19 vaccines, the willingness of the general public to get vaccinated and the impact of variant strains, such as the Omicron variant, on the health care market.

The risks the pandemic may continue to have on our operations and cash flows are described in "Risk Factors" in Item 1A of this report.

Business Acquisitions

On December 13, 2021, we entered into an agreement to acquire OrthogenRx, Inc. ("OrthogenRx") for $130.0 million in cash at closing, subject to net working capital adjustments, plus up to an additional $30.0 million in contingent cash consideration based on OrthogenRx's growth in net sales during 2022 and 2023. This acquisition closed on January 20, 2022.

During 2019, we completed the acquisition of substantially all the assets of Endoclear, LLC ("Endoclear") and Summit Medical Products, Inc. ("Summit), and we completed the acquisition of NeoMed, Inc. ("NeoMed") (collectively, the "Acquisitions"). The aggregate purchase price for the Acquisitions was $57.5 million, net of cash acquired, plus future contingent payments of $7.2 million.

During 2018, we acquired Cool Systems, Inc. ("Game Ready") for $65.7 million, net of cash acquired, which was based on a purchase price of $65.0 million plus certain adjustments as provided in the purchase agreement.

Divestiture

During 2018, we closed the sale of our Surgical and Infection Prevention ("S&IP") business (the "Divestiture") for $710.0 million plus certain adjustments as provided in the purchase agreement.

Sales and Marketing

We direct our primary sales and marketing efforts toward hospitals, ambulatory care centers, and other sites of care. We engage with physicians and other healthcare providers to highlight the unique benefits and competitive differentiation of our branded products. We work directly with physicians, nurses, professional societies, hospital administrators and healthcare group purchasing organizations ("GPOs") to collaborate and educate on emerging practices and clinical techniques. These marketing programs are delivered directly to healthcare providers. Additionally, we provide marketing programs to our strategic distribution partners throughout the world.

Distribution

While our products are generally marketed directly to hospitals and other healthcare providers, they are generally sold through third-party wholesale distributors, with some sales directly to healthcare facilities and other end-user customers. In 2021, approximately 51% of our net sales in North America were made through distributors. In the year ended December 31, 2021, sales to Medline Industries, McKesson Corporation, and Owens & Minor, Inc. accounted for approximately 15%, 11%, and 10% of consolidated net sales, respectively. In the year ended December 31, 2020, sales to Medline Industries, McKesson Corporation, and Owens & Minor, Inc. accounted for approximately 12%, 12%, and 9% of consolidated net sales, respectively. In 2019, no single customer accounted for 10% or more of consolidated net sales.

Outside North America, sales are made either directly to end-user customers or through distributors, depending on the market served. In 2021, approximately 75% of our net sales outside North America were made through wholesalers or distributors.

We utilize distribution centers in North America, Europe, Australia and Japan. No material portion of our business is subject to renegotiation of profits or termination of contracts at the election of the government.

Group Purchasing Organizations

We enter into agreements with GPOs which enables us to sell our products to their members, whether sold directly by us or through independent wholesale distributors. Agreements with GPOs are generally renewed every three years. GPOs negotiate pricing and volume purchasing discounts for hospitals, physician practices and other health care providers and institutions. Under our agreements with GPOs, we pay a fee based on sales of our products to GPO members, which is recorded as a reduction of net sales. Approximately 32% of our 2021 global net sales, including sales to wholesale distributors, were contracted through GPOs.

Competition

While no single company competes with us across the full breadth of our offerings, we face significant competition in U.S. and international markets.

There are a variety of treatment means and alternative clinical practices to address surgical and interventional pain management and respiratory and digestive health. We face competition from these alternative treatments, as well as improvements and innovations in products and technologies by our competitors. Major competitors include, among others:

- *Digestive Health:* Boston Scientific Corporation, Cook Medical and Applied Medical Technology, Inc.
- *Respiratory Health:* Becton, Dickinson and Company, Stryker Corporation, Medline Industries, Inc. and Smiths Medical
- *Acute Pain:* B. Braun Medical Inc., Pacira Pharmaceuticals, Inc., Teleflex Incorporated, Medtronic plc, Ambu A/S, Baxter International, Inc., Pajunk Medical Systems and Leventon
- *Interventional Pain:* Boston Scientific Corporation, Abbott Laboratories, Medtronic plc and Stryker Corporation

In developing and emerging markets, alternative clinical practices and different standards of care are our primary competition.

While we believe that the number of procedures using our products will grow due, in part, to increasing global access to healthcare, we expect that our ability to compete with other providers of similar products will be impacted by rapid technological advances, pricing pressures and third-party reimbursement practices. We continue to defend our market positions and launched six new products in 2021. We believe that our key product characteristics, such as proven efficacy, reliability and safety, including our ability to launch innovative new products, our efficient manufacturing processes, and our established distribution network, field sales organization and customer service group, are important factors that distinguish us from our competitors.

Research and Development

We continuously engage in research and development to commercialize new products and enhance the effectiveness, reliability and safety of our existing products. We incurred research and development costs of $32.3 million in 2021, $34.9 million in 2020 and $37.7 million in 2019. These amounts consisted primarily of salaries and related expenses for personnel, product trial costs, outside laboratory and license fees, the costs of laboratory equipment and facilities and asset write-offs for equipment associated with unsuccessful product launches. We intend to continue our research and development efforts as a key strategy for growth.

We collaborate with physicians to develop solutions that seek to accelerate the global adoption of our therapies and procedures. We are investing to expand the indications for use of our pain products with clinical research and studies and associated new product developments. We are expanding our portfolio with customer-preferred product enhancements, such as next generation cooled radiofrequency generators and a full line of needles, kits and accessories for continuous peripheral nerve block procedures.

Intellectual Property

Patents, trademarks and other proprietary rights are very important to our business. We also rely upon trade secrets, manufacturing know-how, continuing technological innovations and licensing opportunities to maintain and improve our competitive position. We review third-party proprietary rights, including patents and patent applications, as they become available, in an effort to develop an effective intellectual property strategy, avoid infringement of third-party proprietary rights, identify licensing opportunities and monitor the intellectual property owned by others.

We hold numerous patents and have numerous patent applications pending in the United States and other countries that relate to the technology used in many of our products. We utilize patents in our acute pain management, interventional pain management, respiratory health and digestive health products. These patents generally expire between 2022 and 2038. None of the patents we license from third parties are material to our business.

Under our agreement with Owens & Minor, Inc., we may continue to distribute products bearing the “Halyard Health” or “Halyard” brands through February 2023. We continue rebranding efforts to ensure our customers’ transition from the Halyard brand.

We consider the patents and trademarks which we own and the trademarks under which we sell certain of our products, as a whole, to be material to our business. However, we do not consider our business to be materially dependent upon any individual patent or trademark.

Raw Materials

We use a wide variety of raw materials and other inputs in our production processes. We base our purchasing decisions on quality assurance, cost effectiveness and regulatory requirements, and we work closely with our suppliers to assure continuity of supply while maintaining high quality and reliability. We primarily purchase these materials from external suppliers, some of which are single-source suppliers.

Regulatory Matters

The development, manufacture, marketing, sale, promotion and distribution of our products are subject to comprehensive government regulation. Government regulation by various national, regional, federal, state and local agencies, both in the United States and other countries, addresses (among other matters) inspection of, and controls over, research and laboratory procedures, clinical investigations, product approvals and manufacturing, labeling, packaging, marketing and promotion, pricing and reimbursement, sampling, distribution, quality control, post-market surveillance, servicing, record keeping, storage and disposal practices. Our operations are also affected by trade regulations in many countries that limit the import of raw materials and finished products and by laws and regulations that seek to prevent corruption and bribery in the marketplace (including the U.S. Foreign Corrupt Practices Act and the United Kingdom Bribery Act, which provide guidance on corporate interactions with government officials) and require safeguards for the protection of personal data. In addition, we are subject to laws and regulations pertaining to healthcare fraud and abuse, including state and federal anti-kickback and false claims laws in the United States.

Compliance with these laws and regulations is costly and materially affects our business. Among other effects, healthcare regulations substantially increase the time, difficulty and costs incurred in obtaining and maintaining approval to market newly developed and existing products. For example, in the United States, before we can market a new medical product, or market a new use for, claim for or significant modification to an existing product, we generally must first receive clearance under Section 510(k) of the Food, Drug and Cosmetic Act ("510(k) clearance") from the United States Food and Drug Administration ("FDA"). In order for us to obtain 510(k) clearance, the FDA must determine that our proposed product is substantially equivalent to a device legally on the market, known as a predicate device, with respect to intended use, technology, safety and effectiveness. Similarly, most major markets for medical devices outside the United States also require clearance, approval or compliance with certain standards before a product can be commercially marketed. For instance, the European Union, or EU, harmonized national regulations for the control of medical devices through the European Medical Device Directive ("EU MDD") with which manufacturers must comply. To sell medical devices in the EU, manufacturers must place a CE mark on their products, signifying to customers that the products meet EU requirements for safety and performance. For all but the lowest risk medical devices, manufacturers must have approval from a notified body prior to placing the CE mark on their devices. Medical devices without a CE mark may not be sold or distributed in the EU.

Effective May 26, 2021, the European Union adopted the EU Medical Device Regulation ("EU MDR"), replacing the EU MDD. The main goal of this regulation is to enhance product safety, quality and transparency for medical devices within the European Union. To achieve this, the EU MDR includes significant new requirements for medical devices, including enhanced requirements for clinical evidence and documentation, increased focus on device identification and traceability, and additional post-market surveillance and diligence. Compliance with the EU MDR will require re-certification of many of our products to the enhanced standards, during a transition period ending May 26, 2024. Complying with the EU MDR will require us to incur significant expenditures.

We also expect compliance with these regulations to continue to require significant technical expertise and capital investment to ensure compliance. Failure to comply will delay the release of a new product or result in regulatory and enforcement actions, the seizure or recall of a product, the suspension or revocation of the authority necessary for a product's production and sale and other civil or criminal sanctions, including fines and penalties.

In addition to regulatory initiatives, our business can be affected by ongoing studies of the utilization, safety, efficacy and outcomes of healthcare products and their components that are regularly conducted by industry participants, government agencies and others. These studies can call into question the utilization, safety and efficacy of previously marketed products. In some cases, these studies have resulted, and may in the future result, in the discontinuance of, or limitations on, marketing of such products domestically or worldwide, and may give rise to claims for damages from persons who believe they have been injured as a result of their use.

Access to healthcare products continues to be a subject of investigation and action by governmental agencies, legislative bodies and private organizations in the United States and other countries. A major focus is cost containment. Efforts to reduce healthcare costs are also being made in the private sector, notably by healthcare payors and providers, which have instituted various cost reduction and containment measures. We expect insurers and providers to continue attempts to reduce the cost of healthcare products. Outside the United States, many countries control the price of healthcare products directly or indirectly, through reimbursement, payment, pricing, coverage limitations, or compulsory licensing. Budgetary pressures in the United States and in other countries may also heighten the scope and severity of pricing pressures on our products for the foreseeable future.

We expect debate to continue during the next several years at all government levels worldwide over the marketing, availability, method of delivery, and payment for healthcare products and services. We believe that future legislation and regulation in the markets we serve could affect access to healthcare products and services, increase rebates, reduce prices or the rate of price increases for healthcare products and services, change healthcare delivery systems, create new fees and obligations, or require additional reporting and disclosure. It is not possible to predict the extent to which we or the healthcare industry in general might be affected by the matters discussed above.

Since we market our products worldwide, certain products of a local nature and variations of product lines must also meet other local regulatory requirements. Certain additional risks are inherent in conducting business outside the United States, including price and currency exchange controls, changes in currency exchange rates, limitations on participation in local enterprises, expropriation, nationalization, and other governmental action.

Demand for many of our existing and new medical devices is, and will continue to be, affected by the extent to which government healthcare programs and private health insurers reimburse our customers for patients' medical expenses in the countries where we do business. Statutory and regulatory requirements for Medicaid, Medicare, and other government healthcare programs govern provider reimbursement levels. From time to time, legislative changes are made to government healthcare programs that impact our business, and the federal and/or state governments may continue to enact measures in the future aimed at containing or reducing reimbursement levels for medical expenses paid for in whole or in part with government

funds. We cannot predict the nature of such measures or their impact on our business, results of operations, financial condition and cash flows. Any reduction in the amount of reimbursements received by our customers could have a material adverse effect on our business by reducing their selection of our products and the prices they are willing to pay.

Environmental, Health and Safety Matters

Our operations are subject to federal, state, provincial and local laws, regulations and ordinances relating to various environmental, health and safety matters. Our operations are in compliance with, or we are taking actions designed to ensure compliance with, these laws, regulations and ordinances. However, the nature of our operations exposes us to the risk of claims concerning non-compliance with environmental, health and safety laws or standards, and there can be no assurance that material costs or liabilities will not be incurred in connection with those claims. We are not currently named as a party in any judicial or administrative proceeding relating to environmental, health or safety matters.

While we have incurred in the past several years, and will in the future continue to incur, capital and operating expenditures in order to comply with environmental, health and safety laws, regulations and ordinances, we believe that our future cost of compliance with such regulations and ordinances, and our exposure to liability for environmental, health and safety claims will not have a material adverse effect on our business, results of operations, financial condition or cash flows. However, future events, such as changes in existing laws and regulations, or contamination of sites owned, operated or used for waste disposal by us (including currently unknown contamination and contamination caused by prior owners and operators of such sites or other waste generators) may give rise to additional costs which could have a material adverse effect on our financial condition, results of operations or liquidity.

Employees and Human Capital Management

Employees are our most-valued resource and are at the center of everything we do. Their talent, diversity and commitment are crucial to our innovation and success. Our work environment fosters personal, professional and corporate growth and nurtures innovation through product development and customer solutions. Our global teams work together in a spirit of cooperation to improve health and healthcare every day.

Employee demographics presented in the table below represent the number of employees as of December 31, 2021:

Global Employees	2021	% of Total
United States	962	21.1%
Mexico	3,356	73.7%
Latin America	9	0.2%
Europe, Middle East and Africa	110	2.4%
Asia Pacific	118	2.6%
Total	4,555	

Compensation

We compensate employees competitively and fairly in markets throughout the world. Compensation for salaried employees is strongly tied to performance objectives. Salaried employees above a certain pay grade have a substantial portion of their total compensation subject to performance objectives. More about our executive officer compensation can be found in the proxy statement relating to our 2022 Annual Meeting of Stockholders (the "2022 Proxy Statement").

Training and Educational Opportunities

Because we are a medical device manufacturer, our employees are regularly trained in key areas required by the FDA and other applicable regulatory authorities, including topics such as documentation, safety, complaint handling, anti-bribery and quality, among others. In addition to regulated training, employees are educated on the Avanos Code of Conduct, which aims to ensure all our employees understand and act in alignment with our cultural and behavioral expectations.

Employee Engagement

We believe that employees who are engaged in their roles, treated as partners in the business and recognized for their efforts, are more satisfied and productive. Our goal is to ensure that each of our more than 4,500 employees understands how he/she contributes to the company's innovation and growth. This is accomplished through an employee recognition program and ongoing, two-way communications, including videos and podcasts, that allow employees to engage with and hear directly from members of the executive team.

Employee Retention

In 2021, we implemented a multi-tiered employee retention strategy. The key elements of this strategy include: (i) enhanced compensation and rewards, including retention bonuses and equity grants for key employees, expanded benefits and more flexible work arrangements; (ii) fostering greater employee engagement through initiatives such as peer-to-peer coaching, internal promotions, a leadership development program and increased executive outreach through towns halls, podcast and videos; and (iii) recognizing employees for their efforts through a variety of awards, spotlights and appreciation events.

Health and Safety

We are committed to protecting our employees everywhere we operate. We identify potential risks associated with workplace activities in order to develop measures to mitigate possible hazards. In addition, we support employees with safety training and put specific programs in place for those working in potentially hazardous environments. We have taken additional measures during the COVID-19 pandemic, including implementing new safety protocols and guidelines as recommended by federal, state, local and foreign governments. Employees at our administrative offices have been encouraged to work remotely; where offices have reopened, they have done so with strict safety and hygiene guidelines.

Diversity and Inclusion

We are an equal opportunity employer committed to providing a workplace free of harassment or discrimination based on race, color, religion, sex, sexual orientation, gender identity, national origin, disability, veteran status or other legally protected characteristic. Our commitment to diversity and inclusion is aligned to foster the company's success as we continue to grow our business and develop our workforce. Our employee profile below reflects the results on December 31, 2021.

Employee Diversity	2021
Women - global director and above[(a)]	31.3%
Ethnically diverse - U.S. director and above[(a)]	15.9%
Women - global salaried employees	42.9%
Ethnically diverse - U.S. salaried employees	30.6%

(a) Leaders in director-level position or higher.

Available Information

We make financial information, news releases and other information available on our corporate website at *www.avanos.com*. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on our corporate website as soon as reasonably practicable after we file these reports and amendments with, or furnish them to, the SEC. The information contained on or connected to our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report filed with the SEC. Stockholders may also contact Stockholder Services, 5405 Windward Parkway, Suite 100 South, Alpharetta, Georgia 30004 or call (844) 428-2667 to obtain a hard copy of these reports without charge.

ITEM 1A. RISK FACTORS

Our business faces many risks and uncertainties. Any of the risks discussed below, as well as factors described in other places in this Annual Report on Form 10-K, or in our other filings with the SEC, could materially adversely affect our business, consolidated financial position, results of operations or cash flows. In addition, these items could cause our future results to differ from our recent results, from our anticipated future results and from those in any of our forward-looking statements. These risks are not the only ones we face. Other risks that we do not presently know about or that we presently believe are not material could also adversely affect us.

Risks Related to our Business and Industry

The ongoing COVID-19 pandemic could adversely impact our business operations, financial condition, results of operations and cash flows.

The COVID-19 pandemic has caused significant volatility in the global financial markets, caused disruption in global supply and distribution channels, dramatically changed the way companies do business and may adversely impact our financial position, results of operations and cash flows.

While we are closely monitoring the economic impact of the COVID-19 pandemic on our business, we currently cannot quantify the impact it will have on our future results of operations. The ongoing impact of the pandemic depends on a number

of factors which are uncertain and unpredictable, including the severity, extent and duration of the pandemic and the potential severe adverse financial impact the pandemic could have on our customers. Our future results of operations and cash flows may suffer material adverse effects from delays in payments on outstanding accounts receivable, potential manufacturing, distribution and supply chain disruptions and uncertain demand, and the effects of any actions we may take to address the financial and operational challenges our customers may face. Other pandemic-related risks and uncertainties include, but are not limited to:

- postponement or cancellation of elective medical procedures and uncertainty as to whether or when they will resume;
- potential temporary or prolonged office, production facility or distribution center closures;
- the health of our employees and our ability to meet our staffing needs;
- potential new or continued governmental actions that may limit our employees' ability to work;
- civil unrest relating to government, corporate and societal responses to the pandemic;
- volatility in economic conditions and the financial markets;
- risks associated with vaccine distribution; and
- other unanticipated effects that remain unknown.

If we experience any one of these risks or uncertainties, it may have a material adverse impact to our business, financial condition, results of operations and cash flows. The duration of any such impacts cannot be predicted because of the unprecedented nature of the COVID-19 pandemic. Additionally, our business could be severely impacted by widespread regional, national or global health epidemics unrelated to COVID-19 in the future.

We face strong competition. Our failure to compete effectively could have a material adverse effect on our business.

Our industry is highly competitive. We compete with many domestic and foreign companies ranging from small start-up enterprises that might sell only a single or limited number of competitive products or compete only in a specific market segment, to companies that are larger and more established than us, have a broad range of competitive products, participate in numerous markets and have access to significantly greater financial and marketing resources than we do. We are also subject to potential competition from new technologies or new market entrants. Competitive factors include price, alternative clinical practices, innovation, quality and reputation. Our failure to compete effectively could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may not be successful in developing, acquiring or marketing competitive products and technologies.

Our industry is characterized by extensive research and development and rapid technological advances. The future success of our business will depend, in part, on our ability to design, acquire and manufacture new competitive products and enhance existing products. Accordingly, we commit substantial time, funds and other resources to new product development, including research and development, acquisitions, licenses, clinical trials and physician education. We make these substantial expenditures without any assurance that our products will obtain regulatory clearance or reimbursement approval, acquire adequate intellectual property protection or receive market acceptance. Development by our competitors of improved products, technologies or enhancements may make our products, or those we develop, license or acquire in the future, obsolete or less competitive, which could negatively impact our net sales. Our failure to successfully develop, acquire or market competitive new products or enhance existing products could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We cannot guarantee that any of our strategic acquisitions, investments or alliances will be successful.

We intend to supplement our growth through strategic acquisitions of, investments in and alliances with new medical technologies. The success of any acquisition, investment or alliance may be affected by a number of factors, including our ability to identify and then properly assess and value the potential business opportunity or to successfully integrate any business we may acquire into our existing business. These types of transactions may require more resources and investments than originally anticipated, may divert management's attention from our existing business, may result in exposure to unexpected liabilities of the acquired business, and may not result in the expected benefits, savings or synergies. There can be no assurance that we will be able to identify and successfully make strategic acquisitions of, investments in and alliances with new medical technologies or that any past or future acquisition, investment or alliance will be cost-effective, profitable or successful.

We may be unable to attract and retain key employees necessary to be competitive.

Our ability to compete effectively depends upon our ability to attract and retain executives and other key employees, including people in technical, marketing, sales, and research and development positions. Competition for experienced employees, particularly for persons with specialized skills, can be intense. Our ability to recruit such talent will depend on a number of factors, including compensation and benefits, work location and work environment. If we cannot effectively recruit and retain qualified executives and employees, our business could be materially adversely affected.

Breaches of our information technology systems could have a material adverse effect on our business.

We rely on information technology systems to process, transmit and store electronic information in our day-to-day operations. Our information technology systems may fail to perform as anticipated, and we may encounter difficulties in implementing new systems, adapting these systems to changing technologies or expanding them to meet the future needs and growth of our business. In addition, our information technology systems may be subjected to damage or interruption from power outages, computer and telecommunication failures, usage errors by our employees, security breaches, computer viruses or other malicious codes, unauthorized access attempts and cyber- or phishing-attacks. We also store certain information with third parties that could be subject to these types of attacks. These attacks could result in our intellectual property and other confidential information, including personal health information, being lost or stolen, disruption of our operations, loss of reputation and other negative consequences, such as increased costs for security measures or remediation costs and diversion of management attention. While we will continue to implement additional protective measures to reduce the risk of and detect future cyber incidents, cyber-attacks are becoming more sophisticated and frequent, and the techniques used in such attacks change rapidly. There can be no assurances that our protective measures will prevent future attacks that could have a material adverse effect on our business.

We may be unable to protect our intellectual property rights or may infringe the intellectual property rights of others.

We rely on patents, trademarks, trade secrets and other intellectual property assets in the operation of our business. Our efforts to protect our intellectual property and proprietary rights may not be sufficient. We cannot be sure that pending patent applications will result in the issuance of patents or that patents issued or licensed to us will remain valid or prevent competitors from introducing similar competing technologies. Our ability to enforce and protect our intellectual property rights may be limited in certain countries outside of the United States in which we operate, which could make it easier for our competitors to develop or distribute similar or superior competing technologies in those jurisdictions. In addition, our competitive position may be adversely affected by expirations of our significant patents, which would allow competitors to freely use our technology to compete with us.

We operate in an industry characterized by extensive patent litigation and competitors may claim that our products infringe their intellectual property rights. Resolution of patent litigation or other intellectual property claims is inherently unpredictable, typically time consuming and costly and can result in significant damage awards and injunctions that could prevent the manufacture and sale of the affected products or require us to make significant royalty payments in order to continue selling the affected products. Any one of these could have a material adverse effect on our business, results of operations, financial condition and cash flows. At any given time we are involved as either a plaintiff or a defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time. We can expect to face additional claims of patent infringement in the future.

Our customers depend on third-party coverage and reimbursements. The failure of healthcare programs to provide coverage and reimbursement, or reductions in levels of reimbursement, could have a material adverse effect on our business.

The ability of our customers to obtain coverage and reimbursements for products they purchase from us is important to our business. Demand for many of our existing and new medical products is, and will continue to be, affected by the extent to which government healthcare programs and private health insurers reimburse our customers for patients' medical expenses in the countries where we do business. Any reduction in the amount of reimbursements received by our customers could harm our business by reducing their selection of our products and the prices they are willing to pay.

In addition, as a result of their purchasing power, third-party payors are implementing cost-cutting measures such as seeking discounts, price reductions or other incentives from medical products suppliers and imposing limitations on coverage and reimbursements for medical technologies and procedures. These trends could compel us to reduce prices for our existing products and potential new products and could cause a decrease in the size of the market or a potential increase in competition that could have a material adverse effect on our business, results of operations, financial condition and cash flows.

An inability to obtain key components, raw materials or manufactured products from third parties may have a material adverse effect on our business.

We depend on the availability of various components, raw materials and manufactured products supplied by others for our operations. If the capabilities of our suppliers and third-party manufacturers are limited or stopped, due to quality, regulatory or other reasons, including natural disasters, pandemics or other health emergencies (such as the COVID-19 pandemic), political instability, government actions, prolonged power or equipment failures or labor dispute, it could negatively impact our ability to manufacture or deliver our products and could expose us to regulatory actions. Further, for quality assurance or cost effectiveness, we purchase from sole suppliers certain components and raw materials. Although there are other sources in the market place for these items, we may not be able to quickly establish additional or replacement sources for certain components or materials due to regulations and requirements of the FDA and other regulatory authorities regarding the manufacture of our products. The loss of any sole supplier or any sustained supply interruption that affects our ability to manufacture or deliver our

products in a timely or cost effective manner could have a material adverse effect on our business, results of operations, financial condition and cash flows.

An interruption in our ability to manufacture products may have a material adverse effect on our business.

Many of our key products are manufactured at single locations, with limited alternate facilities. If one or more of these facilities experience damage, or if these manufacturing capabilities are otherwise limited or stopped due to quality, regulatory or other reasons, including natural disasters, pandemics or other health emergencies (such as the COVID-19 pandemic), political instability, government actions, prolonged power or equipment failures or labor dispute, it may not be possible to timely manufacture the relevant products at previous levels or at all. A reduction or interruption in any of these manufacturing processes could have a material adverse effect on our business, results of operations, financial condition and cash flows.

An interruption in distribution or transportation may have a material adverse effect on our business.

We rely on various transportation channels for global distribution of our products through shipping ports located throughout the world. Labor unrest, political instability, the outbreak of pandemics or other health emergencies (such as the COVID-19 pandemic), trade restrictions, transport capacity and costs, port security, weather conditions, natural disasters or other events could slow port activities and could adversely affect our business by interrupting product shipments and may increase our transportation costs if we are forced to use more expensive shipping alternatives.

The adoption and interpretation of tax laws may have a material adverse effect on our business.

The laws and rules and related interpretations dealing with income taxation are frequently reviewed and amended by governmental bodies, officials and regulatory agencies in the United States and other jurisdictions in which we do business. The governmental bodies may include the U.S. Internal Revenue Service, the U.S. Treasury Department, the U.S. Congress, taxing authorities in countries outside the U.S., and various state, provincial, local or municipal regulatory agencies. Our provision for income taxes and results of operations may be adversely affected by changes to our operating structure, changes in the mix of income and expenses in countries with differing tax rates, changes in the valuation of deferred tax assets and liabilities or changes in tax laws, regulations or administrative interpretations thereof. For example, the U.S. federal government could make changes to existing U.S. tax laws, including the Tax Cuts and Jobs Act of 2017 or the Coronavirus Aid, Relief and Economic Security (CARES) Act of 2020, which could include an increase in the corporate tax rate and the tax rate on foreign earnings. It cannot be predicted whether, when, in what form, or with what effective dates, tax laws, regulations and rulings may be enacted, promulgated, issued or amended that could result in a material adverse effect on our financial position, results of operations or cash flows.

We face significant uncertainty in the healthcare industry due to government healthcare reform in the United States and elsewhere.

The U.S. Congress, regulatory agencies and certain state legislatures, as well as international legislators and regulators, periodically review and assess alternative healthcare delivery systems and payment methods with an objective of ultimately reducing healthcare costs and expanding access. We cannot predict with certainty what healthcare initiatives, if any, will be implemented by states or foreign governments or what ultimate effect healthcare reform or any future legislation or regulation may have on our customers' purchasing decisions regarding our products. However, the implementation of new legislation and regulation may lower reimbursements for our products, reduce medical procedure volumes and materially adversely affect our business, results of operations, financial condition and cash flows.

We are subject to extensive government regulation, which may require us to incur significant expenses to ensure compliance.

Many of our products are subject to extensive regulation in the United States by the FDA and other regulatory authorities and by comparable government agencies in other countries concerning the development, design, approval, manufacture, labeling, importing and exporting and sale and marketing of many of our products. Furthermore, our facilities are subject to periodic inspection by the FDA and other federal, state and foreign government authorities, which require manufacturers of medical devices to adhere to certain regulations, including the FDA's Quality System Regulation, which requires periodic audits, design controls, quality control testing and documentation procedures, as well as complaint evaluations and investigation. Regulations regarding the development, manufacture and sale of medical products are evolving and subject to future change. We cannot predict what impact those regulatory changes may have on our business. Failure to comply with applicable regulations could lead to manufacturing shutdowns, product shortages, delays in product manufacturing, product seizures, recalls, operating restrictions, withdrawal or suspension of required licenses, and prohibitions against exporting of products to, or importing products from, countries outside the United States and may require significant resources to resolve. Any one or more of these events could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We are subject to healthcare fraud and abuse laws and regulations that could result in significant liability, require us to change our business practices or restrict our operations in the future.

We are subject to various U.S. federal, state and local laws targeting fraud and abuse in the healthcare industry, including the Food Drug and Cosmetic Act and anti-kickback and false claims laws. Violations of these laws are punishable by criminal or civil sanctions, including substantial fines, imprisonment and exclusion from participation in healthcare programs such as Medicare and Medicaid. These laws and regulations are wide ranging and subject to changing interpretation and application, which could restrict our sales or marketing practices. Furthermore, since many of our customers rely on reimbursement from Medicare, Medicaid and other governmental programs to cover a substantial portion of their expenditures, our exclusion from such programs as a result of a violation of these laws could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We must obtain clearance or approval from the appropriate regulatory authorities prior to introducing a new product or a modification to an existing product. The regulatory clearance process may result in substantial costs, delays and limitations on the types and uses of products we can bring to market, any of which could have a material adverse effect on our business.

In the United States, before we can market a new product, or market a new use of, or claim for, or significant modification to, an existing product, we generally must first receive clearance or approval from the FDA and certain other regulatory authorities. Most major markets for medical devices outside the United States also require clearance, approval or compliance with certain standards before a product can be commercially marketed. The process of obtaining regulatory clearances and approvals to market a medical device can be costly and time consuming, involve rigorous pre-clinical and clinical testing, require changes in products or result in limitations on the indicated uses of products. There can be no assurance that these clearances and approvals will be granted on a timely basis, or at all. In addition, once a medical device has been cleared or approved, a new clearance or approval may be required before the medical device may be modified, its labeling changed or marketed for a different use. Medical devices are cleared or approved for one or more specific intended uses and promoting a device for an off-label use could result in government enforcement action. Furthermore, a product approval or clearance can be withdrawn or limited due to unforeseen problems with the medical device or issues relating to its application. The regulatory clearance and approval process may result in, among other things, delayed, if at all, realization of product net sales, substantial additional costs and limitations on the types of products we may bring to market or their indicated uses, any one of which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may incur product liability losses, litigation liability, product recalls, safety alerts or regulatory action associated with our products which can be costly and disruptive to our business.

The risk of product liability claims is inherent in the design, manufacture and marketing of medical products of the type we produce and sell. A number of factors could result in an unsafe condition or injury to, or death of, a patient with respect to the products that we manufacture or sell, including the physician's skill, technique and experience in performing the relevant surgical procedure, component failures, manufacturing flaws, design defects or inadequate disclosure of product-related risks or information.

In addition to product liability claims and litigation, an unsafe condition or injury to, or death of, a patient associated with our products could lead to a recall of, or issuance of a safety alert relating to, our products, or suspension or delay of regulatory product approvals or clearances, product seizures or detentions, governmental investigations, civil or criminal sanctions or injunctions to halt manufacturing and distribution of our products. Any one of these could result in significant costs and negative publicity resulting in reduced market acceptance and demand for our products and harm our reputation. In addition, a recall or injunction affecting our products could temporarily shut down production lines or place products on a shipping hold.

All of the foregoing types of legal proceedings and regulatory actions are inherently unpredictable and, regardless of the outcome, could disrupt our business, result in substantial costs or the diversion of management attention and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Economic conditions have affected and may continue to adversely affect our business, results of operations, financial condition and cash flows.

Disruptions in the financial markets and other macro-economic challenges affecting the economy and the economic outlook of the United States, Europe, Japan, China and other parts of the world may have an adverse impact on our results of operations, financial condition and cash flows. Economic conditions and depressed levels of consumer and commercial spending have caused and may continue to cause our customers to reduce, modify, delay or cancel plans to purchase our products, and we have observed certain hospitals delaying and prioritizing purchasing decisions, which has had and may continue to have a material adverse effect on our business, results of operations, financial condition and cash flows.

In addition, as a result of economic conditions, our customers inside and outside the United States, including foreign governmental entities or other entities that rely on government healthcare systems or government funding, may be unable to pay their obligations on a timely basis or to make payment in full. If our customers' cash flow or operating and financial performance deteriorate or fail to improve, or if our customers are unable to make scheduled payments or obtain credit, they may not be able to pay, or may delay payment of accounts receivable owed to us. These conditions also may have an adverse

effect on certain of our suppliers who may reduce output or change terms of sales, which could cause a disruption in our ability to produce our products. Any inability of current and/or potential customers to pay us for our products or any demands by our suppliers for different payment terms may have a material adverse effect on our business, results of operations, financial condition and cash flows.

Currency exchange rate fluctuations could have a material adverse effect on our business and results of operations.

Due to our international operations, we transact business in many foreign currencies and are subject to the effects of changes in foreign currency exchange rates, including the Mexican peso, Japanese yen, Australian dollar and the Euro. Our financial statements are reported in U.S. dollars with international transactions being translated into U.S. dollars. If the U.S. dollar strengthens in relation to the currencies of other countries where we sell our products, our U.S. dollar reported net sales and income will decrease. Additionally, we incur significant costs in foreign currencies and a fluctuation in those currencies' value can negatively impact manufacturing and selling costs. While we have in the past engaged, and may in the future engage, in various hedging transactions in attempts to minimize the effects of foreign currency exchange rate fluctuations, there can be no assurance that these hedging transactions will be effective. Changes in the relative values of currencies occur regularly and could have an adverse effect on our business, results of operations, financial condition and cash flows.

We are exposed to price fluctuations of key commodities, which may negatively impact our results of operations.

We rely on product inputs in the manufacture of our products. Prices of oil and gas affect our distribution and transportation costs. Prices of these commodities are volatile and have fluctuated significantly in recent years, which has contributed to, and in the future may continue to contribute to, fluctuations in our results of operations. Our ability to hedge commodity price volatility is limited. Furthermore, due to competitive dynamics, the cost containment efforts of our customers and third-party payors, and contractual limitations, particularly with respect to products we sell under group purchasing agreements, which generally set pricing for a three-year term, we may be unable to pass along commodity-driven cost increases through higher prices. If we cannot fully offset cost increases through other cost reductions, or recover these costs through price increases or surcharges, we could experience lower margins and profitability which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Cost-containment efforts of our customers, healthcare purchasing groups, third-party payors and governmental organizations could adversely affect our sales and profitability.

Many of our customers are members of GPOs, or integrated delivery networks ("IDNs"). GPOs and IDNs negotiate pricing arrangements with healthcare product manufacturers and distributors and offer the negotiated prices to affiliated hospitals and other members. Although we are the sole contracted supplier to certain GPOs for certain product categories, members of the GPO are generally free to purchase from other suppliers, and such contract positions can offer no assurance that sales volumes of those products will be maintained. In addition, initiatives sponsored by government agencies and other third-party payors to limit healthcare costs, including price regulation and competitive bidding for the sale of our products, are ongoing in markets where we sell our products. Pricing pressure has also increased in our markets due to consolidation among healthcare providers, trends toward managed care, governments becoming payors of healthcare expenses and regulation relating to reimbursements. The increasing leverage of organized buying groups and consolidated customers and pricing pressure from third-party payors may reduce market prices for our products, thereby reducing our profitability and have a material adverse effect on our business, results of operations, financial condition and cash flows.

We are subject to political, economic and regulatory risks associated with doing business outside of the United States.

Most of our manufacturing facilities are outside the United States in Mexico. We also may use contract manufacturers outside the United States from time to time and may source many of our raw materials and components from foreign suppliers. We distribute and sell our products in over 90 countries. In 2021, approximately 25% of our net sales were generated outside of North America and we expect this percentage will grow over time. Our operations outside of the United States are subject to risks that are inherent in conducting business internationally, including compliance with both United States and foreign laws and regulations that apply to our international operations. These laws and regulations include robust data privacy requirements, labor relations laws that may impede employer flexibility, tax laws, anti-competition regulations, import, customs and trade restrictions, export requirements, economic sanction laws, environmental, health and safety laws, anti-bribery laws such as the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions. Given the high level of complexity of these laws, there is a risk that some provisions may be violated inadvertently or through fraudulent or negligent behavior of individual employees, our failure to comply with certain formal documentation requirements or otherwise. In addition, these laws are subject to changes, which may require additional resources or make it more difficult for us to comply with these laws. Violations of the laws and regulations governing our international operations could result in fines or criminal sanctions against us, our officers or our employees, and prohibitions on the conduct of our business. Any such violations could include prohibitions on our ability to manufacture or distribute our products in one or more countries and could have a material adverse effect on our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business,

results of operations, financial condition and cash flows. Our success depends, in part, on our ability to anticipate and prevent or mitigate these risks and manage difficulties as they arise.

We may be subject to trade protection measures that are being contemplated by the United States Government and other governments around the world, as well as potential disruptions in trade agreements, such as the exit of the United Kingdom from the EU. These measures and disruptions may result in new or higher tariffs, import-export restrictions and taxes. Changes in, or revised interpretations of import-export laws or international trade agreements, along with new or increased tariffs, trade restrictions or taxation on income earned or goods manufactured outside the United States may have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition to the foregoing, engaging in international business inherently involves a number of other difficulties and risks, including:

- different local medical practices, product preferences and product requirements,
- price and currency controls and exchange rate fluctuations,
- cost and availability of international shipping channels,
- longer payment cycles in certain countries other than the United States,
- minimal or diminished protection of intellectual property in certain countries,
- uncertainties regarding judicial systems, including difficulties in enforcing agreements through certain non-U.S. legal systems,
- political instability and actual or anticipated military or political conflicts, expropriation of assets, economic instability and the impact on interest rates, inflation and the credit worthiness of our customers, and
- difficulties and costs of staffing and managing non-U.S. operations.

These risks and difficulties, individually or in the aggregate, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may need additional financing in the future to meet our capital needs or to make acquisitions and such financing may not be available on favorable terms, if at all.

We intend to continue our research and development activities and make acquisitions. Accordingly, we may need to seek additional debt or equity financing. We may be unable to obtain any desired additional financing on terms favorable to us, if at all. If adequate funds are not available on acceptable terms, we may be unable to fund our expansion, successfully develop or enhance products or respond to competitive pressures, any of which could negatively affect our business.

Risks Related to Ownership of Avanos Common Stock

We cannot guarantee that our stock price will not decline or fluctuate significantly.

The price at which Avanos common stock trades has and may continue to fluctuate significantly. The market price, or fluctuations in price, for Avanos common stock may be negatively influenced by many factors, including:

- actual or unanticipated fluctuations in our quarterly and annual operating results,
- our failure to achieve the quarterly financial results expected by the securities analysts who cover our stock,
- the outcome of litigation and enforcement actions,
- developments generally affecting the healthcare industry,
- changes in market valuations of comparable companies,
- the amount of our indebtedness,
- general economic, industry and market conditions,
- the depth and liquidity of the market for Avanos common stock,
- price fluctuations in key commodities,
- announcements by us or our competitors regarding performance, strategy, significant acquisitions, divestitures, strategic partnerships, joint ventures or capital commitments,
- fluctuations in interest and currency exchange rates,
- our dividend policy, and
- perceptions of or speculations by the press or investment community.

These and other factors may lower the market price of Avanos common stock, regardless of our actual financial condition or operating performance.

We have no present intention to pay dividends on Avanos common stock.

We have no present intention to pay dividends on Avanos common stock. Any determination to pay dividends to holders of Avanos common stock will be at the discretion of our Board of Directors and will depend on many factors, including our financial condition, results of operations, projections, liquidity, earnings, legal requirements, restrictions in our debt agreements and other factors that our Board of Directors deems relevant.

The percentage of ownership of existing stockholders in Avanos may be diluted in the future.

In the future, a stockholder's percentage ownership in Avanos may be diluted because of equity issuances for acquisitions, capital market transactions or otherwise, including equity awards that we may grant to our directors, officers and employees. In addition, our compensation committee has, and we anticipate that they will continue in the future to, grant stock options or other equity based awards to our employees. These awards will have a dilutive effect on existing stockholders and on our earnings per share, which could adversely affect the market price of shares of Avanos common stock.

In addition, our certificate of incorporation authorizes us to issue, without the approval of Avanos stockholders, one or more classes or series of preferred stock having such designation, powers, preferences and relative, participating, optional and other special rights, including preferences over Avanos common stock with respect to dividends and distributions, as our Board of Directors generally may determine. If our Board of Directors were to approve the issuance of preferred stock in the future, the terms of one or more classes or series of such preferred stock could dilute the voting power or reduce the value of Avanos common stock. Similarly, the repurchase or redemption rights or liquidation preferences we could assign to Avanos preferred stock could affect the residual value of Avanos common stock.

Certain provisions of our certificate of incorporation may make it difficult for stockholders to initiate litigation against us in a favorable forum for disputes with us or our directors or officers.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware (or if that court does not have jurisdiction, the U.S. District Court for the District of Delaware) as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors or officers.

Certain provisions of our certificate of incorporation and by-laws and of Delaware law may make it difficult for stockholders to change the composition of our Board of Directors and may discourage hostile takeover attempts which some of our stockholders may consider to be beneficial.

Certain provisions contained in our certificate of incorporation and by-laws and those contained in Delaware law may have the effect of delaying or preventing changes in control if our Board of Directors determines that such changes in control are not in the best interests of us and our stockholders. These provisions include, among other things, the following:

- the division of our Board of Directors into three classes, each with three-year staggered terms, although shareholders voted in 2020 to declassify our Board, and it will be fully declassified in 2023,
- the ability of our Board of Directors to issue shares of preferred stock and to determine the price and other terms, including preferences and voting rights, of those shares without stockholder approval,
- the inability of our stockholders to call a special meeting of stockholders,
- stockholder action may be taken only at a special or regular meeting of stockholders,
- advance notice procedures for nominating candidates to our Board of Directors or presenting matters at stockholder meetings,
- stockholder removal of directors only for cause and only by a supermajority vote,
- the ability of our Board of Directors, and not our stockholders, to fill vacancies on our Board of Directors, and
- supermajority voting requirements to amend our by-laws and certain provisions of our certificate of incorporation and to engage in certain types of business combinations.

While these provisions have the effect of encouraging persons seeking to acquire control of our company to negotiate with our Board of Directors, they could enable the Board of Directors to hinder or frustrate a transaction that some, or a majority, of the stockholders might believe to be in their best interests and, in that case, may prevent or discourage attempts to remove and replace incumbent directors. We are also subject to Delaware laws that could have similar effects. One of these laws prohibits us from engaging in a business combination with a significant stockholder unless specific conditions are met.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own or lease operating facilities located throughout the world that handle manufacturing production, assembly, research, quality assurance testing, distribution and packaging of our products. We believe our facilities are suitable and adequate for our present operations. We lease our principal executive offices that are located in Alpharetta, Georgia. The locations of our principal medical device production facilities owned or leased by us around the world are as follows:

Location	Country	Owned/ Leased
Nogales	Mexico	Owned
Nogales	Mexico	Leased
Tucson, Arizona	USA	Leased
Magdalena	Mexico	Leased
Tijuana	Mexico	Leased

ITEM 3. LEGAL PROCEEDINGS

See “Commitments and Contingencies” in Note 13 to the consolidated financial statements in Item 8 of this report for a description of current legal matters.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

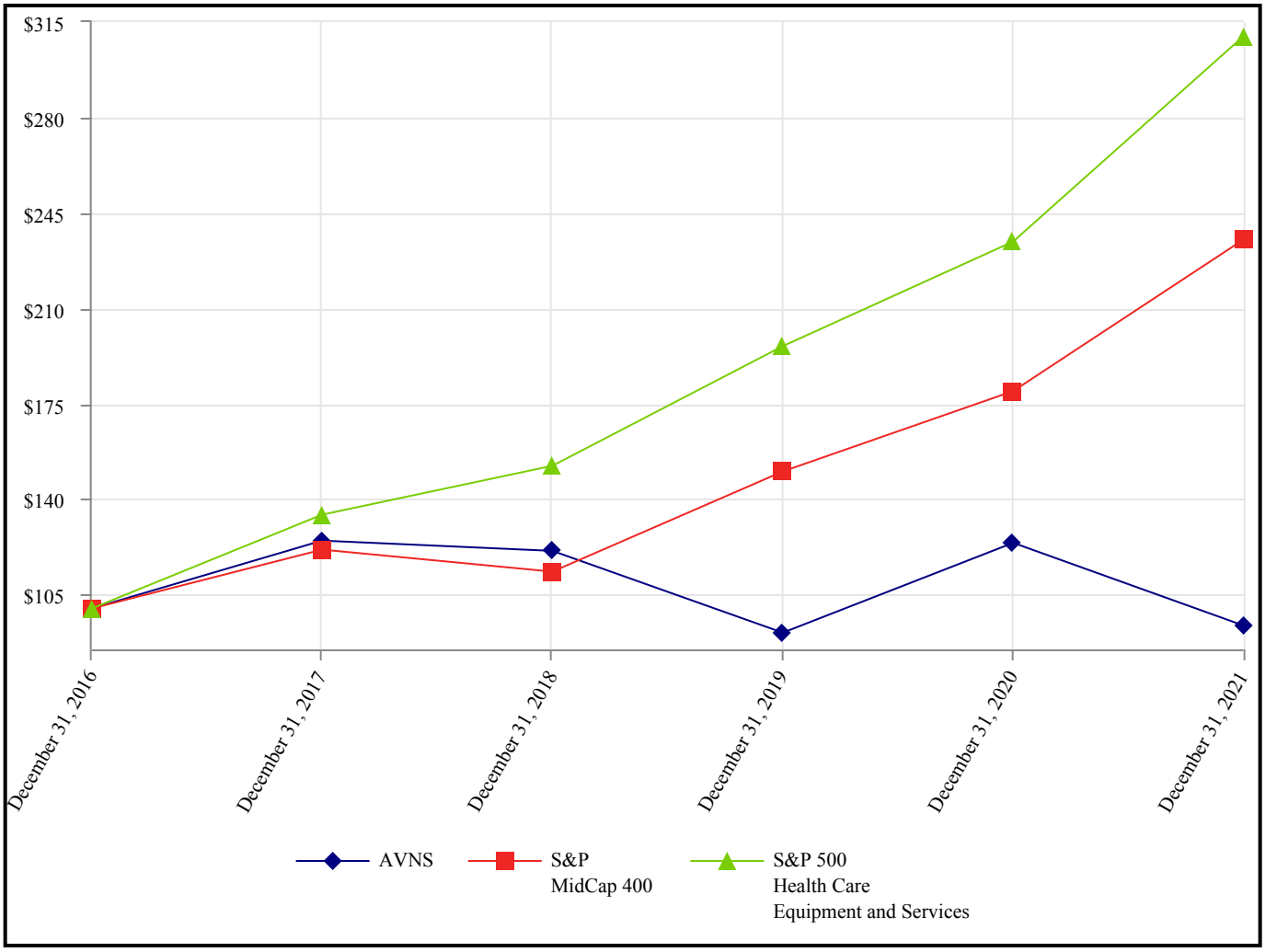
Avanos common stock is listed on the New York Stock Exchange (“NYSE”) under the ticker symbol “AVNS”. We did not pay any dividends on our common stock in the years ended December 31, 2021 and 2020 and we do not expect to pay any cash dividends on our common stock in the foreseeable future.

As of February 15, 2022, we had 10,767 holders of record of our common stock.

For information relating to securities authorized for issuance under equity compensation plans, see Part III, Item 12 of this Form 10-K.

Performance

The following graph compares the cumulative total return of our common stock from December 31, 2016 through December 31, 2021 with the cumulative return of companies comprising the Standard and Poor’s S&P MidCap 400 Index and the S&P 500 Health Care Equipment and Services Index. The graph plots the change in value of an initial investment of $100 in each of our common stock, the S&P MidCap 400 Index and the S&P 500 Health Care Equipment and Services Index over the indicated time periods and assumes reinvestment of all dividends, if any, paid on the securities. We have not paid any cash dividends, and therefore, the cumulative total return calculation for us is based solely upon stock price appreciation and not upon reinvestment of cash dividends. The stock price performance shown on the graph is not necessarily indicative of future price performance.



The preceding chart is based on the following data:

	AVNS	S&P MidCap 400	S&P 500 Health Care Equipment and Services
December 31, 2016	$ 100.00	$ 100.00	$ 100.00
December 31, 2017	124.88	121.58	134.39
December 31, 2018	121.12	113.51	152.32
December 31, 2019	91.13	150.24	196.19
December 31, 2020	124.07	179.70	234.53
December 31, 2021	93.75	235.27	309.83

ITEM 6. Reserved

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Avanos is a medical technology company focused on delivering clinically superior breakthrough medical device solutions to improve patients' quality of life. We are committed to addressing some of today's most important healthcare needs, such as reducing the use of opioids while helping patients move from surgery to recovery. We develop, manufacture and market clinically superior solutions in more than 90 countries.

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide investors with an understanding of our recent performance, financial condition and prospects and should be read in conjunction with the consolidated financial statements contained in Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K. The following will be discussed and analyzed:

- Restructuring Activities
- Business Acquisition
- Results of Operations and Related Information
- Liquidity and Capital Resources
- Critical Accounting Policies and Use of Estimates
- Legal Matters
- Information Concerning Forward-Looking Statements

Restructuring Activities

Our restructuring expenses for the years ended December 31, 2021, 2020 and 2019 are summarized in the table below:

	Year Ended December 31,		
	2021	**2020**	**2019**
Post-Divestiture Restructuring Plan			
Organizational Alignment and IT Transformation	**$ —**	$ (0.6)	$ 17.8
Cost Transformation	**10.2**	2.8	2.3
Total Post-Divestiture Restructuring Plan	**10.2**	2.2	20.1
Integration and Restructuring of Business Acquisitions	**—**	0.5	9.1
2020 Restructuring	**12.4**	27.6	—
Total Restructuring Costs	**$ 22.6**	$ 30.3	$ 29.2

Post-Divestiture Restructuring Plan

In conjunction with the Divestiture, we began a multi-phase restructuring plan (the "Plan") intended to align our organizational structure ("Organizational Alignment"), information technology platform ("IT Transformation") and supply chain and distribution channels ("Cost Transformation") to be more appropriate for the size and scale of our business. Organizational Alignment and IT Transformation are complete. Only the final phase of the Plan, Cost Transformation, remained in progress during the year ended December 31, 2021.

The Cost Transformation phase was initiated in June 2019, and is intended to optimize the Company's procurement, manufacturing, and supply chain operations. Cost Transformation expenses were primarily consulting costs, noncash equipment write-offs and other expenses that were be expensed as incurred. From the initiation of the Cost Transformation phase through December 31, 2021, we incurred $15.3 million of costs that were expensed as incurred and $5.4 million of costs that were capitalized. The Cost Transformation phase was substantially complete as of December 31, 2021.

Integration of Business Acquisitions

During the third quarter of 2019, we initiated activities to integrate the asset and business acquisitions completed in 2019 and 2018 into our operations and, where appropriate, re-align our organization accordingly. This integration includes Game Ready, which was acquired in 2018 along with the 2019 Acquisitions. Costs incurred were primarily for employee retention, severance and benefits and lease termination costs. The integration of our acquisitions was complete as of December 31, 2020.

2020 Restructuring

In the fourth quarter of 2020, we initiated activities to reduce the size of our senior leadership team, consolidate certain operations within our pain management franchise, exit unprofitable lines of business and reduce the size of our office space to align with expected requirements following the COVID-19 pandemic. Costs were primarily associated with operating lease right-of-use asset impairments or lease terminations, impairment of intangible and other assets and employee severance and benefits. The 2020 Restructuring was substantially complete as of December 31, 2021.

Business Acquisition

On December 13, 2021, we entered into an agreement to acquire OrthogenRx, Inc. ("OrthogenRx") for $130.0 million in cash at closing, subject to net working capital adjustments, plus up to an additional $30.0 million in contingent cash consideration based on OrthogenRx's growth in net sales during 2022 and 2023. This acquisition closed on January 20, 2022.

Results of Operations and Related Information

Use of Non-GAAP Measures

In this section, "Adjusted Operating Profit (Loss)," which is a profitability measure that is not calculated in accordance with accounting principles generally accepted in the United States ("GAAP") and is therefore referred to as non-GAAP financial measure. We provide this non-GAAP measure because we use it to measure our operational performance and provide greater insight into our ongoing business operations. This measure is not intended to be, and should not be, considered separately from, or an alternative to, the most directly comparable GAAP financial measures. A reconciliation of the non-GAAP measure to the most directly comparable GAAP financial measures is provided under "Adjusted Operating (Loss) Profit."

Net Sales

Our net sales are summarized in the following table for the years ended December 31, 2021, 2020 and 2019 (in millions):

	Year Ended December 31,				
	2021	**2020**	**Change**	**2019**	**Change**
Chronic Care:					
Digestive health	**$ 322.2**	$ 294.1	9.6 %	$ 266.9	10.2 %
Respiratory health	**157.6**	177.1	(11.0)%	146.8	20.6 %
Total Chronic Care	**479.8**	471.2	1.8 %	$ 413.7	13.9 %
Pain Management:					
Acute pain	**162.7**	157.4	3.4 %	184.0	(14.5)%
Interventional pain	**102.1**	86.2	18.4 %	99.9	(13.7)%
Total Pain Management	**264.8**	243.6	8.7 %	283.9	(14.2)%
Total Net Sales	**$ 744.6**	$ 714.8	4.2 %	$ 697.6	2.5 %

	Total	**Volume[(a)]**	**Pricing/Mix**	**Currency**	**Other[(b)]**
Net Sales - percentage change 2021 vs. 2020	4 %	4 %	(1)%	1 %	— %
Net Sales - percentage change 2020 vs. 2019	3 %	3 %	— %	— %	— %

(a) Volume includes incremental sales from acquisitions.
(b) Other includes rounding.

Product Category Descriptions

Chronic care is a portfolio of products that include the following:

- Digestive health products such as our Mic-Key enteral feeding tubes, Corpak patient feeding solutions and NeoMed neonatal and pediatric feeding solutions. In the years ended December 31, 2021 and 2020, our legacy enteral feeding tubes, which includes our Mic-Key enteral feeding tubes and our Corpak feeding solutions each accounted for more than 10% of our consolidated net sales. In the year ended December 31, 2019, only our legacy digestive health products accounted for more than 10% of our consolidated net sales.
- Respiratory health products such as our closed airway suction systems and other airway management devices under the Ballard, Microcuff and Endoclear brands. In the years ended December 31, 2021, 2020 and 2019, our closed airway suction systems accounted for more than 10% of our consolidated net sales.

Pain management is a portfolio of non-opioid pain solutions including:

- Acute pain products such as On-Q and ambIT surgical pain pumps and Game Ready cold and compression therapy systems. In the years ended December 31, 2021, 2020 and 2019, our surgical pain products, which includes both On-Q and ambIT pumps, accounted for more than 10% of our consolidated net sales.
- Interventional pain solutions, which provide minimally invasive pain relief therapies, such as our Coolief pain therapy. In the years ended December 31, 2021, 2020 and 2019, products associated with our Coolief pain therapy accounted for more than 10% of our consolidated net sales.

Net Sales - 2021 Compared to 2020

Net sales increased by 4.2% to $744.6 million for the year ended December 31, 2021. Volume was driven by our pain management franchise due to the recovery of elective surgical procedures and favorable comparison to last year's net sales which were negatively impacted by the COVID-19 pandemic. In addition, volume benefited from continued robust demand for digestive health, which was partially offset by lower volume in respiratory health due to pandemic-fueled demand experienced last year as well as by pricing/mix.

Net Sales - 2020 Compared to 2019

Net sales increased by 2.5% to $714.8 million for the year ended December 31, 2020 primarily due to volume. Incremental volume from the NeoMed, Summit and Game Ready acquisitions contributed 4% of the volume growth. Volume growth also came from organic growth in interventional pain products, digestive health and respiratory health, but was mostly offset by lower volume in acute pain which was affected this year by an industry-wide drug shortage, pre-fill disruption and consolidation of IV infusion customers.

Net Sales by Geographic Region

The factors causing organic volume growth were consistent throughout our geographic regions. Net sales by region is presented in the table below (in millions):

	Year Ended December 31,				
(in millions)	2021	2020	Change	2019	Change
North America	**$ 561.6**	$ 535.5	4.9 %	$ 534.7	0.1 %
EMEA	**105.1**	108.3	(3.0)	95.8	13.0
Asia Pacific and Latin America	**77.9**	71.0	9.7	67.1	5.8
Total Net Sales	**$ 744.6**	$ 714.8	4.2 %	$ 697.6	2.5 %

Gross Profit (in millions)

	Year Ended December 31,		
	2021	2020	2019
Net sales	**$ 744.6**	$ 714.8	$ 697.6
Cost of products sold	**380.3**	341.5	295.4
Gross profit	**364.3**	373.3	402.2
Gross profit margin	**48.9 %**	52.2 %	57.7 %

Cost of products sold increased from $341.5 million to $380.3 million primarily driven by higher freight costs, including air freight, associated with shipping products from China to the United States and delays in returning our manufacturing operations to pre-pandemic efficiency levels. We recorded inventory allowances of $6.8 million, which includes $3.4 million for Halyard-branded products, $3.4 million for inventory associated with restructuring activities. Accordingly, in the year ended December 31, 2021, gross profit margin decreased from 52.2% to 48.9%.

In the year ended December 31, 2020, our gross profit margin decreased to 52.2% from 57.7% in 2019 primarily due the pandemic-driven shift in demand for products that earn lower margins along with $4.9 million of incremental costs associated with our response to the COVID-19 pandemic and manufacturing inefficiencies driven by the COVID-19 pandemic. In addition, we recorded inventory allowances of $8.8 million, which includes $5.7 million for Halyard-branded products and $3.1 million for obsolescence.

Research and Development (in millions)

	Year Ended December 31,		
	2021	2020	2019
Research and development	**$ 32.3**	$ 34.9	$ 37.7
Percentage of net sales	**4.3 %**	4.9 %	5.4 %

Research and development consists primarily of compensation for personnel and expenses for product trial costs, outside laboratory and license fees, the cost of laboratory equipment and facilities and asset write-offs for equipment associated with unsuccessful product launches. Research and development has historically been between 4% and 6% of net sales.

Selling and General Expenses (in millions)

	Year Ended December 31,		
	2021	**2020**	**2019**
Selling and general expenses	**$ 300.3**	$ 332.6	$ 399.1
Percentage of net sales	**40.3 %**	46.5 %	57.2 %

Selling and general expenses decreased from $332.6 million in 2020 to $300.3 million in 2021. In 2021, savings were realized from the restructuring activities undertaken in 2020 and continued discipline over spending throughout 2021. As described previously under "Restructuring Activities," the savings realized include lower compensation costs as we reduced the size of our senior leadership team and lower operating costs as we consolidated certain operations within the pain management franchise and reduced our office space footprint. Selling and general expenses included $2.4 million of restructuring expenses in 2021 compared to $4.9 million in 2020.

In the year ended December 31, 2020, selling and general expenses decreased from $399.1 million in 2019 to $332.6 million in 2020. The decrease was driven by lower post divestiture separation costs, which were $7.7 million in 2020 compared to $53.1 million in 2019. Restructuring costs included in selling and general expenses were $4.9 million in 2020 compared to $17.2 million in 2019. The remainder of the decrease was driven by lower travel and other expenses associated with business activities curtailed or restricted during the COVID-19 pandemic.

Other Expense, net (in millions)

	Year Ended December 31,		
	2021	**2020**	**2019**
Other expense, net	**$ 22.8**	$ 51.9	$ 21.1
Percentage of net sales	**3.1 %**	7.3 %	3.0 %

Other expense, net decreased from $51.9 million in 2020 to $22.8 million in 2021 primarily due to lower restructuring costs. In 2020, other expense, net included $20.0 million of restructuring costs associated with our 2020 Restructuring as described under "Restructuring Activities." Other expense, net also includes litigation and legal costs of $15.0 million and $27.5 million in the years ended December 31, 2021 and 2020, respectively. Legal and litigation costs were incurred for matters described in "Commitments and Contingencies" in Note 13 to the consolidated financial statements in Item 8.

Other expense, net increased from $21.1 million in 2019 to $51.9 million primarily due to $20.0 million of restructuring costs in 2020. Legal and litigation costs in 2019 were $15.6 million.

Operating Profit (Loss) (in millions)

	Year Ended December 31,		
	2021	**2020**	**2019**
Operating profit (loss)	**$ 8.9**	$ (46.1)	$ (55.7)
Operating profit margin	**1.2 %**	(6.4)%	(8.0)%

The items previously described drove operating profit to $8.9 million in the year ended December 31, 2021 compared to operating losses of $46.1 million and $55.7 million, respectively, in the years ended December 31, 2020 and 2019.

Adjusted Operating Profit (Loss)

A reconciliation of adjusted operating profit (loss), a non-GAAP measure, to operating profit (loss) is provided in the table below (in millions):

	Year Ended December 31,		
	2021	**2020**	**2019**
Operating profit (loss), as reported (GAAP)	**$ 8.9**	$ (46.1)	$ (55.7)
COVID-19 related expenses	**0.3**	7.9	—
2020 Restructuring charges	**12.4**	27.6	—
Post divestiture restructuring charges	**10.2**	2.2	20.2
Post divestiture transition charges	**3.9**	14.9	56.3
Acquisition and integration-related charges	**1.6**	12.5	13.1
EU MDR Compliance	**4.0**	—	—
Litigation and legal	**15.0**	27.5	22.5
Intangibles amortization	**16.7**	19.4	20.0
Adjusted Operating Profit (Loss) (non-GAAP)	**$ 73.0**	$ 65.9	$ 76.4

The items noted in the table above are described below:

On a GAAP basis, operating loss improved compared to the prior year due to higher sales and lower post-divestiture transition costs, partially offset by incremental expenses associated with restructuring activities undertaken in response to the effects the COVID-19 pandemic had on our business.

Items impacting operating results include:

COVID-19 related expenses: As a result of the ongoing COVID-19 pandemic, we have incurred incremental expenses for additional personal protective equipment for our manufacturing employees, sanitation at our facilities and other costs. We incurred $0.3 million and $7.9 million of COVID-19 related costs in the year ended December 31, 2021 and 2020, respectively.

2020 Restructuring charges: As previously described under "2020 Restructuring," we incurred $12.4 million and $27.6 million in the years ended December 31, 2021 and 2020, respectively, for restructuring activities that we initiated in the fourth quarter of 2020.

Post divestiture restructuring charges: As previously described under "Restructuring Activities," these charges were associated with a multi-phase restructuring plan intended to align our organizational structure, IT platform, supply chain and distribution channels to be more appropriate for our business following the divestiture. As of December 31, 2021, restructuring activities associated with the Plan were substantially complete.

Post divestiture transition charges: Post divestiture transition costs in 2021 are primarily related to rebranding activities. 2021 rebranding costs of $3.9 million includes $3.3 million of write-offs for Halyard-branded inventory that could not be sold after the transition to the Avanos brand. In 2020, costs included $7.6 million of rebranding costs, including $5.9 million of Halyard-branded inventory write-offs, $5.7 million of incremental IT and personnel costs incurred to provide accounting and administrative services to the buyer of the divested business under TSA arrangements, partially offset by $0.8 million billed to the buyer, and $2.4 million of IT separation and various other incremental transition costs. Costs in 2019 included $31.9 million of incremental personnel, IT and other costs incurred in the provision of accounting, administrative and other services to the buyer, partially offset by $3.7 million of billings to the buyer, $15.2 million of IT separation costs, $4.1 million of rebranding costs, including $0.5 million of Halyard-branded inventory write-offs, and $8.8 million to establish new distribution centers and other costs. All of the costs incurred for post-divestiture transition were incremental costs incurred to provide transition support to the divested business and do not include any costs to support our normal and recurring business requirements. All transition-related activities and costs were substantially complete by the end of 2021.

Acquisition and integration-related charges: We incurred $1.6 million, $12.5 million and $13.1 million of costs in connection with acquisition and integration activities for the years ended December 31, 2021, 2020 and 2019, respectively. For the years ended December 31, 2020 and 2019, acquisition and integration-related costs includes $0.5 million and $9.1 million, respectively, of restructuring costs that are previously described under "Integration of Business Acquisitions." The acquisitions of Game Ready, EndoClear, Summit and NeoMed are previously described under "Business Acquisitions."

European Union Medical Device Regulation ("EU MDR") Compliance: The EU MDR became effective in 2021 and brings significant new requirements for many of our medical devices. Incremental costs associated with EU MDR compliance are primarily related to re-certification of our products under the enhanced standards. We expect the activities resulting in incremental costs associated with our initial compliance with the EU MDR will be substantially complete by the end of 2022.

Litigation and legal: We incurred $15.0 million, $27.5 million and $22.5 million of expenses for certain litigation matters in the years ended December 31, 2021, 2020 and 2019, respectively, which are included in "Other expense, net." In 2021, costs include amounts associated with a $22.2 million payment related to a Deferred Prosecution Agreement ("DPA") with the United Sates Department of Justice ("DOJ") described in "Commitments and Contingencies" in Note 13 to the consolidated financial statements in Item 8 of this report. In 2020, costs include incremental amounts associated with a $25.0 million payment to amicably resolve our dispute with Kimberly-Clark described in "Commitments and Contingencies" in Note 13 to the consolidated financial statements in Item 8 of this report.

Intangibles amortization: Intangibles amortization is related primarily to intangibles acquired in prior business acquisitions and was $16.7 million, $19.4 million and $20.0 million, respectively, in the years ended December 31, 2021, 2020 and 2019.

Our non-GAAP measures excludes certain items, as applicable, for the relevant time periods as indicated in the "Operating Profit" table above. The excluded items include:

- Incremental expenses associated with altering operations in response to the COVID-19 pandemic.
- Expenses associated with restructuring activities, including IT-related charges.
- Expenses associated with post-divestiture transition activities.
- The gain on sale and associated expenses related to the divestiture of the S&IP business.
- Certain acquisition and integration charges related to the acquisitions of Game Ready, NeoMed, Summit and Endoclear.
- Expenses associated with certain litigation matters.
- The amortization of intangible assets associated with prior business acquisitions.

Interest Expense

Interest expense was $3.3 million, $15.6 million and $15.0 million in the years ended December 31, 2021, 2020 and 2019, respectively. Interest expense for 2020 includes an early extinguishment loss of $1.3 million incurred upon redemption of our Senior Secured Notes on October 15, 2020. Accordingly, interest expense was lower in 2021 compared to 2020 and 2019. In the years ended December 31, 2021, 2020 and 2019, $0.1 million, $0.1 million and $1.8 million, respectively, of interest was capitalized on long-term capital projects. Interest expense consists of interest accrued and amortization of debt discount and issuance costs on our long-term debt. See "Debt" in Note 8 to the consolidated financial statements in Item 8 of this report for further discussion of our indebtedness.

Provision for Income Taxes

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), enacted in March 2020, allows for the carryback of U.S. net operating losses, which were expected to be used in future years to prior years, resulting in a $2.8 million benefit in the year ended December 31, 2021 and a $25.1 million benefit in the year ended December 31, 2020. As a result, as of December 31, 2020, we had $49.0 million of income tax receivables, most of which was collected in the year ended December 31, 2021. As of December 31, 2021, we had $5.1 million of income tax receivables.

Our overall effective tax rate was 10% for the year ended December 31, 2021 compared to a benefit of 55% in 2020 and 28% in 2019. The primary drivers in the change in our effective tax rate was the CARES Act in 2020. See "Income Taxes" in Note 9 to the consolidated financial statements in Item 8 of this report for further details regarding our income taxes.

Liquidity and Capital Resources

General

Our primary sources of liquidity are cash on hand provided by operating activities and amounts available with our senior secured revolving credit facility under our existing credit agreement. Our operating cash flow has historically been sufficient to meet our working capital requirements and fund capital expenditures. We anticipate that our current cash position and our ability to generate cash flows from domestic and international operations will provide sufficient liquidity to manage the

business and fund working capital requirements during this uncertainty without using our available borrowing capacity. In addition, with our borrowing capacity, we expect to have the ability to fund capital expenditures and other investments necessary to grow our business for the foreseeable future for both our domestic and international operations.

As of December 31, 2021, $59.9 million of our $118.5 million of cash and cash equivalents was held by foreign subsidiaries. We consider the undistributed earnings of our foreign subsidiaries to be indefinitely reinvested and currently do not have plans to repatriate such earnings. See further discussion below in "Critical Accounting Policies and Use of Estimates" under "Income Taxes." We do not expect restrictions on repatriation of cash held outside of the United States to have a material effect on our overall liquidity, financial condition or results of operations for the foreseeable future.

Cash and equivalents increased by $7.0 million to $118.5 million as of December 31, 2021 compared to $111.5 million last year. The increase was driven by $87.3 million of cash provided by operating activities and $20.0 million of proceeds from our revolving credit facility partially offset by $70.0 million of repayments on our revolving credit facility, $21.0 million of capital expenditures and $11.5 million used to purchase treasury stock.

Cash and equivalents decreased by $93.8 million to $111.5 million as of December 31, 2020 compared to $205.3 million as of December 31, 2019. The decrease was driven by the retirement of our Senior Unsecured Notes (the "Notes") for $249.8 million partially offset by $180.0 million of net line of credit facility proceeds, which were primarily used to retire the Notes.

Long-Term Debt

The amount available for borrowing with the senior secured revolving credit facility under the existing credit agreement is $250.0 million, with a letter of credit sub-facility of $25.0 million. As of December 31, 2021, we had $130.0 million owing and letters of credit of $1.3 million issued under the senior secured revolving credit facility. The senior secured revolving credit facility, which matures on October 30, 2023, requires compliance with certain customary operational and financial covenants. To the extent we remain in compliance with certain financial covenants in the senior secured revolving credit facility, we have the ability to access it.

On January 20, 2022, we incurred $125.0 million of term loans (the "Tranche A Term Loans") under an incremental agreement dated as of December 22, 2021, which supplemented the existing credit agreement. The proceeds of the Tranche A Term Loans were used to fund a portion of the purchase price and to pay fees and expenses related to the OrthogenRx, Inc. acquisition which is described further in Note 5, "Business Acquisition" in Item 8 of this report.

For further information regarding our debt arrangements, see "Debt" in Note 8 to the consolidated financial statements in Item 8 of this report.

Share Repurchase Program

On December 15, 2021, we announced that our Board of Directors had approved a share repurchase program authorizing us to repurchase up to $30 million of our common stock. In the fourth quarter of 2021, we repurchased $10.7 million, and during January 2022 we repurchased the remaining $19.3 million. For further information, see "Share Repurchase Program" in Note 16 to the consolidated financial statements in Item 8 of this report.

Contractual Obligations

In the normal course of business, we enter into contracts and commitments that obligate us to make payments in the future. Information regarding our obligations under lease and debt arrangements and defined benefit plans are provided in Notes 6, 8, and 10, respectively, to the consolidated financial statements contained in Item 8 of this report. For obligations under our purchase arrangements which consist mostly of open purchase orders and other commitments, as of December 31, 2021, we have amounts due in less than one year of $16.6 million, $61.6 million in one to three years, and none thereafter.

Critical Accounting Policies and Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. The critical accounting policies we used in the preparation of the consolidated and financial statements are those that are important both to the presentation of our financial condition and results of operations and require significant judgments by management with regard to estimates used. The critical judgments by management relate to distributor rebate accruals, future cash flows associated with impairment testing for goodwill and long-lived assets, loss contingencies and deferred income taxes and potential tax assessments.

Use of Estimates

We prepare our consolidated financial statements in accordance with GAAP, which requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported

amounts of net sales and expenses during the reporting periods. Estimates are used in accounting for, among other things, certain amounts included in discontinued operations, certain amounts included in assets and liabilities held for sale, distributor rebate accruals, future cash flows associated with impairment testing for goodwill and long-lived assets, loss contingencies, and deferred tax assets and potential income tax assessments. Our estimates are subject to uncertainties associated with the ongoing COVID-19 pandemic. Actual results could differ from these estimates, and the effect of the change could be material to our financial statements. Changes in these estimates are recorded when known.

Revenue Recognition

Sales revenue is recognized at the time of product shipment or delivery of our products to unaffiliated customers, depending on shipping terms. Accordingly, control of the products transfers to the customer in accordance with the transaction's shipping terms. Sales revenue is recognized for the amount of considerations that we expect to be entitled to receive in exchange for our products. Sales are reported net of returns, rebates, incentives, each as described below, and freight allowed. Taxes imposed by governmental authorities on our revenue-producing activities with customers, such as sales taxes and value-added taxes, are excluded from net sales. Our contracts provide for forms of variable consideration including rebates, incentives and pricing tiers, each of which are described further in Note 1 "Accounting Policies" in Item 8 of this report.

Loss Contingencies

The outcome of loss contingencies, legal proceedings, indemnification matters and claims brought against us is subject to uncertainty. An estimated loss contingency is accrued by a charge to earnings if it is probable that an asset has been impaired or a liability has been incurred and the amount can be reasonably estimated. Determination of whether to accrue a loss requires evaluation of the probability of an unfavorable outcome and the ability to make a reasonable estimate. Changes in these estimates could affect the timing and amount of accrual of loss contingencies.

Income Taxes

We recognize tax benefits in our financial statements when our uncertain tax positions are more likely than not to be sustained upon audit. The amount we recognize is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

We recognize deferred tax assets for deductible temporary differences, operating loss carry-forwards and tax credit carry-forwards. We record valuation allowances to reduce deferred tax assets to amounts that are more likely than not to be realized. In assessing the need for a valuation allowance, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses. This assessment, which is completed on a taxing jurisdiction basis, takes into account a number of types of evidence, including the nature, frequency, and severity of current and cumulative financial reporting losses, sources of future taxable income, taxable income in prior carryback year(s) and tax planning strategies.

If it is determined that we would be able to realize deferred tax assets in the future in excess of our net recorded amount, an adjustment to the net deferred tax asset would increase income in the period that such determination was made. Likewise, should we determine that we would not be able to realize all or part of the net deferred tax assets in the future, an adjustment to the net deferred tax asset would decrease income in the period such determination was made. We regularly evaluate the need for valuation allowances against its deferred tax assets.

As of December 31, 2021, we have accumulated undistributed earnings generated by our foreign subsidiaries of approximately $34.5 million. Certain earnings were previously subject to tax due to the one-time transition tax of the Tax Cuts and Jobs Act of 2017. Any additional impacts due with respect to the previously-taxed earnings, if repatriated, would generally be limited to foreign withholding tax, U.S. state income tax and the tax effect of certain foreign exchange adjustments. We intend, however, to indefinitely reinvest these earnings and expect future U.S. cash generation to be sufficient to meet U.S. cash needs. At this time, the determination of deferred tax liabilities on the amount of financial reporting over tax basis is not practicable.

Legal Matters

A description of legal matters can be seen in "Commitments and Contingencies" in Note 13 to the consolidated financial statements in Item 8 of this report.

Information Concerning Forward-Looking Statements

This Annual Report on Form 10-K and other materials we have filed or furnished or will file or furnish with the SEC (as well as information included in our oral or other written statements) contain, or will contain, certain "forward-looking statements," within the meaning of the Private Securities Litigation Reform Act of 1995, regarding business strategies, market potential, future financial performance and other matters. Forward-looking statements include all statements that do not relate solely to

historical or current facts, and can generally be identified by the use of words such as “may,” “believe,” “will,” “expect,” “project,” “estimate,” “anticipate,” “plan” or “continue” and similar expressions, among others. The matters discussed in these forward-looking statements are based on the current plans and expectations of our management and are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied in the forward-looking statements. These factors include, but are not limited to:

- general economic conditions particularly in the United States,
- fluctuations in global equity and fixed-income markets,
- risks related to the ongoing COVID-19 pandemic,
- the competitive environment,
- the loss of current customers or the inability to obtain new customers,
- litigation and enforcement actions,
- price fluctuations in key commodities,
- fluctuations in currency exchange rates,
- disruption in supply of raw materials or the distribution of finished goods,
- changes in governmental regulations that are applicable to our business,
- changes in asset valuations including write-downs of assets such as inventory, accounts receivable or other assets for impairment or other reasons, and
- the other matters described under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Where, in any forward-looking statement, an expectation or belief as to future results or events is expressed, such expectation or belief is based on the current plans and expectations of our management and expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. Any forward-looking statement made by us in this Annual Report on Form 10-K speaks only as of the date of this report. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by applicable securities laws.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to risks such as changes in foreign currency exchange rates and commodity prices. A variety of practices are employed to manage these risks, including derivative instruments where deemed appropriate. Derivative instruments are used only for risk management purposes and not for speculation. All foreign currency derivative instruments are entered into with major financial institutions. Our credit exposure under these arrangements is limited to agreements with a positive fair value at the reporting date. Credit risk with respect to the counterparties is actively monitored but is not considered significant.

Presented below is a description of our risk together with a sensitivity analysis, performed annually, based on selected changes in market rates and prices. These analyses reflect management’s view of changes which are reasonably possible to occur over a one-year period. Also included is a description of our commodity price risk.

Interest Rate Risk

Our senior secured revolving credit facility under our existing credit agreement, which allows for borrowings up to $250.0 million is subject to a variable interest rate based on SOFR. As of December 31, 2021, a one percentage point increase in SOFR could result in $2.5 million of incremental interest expense if the senior secured revolving credit facility was fully drawn for the entire year.

Foreign Currency Risk

Foreign currency risk is managed by foreign currency forward and swap contracts for a limited portion of our exposure. The use of these instruments allows the management of transactional exposures to exchange rate fluctuations because the gains or losses incurred on the derivative instruments will offset, in whole or in part, losses or gains on the underlying foreign currency exposure.

Foreign currency contracts and transactional exposures are sensitive to changes in foreign currency exchange rates. An annual test is performed to quantify the effects that possible changes in foreign currency exchange rates would have on annual operating profit based on our foreign currency contracts and transactional exposures at the current year-end. The balance sheet

effect is calculated by multiplying each affiliate's net monetary asset or liability position by a 10% change in the foreign currency exchange rate versus the U.S. dollar. The results of these sensitivity tests are presented in the following paragraph.

As of December 31, 2021, a 10% change in the exchange rate of the U.S. dollar against the prevailing market rates of foreign currencies involving balance sheet transactional exposures would have an effect of $0.4 million to our consolidated financial position, results of operations and cash flows. These hypothetical effects on transactional exposures are based on the difference between the December 31, 2021 rates and the assumed rates.

The translation of the balance sheets of non-U.S. operations from local currencies into U.S. dollars is also sensitive to changes in foreign currency exchange rates. Consequently, an annual test is performed to determine if changes in currency exchange rates would have a significant effect on the translation of the balance sheets of non-U.S. operations into U.S. dollars. These translation gains or losses are recorded as unrealized translation adjustments ("UTA") within stockholders' equity. The hypothetical change in UTA is calculated by multiplying the net assets of these non-U.S. operations by a 10% change in the currency exchange rates.

As of December 31, 2021, a 10% change in the exchange rate of the U.S. dollar against the prevailing market rates of our foreign currency translation exposures would have impacted stockholders' equity by approximately $11.5 million. These hypothetical adjustments in UTA are based on the difference between the December 31, 2021 exchange rates and the assumed rates. In the view of management, the above UTA adjustments resulting from these assumed changes in foreign currency exchange rates are not material to our consolidated financial position because they would not affect our cash flow.

Commodity Price Risk

We are subject to commodity price risk for certain raw materials used in the manufacture of our products. As previously discussed under "Risk Factors," increases in commodities prices could adversely affect our earnings if selling prices are not adjusted or if such adjustments significantly trail the increases in commodities prices.

Our energy, manufacturing and transportation costs are affected by various market factors including the availability of supplies of particular forms of energy, energy prices and local and national regulatory decisions. As previously discussed in "Risk Factors," there can be no assurance we will be fully protected against substantial changes in the price or availability of energy sources. In addition, we are subject to price risk for utilities and manufacturing inputs, which are used in our manufacturing operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

AVANOS MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
(in millions, except per share amounts)

	Year Ended December 31,		
	2021	**2020**	**2019**
Net Sales	**$ 744.6**	$ 714.8	$ 697.6
Cost of products sold	**380.3**	341.5	295.4
Gross Profit	**364.3**	373.3	402.2
Research and development	**32.3**	34.9	37.7
Selling and general expenses	**300.3**	332.6	399.1
Other expense, net	**22.8**	51.9	21.1
Operating Income (Loss)	**8.9**	(46.1)	(55.7)
Interest income	**0.2**	1.2	6.7
Interest expense	**(3.3)**	(15.6)	(15.0)
Income (Loss) Before Income Taxes	**5.8**	(60.5)	(64.0)
Income tax (provision) benefit	**(0.6)**	33.3	18.1
Net Income (Loss)	**$ 5.2**	$ (27.2)	$ (45.9)
Earnings (Loss) Per Share			
Basic Earnings (Loss) Per Share	**$ 0.11**	$ (0.57)	$ (0.96)
Diluted Earnings (Loss) Per Share	**$ 0.11**	$ (0.57)	$ (0.96)

See Notes to the Consolidated Financial Statements.

AVANOS MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(in millions)

	Year Ended December 31,		
	2021	**2020**	**2019**
Net Income (Loss)	**$ 5.2**	$ (27.2)	$ (45.9)
Other Comprehensive Income (Loss), Net of Tax			
Defined benefit plans	**0.4**	0.2	(1.1)
Unrealized currency translation adjustments	**(6.1)**	3.8	2.8
Cash flow hedges	**—**	(0.1)	—
Total Other Comprehensive (Loss) Income, Net of Tax	**(5.7)**	3.9	1.7
Comprehensive (Loss) Income	**$ (0.5)**	$ (23.3)	$ (44.2)

See Notes to the Consolidated Financial Statements.

AVANOS MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	As of December 31,	
	2021	**2020**
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 118.5**	$ 111.5
Accounts receivable, net of allowances	**118.2**	108.6
Income tax receivable	**13.0**	59.3
Inventories	**150.3**	168.9
Prepaid and other current assets	**18.6**	18.9
Total Current Assets	**418.6**	467.2
Property, Plant and Equipment, net	**168.1**	175.3
Operating Lease Right-of-Use Assets	**38.6**	48.3
Goodwill	**801.6**	802.5
Other Intangible Assets, net	**141.2**	157.7
Deferred Tax Assets	**10.0**	10.0
Other Assets	**16.5**	11.8
TOTAL ASSETS	**$ 1,594.6**	$ 1,672.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of operating lease liabilities	**$ 14.7**	$ 15.5
Trade accounts payable	**56.4**	67.6
Accrued expenses	**68.1**	83.2
Total Current Liabilities	**139.2**	166.3
Long-Term Debt	**130.0**	180.0
Operating Lease Liabilities	**42.8**	53.3
Deferred Tax Liabilities	**9.6**	5.7
Other Long-Term Liabilities	**9.1**	11.0
Total Liabilities	**330.7**	416.3
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock - $0.01 par value - authorized 20,000,000 shares, none issued	**—**	—
Common stock - $0.01 par value - authorized 300,000,000 shares, 48,206,156 outstanding at December 31, 2021 and 47,917,583 outstanding at December 31, 2020	**0.5**	0.5
Additional paid-in capital	**1,628.8**	1,609.4
Accumulated deficit	**(310.3)**	(315.5)
Treasury stock	**(21.3)**	(9.8)
Accumulated other comprehensive loss	**(33.8)**	(28.1)
Total Stockholders' Equity	**1,263.9**	1,256.5
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 1,594.6**	$ 1,672.8

See Notes to the Consolidated Financial Statements.

AVANOS MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in millions, shares in thousands)

	Common Stock Issued		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount			Shares	Amount		
Balance at December 31, 2018	47,444	$ 0.5	$ 1,578.1	$ (242.4)	132	$ (5.3)	$ (33.7)	$ 1,297.2
Net loss	—	—	—	(45.9)	—	—	—	(45.9)
Issuance of common stock upon the exercise or redemption of share-based awards	290	—	5.3	—	—	—	—	5.3
Stock-based compensation expense	—	—	10.5	—	—	—	—	10.5
Purchases of treasury stock	—	—	—	—	74	(3.6)	—	(3.6)
Other comprehensive income, net of tax	—	—	—	—	—	—	1.7	1.7
Balance at December 31, 2019	47,734	0.5	1,593.9	(288.3)	206	(8.9)	(32.0)	1,265.2
Net loss	—	—	—	(27.2)	—	—	—	(27.2)
Issuance of common stock upon the exercise or redemption of share-based awards	184	—	3.4	—	—	—	—	3.4
Stock-based compensation expense	—	—	12.1	—	—	—	—	12.1
Purchases of treasury stock	—	—	—	—	25	(0.9)	—	(0.9)
Other comprehensive income, net of tax	—	—	—	—	—	—	3.9	3.9
Balance at December 31, 2020	47,918	0.5	1,609.4	(315.5)	231	(9.8)	(28.1)	1,256.5
Net income	**—**	**—**	**—**	**5.2**	**—**	**—**	**—**	**5.2**
Issuance of common stock upon the exercise or redemption of share-based awards	**288**	**—**	**6.2**	**—**	**—**	**—**	**—**	**6.2**
Stock-based compensation expense	**—**	**—**	**13.2**	**—**	**—**	**—**	**—**	**13.2**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**349**	**(11.5)**	**—**	**(11.5)**
Other comprehensive income, net of tax	**—**	**—**	**—**	**—**	**—**	**—**	**(5.7)**	**(5.7)**
Balance at December 31, 2021	**48,206**	**$ 0.5**	**$ 1,628.8**	**$ (310.3)**	**580**	**$ (21.3)**	**$ (33.8)**	**$ 1,263.9**

See Notes to the Consolidated Financial Statements.

AVANOS MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
(in millions)

	Year Ended December 31,		
	2021	**2020**	**2019**
Operating Activities			
Net income (loss)	**$ 5.2**	$ (27.2)	$ (45.9)
Depreciation and amortization	**38.3**	42.9	36.9
Stock-based compensation	**13.2**	12.1	10.5
Asset impairments	**7.9**	21.5	—
Net losses on asset dispositions	**0.1**	2.2	0.6
Changes in operating assets and liabilities, net of acquisition			
Accounts receivable	**(10.8)**	45.8	(0.8)
Inventories, net of allowance	**17.2**	(21.8)	(21.3)
Prepaid expenses and other assets	**(1.9)**	1.4	30.8
Accounts payable	**(11.9)**	(18.9)	(83.6)
Accrued expenses	**33.4**	(74.3)	15.3
Deferred income taxes and other	**(3.4)**	13.8	(17.0)
Cash Provided by (Used in) Operating Activities	**87.3**	(2.5)	(74.5)
Investing Activities			
Capital expenditures	**(21.0)**	(20.2)	(50.6)
Acquisition of assets and businesses, net of cash acquired	**—**	—	(57.5)
Acquisition of minority interest investment	**—**	(4.0)	—
Cash (Used in) Provided by Investing Activities	**(21.0)**	(24.2)	(108.1)
Financing Activities			
Debt repayments	**—**	(249.8)	(0.2)
Line of credit facility proceeds	**20.0**	185.0	—
Line of credit facility repayments	**(70.0)**	(5.0)	—
Purchase of treasury stock	**(11.5)**	(0.9)	(3.6)
Proceeds from the exercise of stock options	**6.2**	3.4	5.3
Payment of contingent consideration liabilities	**—**	(2.7)	—
Cash (Used in) Provided by Financing Activities	**(55.3)**	(70.0)	1.5
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(4.0)**	2.9	1.9
Increase (Decrease) in Cash and Cash Equivalents	**7.0**	(93.8)	(179.2)
Cash and Cash Equivalents - Beginning of Year	**111.5**	205.3	384.5
Cash and Cash Equivalents - End of Year	**$ 118.5**	$ 111.5	$ 205.3
Supplemental Cash Flow Disclosure:			
Cash (refund) paid for income taxes	**$ (45.0)**	$ —	$ 8.4
Cash paid for interest	**$ 3.0**	$ 16.8	$ 16.7
Supplemental Noncash Disclosure			
Capital expenditures included in accounts payable or accrued expenses	**$ 5.6**	$ 3.4	$ 11.2

See Notes to the Consolidated Financial Statements.

AVANOS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Accounting Policies

Avanos Medical, Inc. is a medical technology company focused on delivering clinically superior breakthrough medical device solutions to improve patients' quality of life. Headquartered in Alpharetta, Georgia, Avanos is committed to addressing some of today's most important healthcare needs, such as reducing the use of opioids while helping patients move from surgery to recovery. We develop, manufacture and market clinically superior solutions in more than 90 countries. References to "Avanos," "Company," "we," "our" and "us" refer to Avanos Medical, Inc. and its consolidated subsidiaries.

Principles of Consolidation

The consolidated financial statements include our net assets, results of our operations and cash flows. All intercompany transactions and accounts within our consolidated businesses have been eliminated. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

Preparation of consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting periods. Estimates are used in accounting for, among other things, distributor rebate accruals, future cash flows associated with impairment testing for goodwill and long-lived assets, loss contingencies, and deferred tax assets and potential income tax assessments. Our estimates are subject to uncertainties associated with the ongoing COVID-19 pandemic which has caused volatility and adverse effects in global markets. Actual results could differ from these estimates, and the effect of the change could be material to our financial statements. Changes in these estimates are recorded when known.

Cash Equivalents

Cash equivalents are short-term investments with an original maturity date of three months or less. We maintain cash balances and short-term investments in excess of insurable limits in a diversified group of major banks that are selected and monitored based on ratings by the major rating agencies in accordance with our treasury policy.

Inventories and Distribution Costs

Most U.S. inventories are valued at the lower of cost, using the Last-In, First-Out ("LIFO") method, or market. The balance of the U.S. and non-U.S. inventories are valued at the lower of cost (determined on the First-In, First-Out ("FIFO") or weighted-average cost methods) or market. Distribution costs are classified as cost of products sold.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost and depreciated on the straight-line method. Buildings are depreciated over their estimated useful lives, primarily 40 years. Machinery and equipment are depreciated over their estimated useful lives, primarily ranging from 16 to 20 years. Leasehold improvements are depreciated over the assets' estimated useful lives, or the remaining lease term, whichever is shorter. Purchases of computer software, including external costs and certain internal costs (including payroll and payroll-related costs of employees) directly associated with developing significant computer software applications for internal use, are capitalized. Computer software costs are amortized on the straight-line method over the estimated useful life of the software, which is generally three to nine years. Depreciation expense is recorded in cost of products sold, research and development and selling and general expenses.

Estimated useful lives are periodically reviewed, and when warranted, changes are made to them. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss would be indicated when estimated undiscounted future cash flows from the use and eventual disposition of an asset group, which are identifiable and largely independent of the cash flows of other asset groups, are less than the carrying amount of the asset group. Measurement of an impairment loss would be based on the excess of the carrying amount of the asset group over its fair value. Fair value is measured using discounted cash flows or independent appraisals, as appropriate. When property is sold or retired, the cost of the property and the related accumulated depreciation are removed from the consolidated balance sheet and any gain or loss on the transaction is included in income.

Goodwill and Other Intangible Assets

Goodwill is tested for impairment annually and whenever events and circumstances indicate that impairment may have occurred. The evaluation of goodwill involves comparing the current fair value of a reporting unit to its carrying value, including goodwill. We operate as a single operating segment with one reporting unit, and accordingly, our annual goodwill impairment test was based on an evaluation of the fair value of our Company as a whole, using a combination of income and

market capitalization approaches. We completed the required annual goodwill impairment test as of July 1, 2021, and the fair value was substantially in excess of net asset carrying value.

Intangible assets with finite lives are amortized over their estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Estimated useful lives range from 7 to 30 years for trademarks, 7 to 17 years for patents and acquired technologies, and 2 to 16 years for other intangible assets. An impairment loss would be indicated when estimated undiscounted future cash flows from the use of the asset are less than its carrying amount. An impairment loss would be measured as the difference between the fair value (based on discounted future cash flows) and the carrying amount of the asset.

Revenue Recognition and Accounts Receivable

Sales revenue is recognized at the time of product shipment or delivery of our products to unaffiliated customers, depending on shipping terms. Accordingly, control of the products transfers to the customer in accordance with the transaction's shipping terms. Sales revenue is recognized for the amount of consideration that we expect to be entitled to receive in exchange for our products. Sales are reported net of returns, rebates, incentives, each as described below, and freight allowed. Taxes imposed by governmental authorities on our revenue-producing activities with customers, such as sales taxes and value-added taxes, are excluded from net sales.

We provide medical products to distributors or end-user customers under supply agreements under which customers may place purchase orders for a variety of our products at specified pricing over a specified term, usually three years. While our sales and marketing efforts are directed to hospitals or other healthcare providers, our products are generally sold through third-party distribution channels.

Under our contracts with customers, our performance obligations are normally limited to shipment or delivery of products to a customer upon receipt of a purchase order. We bill our customers, depending on shipping terms, upon shipment or delivery of the products to the customer.

Amounts billed are typically due within 30 days, with a 1% discount allowed for distributors if payments are made within 15 days. We estimate cash discounts based on historical experience and record the cash discounts as an allowance to trade receivables. The allowance for this cash discount is disclosed in "Supplemental Balance Sheet Information" under "Accounts Receivable" in Note 4. The differences between estimated and actual cash discounts are generally not material.

We allow for returns within a specified period of time, based on our standard terms and conditions, following customers' receipt of the goods and estimate a liability for returns based on historical experience. The liability for estimated returns was $0.1 million and $0.1 million, respectively, as of December 31, 2021 and 2020. The differences between estimated and actual returns are generally not material.

Our contracts provide for forms of variable consideration including rebates, incentives and pricing tiers, each of which are described below:

Distributor Rebates - Sales to distributors, on a global basis, represents approximately 57% of our consolidated net sales. We provide for rebates on gross sales to distributors for differences between list prices and average end-user customer prices. Rebate rates vary widely (typically between 10% and 35%) between our product families. A liability for distributor rebates is estimated based on a moving average of rebate rates, specific customer trends, contractual provisions, historical experience and other relevant factors. The liability for estimated rebates was $14.3 million and $8.9 million, respectively, as of December 31, 2021 and 2020. Differences between our estimated and actual costs are generally not material and recognized in earnings in the period in the period such differences are determined.

Incentives - Globally, approximately 32% of our consolidated net sales are contracted through group purchasing organizations ("GPOs"). Incentives include fees paid to GPOs or small percentage rebates to distributors in conjunction with the sales volume of our products to end-user customers. A liability for incentives is estimated based on average incentive rates over a period of time. The liability for estimated incentives was $10.2 million and $13.6 million, respectively, as of December 31, 2021 and 2020. Differences between estimated and actual incentives are generally not material and recognized in earnings in the period such differences are determined.

Pricing tiers - In certain of our contracts, pricing is dependent on volumes purchased, with lower pricing given upon meeting certain established purchase volumes. Customers are placed in a pricing tier based on expected purchase volume, which is developed primarily using the customer's purchase history. Depending on the customer's purchases, we may move the customer up or down a tier, upon meeting or failing to meet certain established purchase volumes. Pricing in the new tier is applied to purchase orders prospectively. There are no retrospective adjustments based on movements between pricing tiers.

As of December 31, 2021, we had one customer who individually accounted for more than 10% of our consolidated accounts receivable balance, and one such customer as of December 31, 2020. The provision for doubtful accounts was a net benefit of

$0.5 million for the year ended December 31, 2021 compared to a net expense of $1.7 million for the year ended December 31, 2020. For the year end December 31, 2019, the provision for doubtful accounts was not material.

Foreign Currency Translation

The income statements of foreign operations are translated into U.S. dollars at rates of exchange in effect each month. The balance sheets of these operations are translated at period-end exchange rates, and the differences from historical exchange rates are reflected as unrealized translation adjustments in other comprehensive income.

Research and Development

Research and development expenses are expensed as incurred. Research and development expenses consist primarily of salaries and related expenses for personnel, product trial costs, outside laboratory and license fees, the costs of laboratory equipment and facilities and asset write-offs for equipment that does not reach success in product manufacturing certifications.

Stock-Based Compensation

We have a stock-based Equity Participation Plan and an Outside Directors' Compensation Plan that provide for awards of stock options, stock appreciation rights, restricted stock (and in certain limited cases, unrestricted stock), restricted stock units, performance units and cash awards to eligible employees (including officers who are employees), directors, advisors and consultants. Stock-based compensation is initially measured at the fair value of the awards on the grant date and is recognized in the financial statements over the period the employees are required to provide services in exchange for the awards, with forfeitures accounted for as they occur. The fair value of option awards is measured on the grant date using a Black-Scholes option-pricing model. The fair value of time-based and some performance-based restricted share awards is based on the Avanos stock price at the grant date and the assessed probability of meeting future performance targets. For performance-based restricted share units for which vesting is conditioned upon achieving a measure of total shareholder return, fair value is measured using a Monte Carlo simulation. Generally, new shares are issued to satisfy vested restricted stock units and exercises of stock options. See Note 12, "Stock-Based Compensation."

Income Taxes

We account for income taxes under the asset and liability method of accounting, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Under this method, changes in tax rates and laws are recognized in income in the period such changes are enacted. The provision for federal, state, and foreign income taxes is calculated on income before income taxes based on current tax law and includes the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provision differs from the amounts currently payable because certain items of income and expense are recognized in different reporting periods for financial reporting purposes than for income tax purposes. Recording the provision for income taxes requires management to make significant judgments and estimates for matters whose ultimate resolution may not become known until the final resolution of an examination by the Internal Revenue Service (IRS) or state and foreign agencies. If it is more likely than not that some portion, or all, of a deferred tax asset will not be realized, a valuation allowance is recognized.

Recording liabilities for uncertain tax positions involves judgment in evaluating our tax positions and developing the best estimate of the taxes ultimately expected to be paid. We include any related tax penalties and interest in income tax expense.

As of December 31, 2021, we have accumulated undistributed earnings generated by our foreign subsidiaries of approximately $34.5 million. Certain earnings were previously subject to tax due to the one-time transition tax of the Tax Cuts and Jobs Act of 2017. Any additional impacts due with respect to the previously-taxed earnings, if repatriated, would generally be limited to foreign withholding tax, U.S. state income tax and the tax effect of certain foreign exchange adjustments. We intend, however, to indefinitely reinvest these earnings and expect future U.S. cash generation to be sufficient to meet U.S. cash needs. At this time, the determination of deferred tax liabilities on the amount of financial reporting over tax basis is not practicable.

Employee Defined Benefit Plans

We recognize the funded status of our defined benefit as an asset or a liability on our balance sheet. Actuarial gains or losses are a component of our other comprehensive income, which is then included in our accumulated other comprehensive income. Pension expenses are recognized over the period in which the employee renders service and becomes eligible to receive benefits. We make assumptions (including the discount rate and expected rate of return on plan assets) in computing the pension expense and obligations.

Recently Adopted Accounting Pronouncements

Effective January 1, 2021, we adopted Accounting Standards Update ("ASU") No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU removed certain exceptions for recognizing deferred taxes for

investments, performing intraperiod allocation and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. Adoption of this ASU did not have a material effect on our financial position, results of operations or cash flows.

In March 2020, the Financial Accounting Standards Board ("FASB") issued ASU No. 2020-04, *Reference Rate Reform.* This ASU was prompted by the planned cessation of the London Interbank Offer Rate ("LIBOR"). This ASU applies to contract modifications that replace a reference rate and contemporaneous modifications of other contract terms related to the replacement of the reference rate. Under this ASU, modifications to debt agreements may be accounted for by prospectively adjusting the effective interest rate. This ASU is effective as of March 12, 2020 through December 31, 2022 and may be applied as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Adoption of this ASU did not have a material effect on our financial position, results of operations or cash flows.

Recently Issued Accounting Pronouncements

In May 2021, the FASB issued ASU No. 2021-04, *Issuers Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options.* This ASU requires accounting for modifications or exchanges of freestanding equity-classified written call options that remain equity-classified after the modification or exchange based on the economic substance of the modification or exchange. The accounting is determined based on whether the transaction was done to issue equity, issue or modify debt or for other reasons. This ASU is to be applied prospectively for years beginning after December 15, 2021. Adoption of this ASU is not expected to have a material effect on our financial position, results of operations or cash flows.

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations: Accounting for Contract Assets and Contract Liabilities from Contracts with Customers.* This ASU pertains to acquired revenue contracts with customers in a business combination and addresses diversity in practice and inconsistency related to recognition of an acquired contract liability and payment terms and their effect on subsequent revenue recognized by the acquirer. This ASU is to be applied prospectively for years beginning after December 15, 2022. Adoption of this ASU is not expected to have a material effect on our financial position, results of operations or cash flows.

Note 2. Restructuring

Our restructuring expenses for the years ended December 31, 2021, 2020 and 2019 are summarized in the table below:

	Year Ended December 31,		
	2021	**2020**	**2019**
Post-Divestiture Restructuring Plan			
Organizational Alignment and IT Transformation	**$ —**	$ (0.6)	17.8
Cost Transformation	**10.2**	2.8	2.3
Total Post-Divestiture Restructuring Plan	**10.2**	2.2	20.1
Integration and Restructuring of Business Acquisitions	**—**	0.5	9.1
2020 Restructuring	**12.4**	27.6	—
Total Restructuring Costs	**$ 22.6**	$ 30.3	$ 29.2

Post-Divestiture Restructuring Plan

In conjunction with the Divestiture, we began a multi-phase restructuring plan (the "Plan") intended to align our organizational structure ("Organizational Alignment"), information technology platform ("IT Transformation") and supply chain and distribution channels ("Cost Transformation") to be more appropriate for the size and scale of our business. Organizational Alignment and IT Transformation are complete. Costs associated with Organizational Alignment and IT Transformation were included in "Cost of products sold" and "Selling and general expenses." Only the final phase of the Plan, Cost Transformation, remained in progress in the year ended December 31, 2021. Expenses incurred for Cost Transformation were included in "Cost of products sold" and "Other expense, net."

The Cost Transformation phase was initiated in June 2019, and is intended to optimize the Company's procurement, manufacturing, and supply chain operations. Cost Transformation expenses were primarily consulting, noncash equipment write-offs and other expenses that were expensed as incurred. From the initiation of the Cost Transformation phase through December 31, 2021, we incurred $15.3 million of costs that were expensed as incurred and $5.4 million of costs that were

capitalized. Costs associated with Cost Transformation are included in "Cost of products sold." The Cost Transformation phase was substantially complete as of December 31, 2021.

Integration of Business Acquisitions

During the third quarter of 2019, we initiated activities to integrate the asset and business acquisitions completed in 2019 and 2018 into our operations, and where appropriate, re-align our organization accordingly. This includes Cool Systems, Inc. ("Game Ready"), which was acquired in 2018 and the 2019 acquisitions of Endoclear, LLC and Summit Medical Products, Inc. Cumulative plan expenses of $9.6 million were primarily for employee retention, severance and benefits and lease termination costs and were included in "Selling and general expenses." The integration of our acquisitions were substantially complete as of December 31, 2020.

2020 Restructuring

In the fourth quarter of 2020, we initiated activities to reduce the size of our senior leadership team, consolidate certain operations within our pain management franchise, exit unprofitable lines of business and reduce the size of our office space to align with expected requirements following the COVID-19 pandemic. Costs were primarily associated with operating lease right-of-use asset impairments or lease terminations, impairment of intangible and other assets and employee severance and benefits. Cumulative plan expenses of $40.0 million were included in in "Cost of products sold," "Selling and general expenses" and "Other expense, net." The 2020 restructuring was substantially complete as of December 31, 2021.

Restructuring Liability

We have a liability for costs associated with our restructuring activities, which is summarized below (in millions):

	As of December 31,	
	2021	**2020**
Balance, beginning of year	**$ 7.2**	$ 8.5
Total restructuring costs, excluding non-cash charges	**12.6**	7.7
Payments and adjustments, net	**(19.7)**	(9.0)
Balance, end of year	**$ 0.1**	$ 7.2

Note 3. Goodwill

We test goodwill for impairment annually or more frequently whenever events or circumstances more likely than not indicate that the fair value of the reporting unit may be below its carrying amount. We operate as a single operating segment with one reporting unit, and accordingly, our annual goodwill impairment test was based on an evaluation of the fair value of our Company as a whole.

We completed our annual impairment test as of July 1, 2021, and based on a combination of income and market capitalization approaches, we determined that our fair value exceeded the net carrying value of our reporting unit.

The changes in the carrying amount of goodwill are as follows (in millions):

Balance at December 31, 2019	$ 800.9
Purchase accounting adjustment[(a)]	0.8
Currency translation adjustment	0.8
Balance at December 31, 2020	802.5
Currency translation adjustment	**(0.9)**
Balance at December 31, 2021	**$ 801.6**

(a) In 2019, we acquired $18.8 million of goodwill in conjunction with the acquisitions of Endoclear and Summit. This goodwill was subsequently increased by $0.8 million after the purchase price allocation was finalized in 2020.

Note 4. Supplemental Balance Sheet Information

Accounts Receivable

Accounts receivable consist of the following (in millions):

	As of December 31,	
	2021	**2020**
Accounts Receivable	**$ 122.0**	$ 113.2
Income tax receivable	**13.0**	59.3
Allowances and doubtful accounts		
Doubtful accounts	**(3.6)**	(4.4)
Sales discounts	**(0.2)**	(0.2)
Accounts receivable, net	**$ 131.2**	$ 167.9

Additional information regarding the income tax receivable is included in "Income Taxes" in Note 9.

Losses on receivables are estimated based on known troubled accounts and historical experience. Receivables are considered impaired and written off when it is probable that payments due will not be collected. Our provision for doubtful accounts was a net benefit of $0.5 million for the year ended December 31, 2021 compared to a net expense of $1.7 million for the year ended December 31, 2020. For the year end December 31, 2019, the provision for doubtful accounts was not material.

Inventories

Inventories at the lower of cost (determined on the LIFO/FIFO or weighted-average cost methods) or market consists of the following (in millions):

	As of December 31,					
	2021			**2020**		
	LIFO	**Non-LIFO**	**Total**	**LIFO**	**Non-LIFO**	**Total**
Raw Materials	**$ 45.6**	**$ 2.1**	**$ 47.7**	$ 43.9	$ 3.1	$ 47.0
Work in process	**33.2**	**—**	**33.2**	32.2	0.1	32.3
Finished goods	**55.7**	**15.9**	**71.6**	73.5	16.9	90.4
Supplies and other	**—**	**6.8**	**6.8**	—	6.7	6.7
	134.5	**24.8**	**159.3**	149.6	26.8	176.4
Excess of FIFO or weighted-average cost over LIFO cost	**(9.0)**	**—**	**(9.0)**	(7.5)	—	(7.5)
Total	**$ 125.5**	**$ 24.8**	**$ 150.3**	$ 142.1	$ 26.8	$ 168.9

We may distribute products bearing the Halyard brand through February 2023 under a royalty agreement we have with Owens & Minor, Inc. As of December 31, 2021, we had $4.4 million of inventory bearing the Halyard brand. Based on management's expectations regarding sales of Halyard-branded products, we recorded an allowance of $3.4 million for the year ended December 31, 2021 compared to $5.9 million in 2020 and $0.5 million in 2019.

Property, Plant and Equipment

Property, plant and equipment consists of the following (in millions):

	As of December 31,	
	2021	2020
Land	**$ 1.1**	$ 1.1
Buildings and leasehold improvements	**48.0**	46.8
Machinery and equipment	**223.2**	218.2
Construction in progress	**32.0**	23.3
	304.3	289.4
Less accumulated depreciation	**(136.2)**	(114.1)
Total	**$ 168.1**	$ 175.3

Property, plant and equipment includes $0.1 million and $0.1 million of interest that was capitalized in the years ended December 31, 2021 and 2020, respectively. There were $5.6 million and $3.4 million of capital expenditures in accounts payable as of December 31, 2021 and 2020, respectively.

For the year ended December 31, 2021, we wrote off approximately $6.0 million of machinery and equipment associated with research and development activities that were curtailed in connection with restructuring activities described under "2020 Restructuring" in Note 2.

Depreciation expense was $21.6 million, $23.5 million and $16.9 million, respectively, in the years ended December 31, 2021, 2020 and 2019. Depreciation expense in the years ended December 31, 2021 and 2020 includes depreciation on $59.3 million of capital that was placed in service in late 2019 associated with (i) implementation of a new IT platform and (ii) post-divestiture network separation.

Intangible Assets

Intangible assets subject to amortization consist of the following (in millions):

	As of December 31,					
	2021			2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks	**$ 90.9**	**$ (64.0)**	**$ 26.9**	$ 90.9	$ (61.2)	$ 29.7
Patents and acquired technologies	**271.7**	**(177.7)**	**94.0**	282.0	(177.2)	104.8
Other	**61.2**	**(40.9)**	**20.3**	61.4	(38.2)	23.2
Total	**$ 423.8**	**$ (282.6)**	**$ 141.2**	$ 434.3	$ (276.6)	$ 157.7

Amortization expense for intangible assets is included in "Cost of products sold" and "Selling and general expenses" and was $16.7 million, $19.4 million and $20.0 million for the years ended December 31, 2021, 2020 and 2019, respectively. In the year ended December 31, 2020, we recorded $7.8 million of impairment on certain acquired patents and technologies which was included in "Other expense, net".

We estimate amortization expense for the next five years and beyond will be as follows (in millions):

For the years ending December 31,	
2022	$ 16.1
2023	15.2
2024	15.1
2025	14.6
2026	14.1
Thereafter	66.1
Total	$ 141.2

Accrued Expenses

Accrued expenses consist of the following (in millions):

	As of December 31,	
	2021	2020
Accrued rebates	**$ 24.5**	$ 22.5
Accrued salaries and wages	**29.3**	36.0
Accrued taxes and other	**3.0**	2.7
Other	**11.3**	22.0
Total	**$ 68.1**	$ 83.2

Other Long-Term Liabilities

Other long-term liabilities consist of the following (in millions):

	As of December 31,	
	2021	2020
Taxes payable	**$ —**	$ 0.4
Accrued compensation benefits	**4.4**	5.8
Other	**4.7**	4.8
Total	**$ 9.1**	$ 11.0

Note 5. Business Acquisition

On January 20, 2022, we acquired all of the equity voting interests and completed the acquisition of OrthogenRx, Inc. ("OrthogenRx"), which is focused on the development and commercialization of treatments for knee pain caused by osteoarthritis and will enhance our chronic pain portfolio. The total purchase price paid was $130.0 million in cash at closing, on a cash-free debt-free basis and subject to adjustments based on the net working capital of OrthogenRx at closing, with an additional $30.0 million payable in contingent cash consideration based on OrthogenRx's growth in net sales during 2022 and 2023. The purchase price was funded by available cash on hand and the proceeds of borrowings, including from the incurrence of a new incremental tranche of term loans of $125.0 million, under the Company's existing senior secured revolving credit facility which is described further in Note 8, "Debt".

Note 6. Leases

Our lease obligations relate primarily to our principal executive offices along with various manufacturing, warehouse and distribution facilities located throughout the world. For leases with terms greater than twelve months, we record an ROU asset and corresponding lease obligation. As of December 31, 2021, all our leasing arrangements were operating leases. Many of our leases include escalating rent payments, renewal options and termination options, which are considered in our determination of straight-line rent expense when appropriate. Many of our leases also include additional amounts for common area maintenance and taxes. We have elected not to separate lease and non-lease components in the determination of straight-line rent expense. For a majority of our leases, an implicit lease rate is not available. Accordingly, we use a rate that approximates our incremental secured borrowing rate.

The table below summarizes information related to ROU assets and lease liabilities that are included in the accompanying consolidated balance sheet (dollars in millions):

	As of December 31,	
	2021	2020
Assets		
Operating lease right-of-use assets	**$ 38.6**	$ 48.3
Liabilities		
Current portion of operating lease liabilities	**14.7**	15.5
Operating lease liabilities	**42.8**	53.3
Total Operating Lease Liabilities	**$ 57.5**	$ 68.8
Weighted average remaining lease term	**6.1 years**	6.5 years
Weighted average discount rate	**4.4 %**	4.3 %

The table below summarizes costs and cash flows arising from our lease arrangements for the year ended December 31, 2021 (in millions):

	Year Ended December 31,	
	2021	2020
Operating lease cost	**$ 13.5**	$ 22.6
Short-term lease cost	**0.5**	1.1
Variable lease cost	**0.8**	0.9
Total lease cost	**$ 14.8**	$ 24.6
Cash paid for amounts included in the measurement of lease liabilities	**$ 16.4**	$ 16.7
Right-of-use assets obtained in exchange for new operating lease liabilities	**$ 1.5**	$ 4.3

The future minimum obligations under operating leases having non-cancelable terms in excess of one year for the next five years and beyond will be (in millions):

For the years ending December 31,	Amount
2022	$ 15.0
2023	12.1
2024	8.6
2025	7.3
2026	6.6
Thereafter	16.0
Future minimum obligations	$ 65.6

ROU Asset Impairment

In the year ended December 31, 2020, in conjunction with integration of recently acquired businesses and 2020 restructuring activities described earlier in Note 2, “Restructuring Activities,” we made efforts to exit certain properties and reduce our office space to align with expected requirements following the COVID-19 pandemic. Accordingly, we recorded $9.6 million of impairment on our ROU assets. The impairment was calculated as either (i) the excess of the ROU asset over the net present value of future sublease rentals to be received for those properties for which we have a sublease agreement, (ii) the excess of the ROU asset over the net present value of estimated future sublease rentals to be received using assumptions regarding market rent rates and timing or (iii) the entire remaining ROU asset for properties where no sublease arrangement was pursued.

Sublease Arrangements

In the year ended December 31, 2020, we entered into sublease arrangements for certain facilities that we vacated during the year. All of the sublease arrangements are accounted for as operating leases, have terms that align with the remaining terms on our original lease agreements and contain escalating rent provisions. In the year ended December 31, 2021, we recorded $0.6 million of rental income, which is included in "Other expense, net." We expect to receive an aggregate of $0.7 million in rental payments over the next 2 years.

Note 7. Fair Value Information

The following fair value information is based on a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels in the hierarchy used to measure fair value are:

Level 1: Unadjusted quoted prices in active markets accessible at the reporting date for identical assets and liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets. Quoted prices for identical or similar assets and liabilities in markets that are not considered active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3: Prices or valuations that require inputs that are significant to the valuation and are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table includes the fair value of our financial instruments for which disclosure of fair value is required (in millions):

		December 31, 2021		December 31, 2020	
	Fair Value Hierarchy Level	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets					
Cash and cash equivalents	1	**$ 118.5**	**$ 118.5**	$ 111.5	$ 111.5
Liabilities					
Senior secured revolving credit facility	2	**130.0**	**130.0**	180.0	180.0

Cash equivalents are recorded at cost, which approximates fair value due to their short-term nature.

The fair value of amounts borrowed under our Revolving Credit Facility approximates carrying value because borrowings are subject to a variable rate as described in "Debt" in Note 8. For the years ended December 31, 2021 and 2020, there were no transfers among Level 1, 2 or 3 fair value determinations. Transfers between levels occur when there are changes in the observability of inputs. Changes between levels are assumed to occur at the beginning of the year.

Note 8. Debt

As of December 31, 2021 and 2020, our debt balances were as follows (in millions):

	Weighted-Average Interest Rate	Maturity	As of December 31, 2021	As of December 31, 2020
Senior secured revolving credit facility	1.60%	2023	**$ 130.0**	$ 180.0

We have a senior secured revolving credit facility under our existing credit agreement that matures on October 30, 2023 which allows for borrowings up to $250.0 million, with a letter of credit sub-facility in an amount of $25.0 million.

Borrowings under the senior secured revolving credit facility bear interest, at our option, at either (i) an adjusted term SOFR rate, plus a margin ranging between 1.50% to 2.25% per annum, depending on our consolidated total leverage ratio, or (ii) the base rate plus a margin ranging between 0.50% to 1.25% per annum, depending on our consolidated total leverage ratio. The unused portion of our senior secured revolving credit facility will be subject to a commitment fee equal to (i) 0.25% per annum, when our consolidated total leverage ratio is less than 2.25 to 1.00 and (ii) 0.375% per annum, otherwise.

As of December 31, 2021, we had $130.0 million outstanding and letters of credit of $1.3 million issued under the senior secured revolving credit facility.

On January 20, 2022, we incurred $125.0 million of term loans (the "Tranche A Term Loans") under an incremental agreement dated as of December 22, 2021, which supplemented the existing credit agreement. The proceeds of the Tranche A Term Loans

were used to fund a portion of the purchase price and to pay fees and expenses related to the OrthogenRx, Inc. acquisition which is described further in Note 5, “Business Acquisition”.

The unpaid principal amount of the Tranche A Term Loans is due and payable by the Company upon the maturity of the existing credit agreement on October 30, 2023. We have the right to voluntarily prepay the Tranche A Term Loans from time to time in accordance with the existing credit agreement. Interest on the Tranche A Term Loans is payable at the same rates set forth above for the senior secured revolving credit facility. The Tranche A Term Loans, together with all other obligations owing under the existing credit agreement including the senior secured revolving credit facility, are secured by substantially all the assets of the Company and certain of its subsidiaries located in the United States and a certain percentage of the capital stock of the Company’s foreign subsidiaries. The other terms and conditions of the Tranche A Term Loans are governed by the existing credit agreement (as amended including as supplemented by the incremental agreement).

Debt Covenants

We are subject to covenants in the existing credit agreement that, among other things, limit our ability and the ability of certain of our subsidiaries to:

- incur additional indebtedness, guarantee indebtedness or issue disqualified stock or preferred stock;
- pay dividends on, repurchase or make distributions in respect of our capital stock or prepay certain subordinated indebtedness;
- make certain investments or acquisitions;
- sell, transfer or otherwise convey certain assets;
- create liens;
- enter into agreements restricting certain subsidiaries’ ability to pay dividends or make other intercompany transfers;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our and our subsidiaries’ assets; and
- enter into transactions with affiliates.

Pursuant to the restrictive covenants that limit our ability to pay dividends, we have the ability to pay dividends, repurchase stock and make investments up to an “Available Amount,” as defined in the credit agreement, provided that we are in compliance with all required covenants, there are no events of default and upon meeting certain financial ratios.

Our existing credit agreement also includes financial covenants which require us not to exceed a certain consolidated net secured leverage ratio and to maintain a consolidated interest coverage ratio above a certain level. These financial covenants are tested quarterly.

As of December 31, 2021, we were in compliance with all of our debt covenants. As of December 31, 2021, our repayment requirements in the next five years includes any balance remaining on our senior secured revolving credit facility and Tranche A Term Loans, which are due on October 30, 2023.

Note 9. Income Taxes

Our income taxes are calculated using the asset and liability method of accounting, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

The provision for income taxes includes federal, state and foreign taxes currently payable and those deferred because of net operating losses and temporary differences between the consolidated financial statements and tax bases of assets and liabilities.

The components of income (loss) before income taxes, and the provision (benefit) for income taxes are as follows (in millions):

	Year Ended December 31,		
	2021	**2020**	**2019**
Income (loss) before income taxes			
United States	**$ 2.8**	$ (50.8)	$ (61.8)
Foreign	**3.0**	(9.7)	(2.2)
Total	**5.8**	(60.5)	(64.0)
Income tax provision (benefit):			
Current:			
United States	**(5.2)**	(47.0)	(3.6)
State	**0.8**	0.4	(0.3)
Foreign	**1.5**	1.7	0.8
Total	**(2.9)**	(44.9)	(3.1)
Deferred:			
United States	**3.5**	13.4	(11.6)
State	**(0.1)**	(1.9)	(3.2)
Foreign	**0.1**	0.1	(0.2)
Total	**3.5**	11.6	(15.0)
Total income tax provision (benefit)	**$ 0.6**	$ (33.3)	$ (18.1)

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted on March 27, 2020. The CARES Act allows for the carryback of U.S. net operating losses, which were expected to be used in future years, to prior years resulting in a $2.8 million and $25.1 million benefit that was recognized in the year ended December 31, 2021 and December 31, 2020, respectively.

As of December 31, 2021, we have accumulated undistributed earnings generated by our foreign subsidiaries of approximately $34.5 million. Certain earnings were previously subject to tax due to the one-time transition tax of the 2017 Tax Cuts and Jobs Act. Any additional impacts due with respect to the previously-taxed earnings, if repatriated, would generally be limited to foreign withholding tax, U.S. state income tax and the tax effect of certain foreign exchange adjustments. We intend, however,

to indefinitely reinvest these earnings and expect future U.S. cash generation to be sufficient to meet U.S. cash needs. At this time, the determination of deferred tax liabilities on the amount of financial reporting over tax basis is not practicable.

Major differences between the federal statutory rate and the effective tax rate are as follows:

	Year Ended December 31,		
	2021	**2020**	**2019**
Federal statutory rate	**21.0 %**	21.0 %	21.0 %
Rate of state income taxes, net of federal tax benefit	**9.4**	2.3	4.5
Statutory rate other than U.S. statutory rate	**7.9**	5.2	(2.0)
Foreign derived intangible income	**—**	—	5.5
Foreign tax credit carryback	**35.3**	—	1.9
Valuation allowance	**17.3**	(9.7)	(1.8)
Uncertain tax positions	**(7.5)**	—	—
Capital Loss Carryback	**(84.1)**	—	—
CARES Act	**(48.8)**	41.5	—
DOJ Deferred Prosecution Agreement	**48.4**	—	—
Nondeductible officer's compensation	**22.3**	(2.0)	(1.0)
U.S. federal research and development credit	**(22.8)**	2.5	3.1
Share based compensation windfall tax deduction	**9.2**	(2.5)	(0.2)
Other, net	**2.4**	(3.3)	(2.7)
Effective tax rate	**10.0 %**	55.0 %	28.3 %

The following is a summary of the significant components of the Company's deferred tax assets and liabilities (in millions):

	As of December 31,	
	2021	**2020**
Deferred tax assets		
Accrued liabilities	**$ 7.9**	$ 13.4
Stock-based compensation	**5.6**	5.9
Net Operating Losses	**18.1**	20.2
Inventories	**—**	1.6
Foreign Tax Credits	**18.6**	17.9
Federal Research Tax Credits	**4.8**	3.5
Operating Lease Obligations	**9.6**	11.5
Other	**4.0**	4.0
	68.6	78.0
Valuation allowance	**(8.4)**	(7.0)
Total deferred tax assets	**60.2**	71.0
Deferred tax liabilities		
Intangibles, net	**28.1**	29.6
Operating Lease Right of Use Assets	**5.1**	6.7
Inventories	**7.1**	—
Property, plant and equipment, net	**18.7**	30.1
Other	**0.8**	0.3
Total deferred tax liabilities	**59.8**	66.7
Net deferred tax assets (liabilities)	**$ 0.4**	$ 4.3

Valuation allowances increased $1.4 million during the year ended December 31, 2021. Valuation allowances at the end of 2021 and 2020 primarily relate to tax credits and income tax loss carryforwards.

Realization of income tax loss carryforwards is dependent on generating sufficient taxable income prior to expiration of these carryforwards. Although realization is not assured, we believe it is more likely than not that all of the deferred tax assets, net of applicable valuation allowances, will be realized. The amount of the deferred tax assets considered realizable could be reduced or increased due to changes in the tax environment or if estimates of future taxable income change during the carryforward period.

At December 31, 2021, we have credit carryforwards for federal income tax purposes of $23.2 million, all of which will expire between 2025 and 2041. We also have net operating loss carryforwards for federal income tax purposes of $17.9 million, of which $10.3 million will expire between 2030 and 2037. The remaining net operating losses are available for carryforward indefinitely.

At December 31, 2021, we have credit carryforwards for state income tax purposes of $1.1 million, of which $0.4 million will expire between 2025 and 2028. We also have net operating loss carryforwards for state income tax purposes of $131.0 million, some of which will expire between 2022 and 2040 and others that will remain available for carryforward indefinitely. We also have certain foreign subsidiaries with net operating loss carryforwards for income tax purposes of $23.7 million, of which $2.1 million will expire in 2029. The remaining net operating losses are available for carryforward indefinitely.

A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows (in millions):

	As of December 31,	
	2021	2020
Beginning of year	**$ 0.5**	$ 0.5
Gross increases for tax positions of prior years	**—**	—
Gross decreases for tax positions of prior years	**—**	—
Decreases for settlements with taxing authorities	**—**	—
Decreases for lapse of the applicable statute of limitations	**(0.5)**	—
End of year	**$ —**	$ 0.5

The amount, if recognized, that would affect our effective tax rate for December 31, 2021 is zero and $0.4 million for December 31, 2020.

We classify interest and penalties on uncertain tax benefits as income tax expense. As of each year ended December 31, 2021 and 2020, before any tax benefits, we had zero and $0.3 million, respectively, of accrued interest and penalties on unrecognized tax benefits.

Federal and state income tax returns are generally subject to examination for a period of three to five years after filing of the respective returns. The state effect of any changes to filed federal positions remains subject to examination by various states for a period of up to two years after formal notification to the states.

Note 10. Employee Benefit Plans

Defined Contribution Plans

Eligible employees participate in our defined contribution plans. Our 401(k) plan and supplemental plan provide for a matching contribution of a U.S. employee's contributions and accruals, subject to predetermined limits. Avanos also has defined contribution pension plans for certain employees outside the U.S. in which eligible employees may participate. We recognized $6.6 million, $7.9 million and $8.4 million, respectively, of expense for our matching contributions to the 401(k) plan in the years ended December 31, 2021, 2020 and 2019, respectively. Our matching contributions to the 401(k) plan are recognized in cost of products sold, research and development and selling and general expenses in our consolidated income statements.

Defined Benefit Plans

Certain plans in our international operations are our direct obligation, and therefore, the related funded status has been recorded within our consolidated balance sheet. These plans are primarily unfunded and the aggregated projected benefit obligation was $3.8 million and $4.9 million as of December 31, 2021 and 2020, respectively. Net periodic pension cost for the years ended December 31, 2021, 2020 and 2019 was $0.8 million, $0.7 million and $0.5 million, respectively. Over the next ten years, we expect gross benefit payments to be $1.1 million in total for the years 2022 through 2026, and $0.3 million in total for the years 2027 through 2031.

Note 11. Accumulated Other Comprehensive Income

The changes in the components of Accumulated Other Comprehensive Income ("AOCI"), net of tax, are as follows (in millions):

	Unrealized Translation	Cash Flow Hedges	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income
Balance, December 31, 2018	$ (34.3)	$ 0.1	$ 0.5	$ (33.7)
Other comprehensive income (loss)	2.8	—	(1.1)	1.7
Balance, December 31, 2019	(31.5)	0.1	(0.6)	(32.0)
Other comprehensive income (loss)	3.8	(0.1)	0.2	3.9
Balance, December 31, 2020	(27.7)	—	(0.4)	(28.1)
Other comprehensive income (loss)	**(6.1)**	**—**	**0.4**	**(5.7)**
Balance, December 31, 2021	**$ (33.8)**	**$ —**	**$ —**	**$ (33.8)**

The net changes in the components of AOCI, including the tax effect, are as follows (in millions):

	Year Ended December 31,		
	2021	**2020**	**2019**
Unrealized translation	**$ (6.1)**	$ 3.8	$ 2.8
Defined benefit pension plans	**0.5**	0.3	(1.4)
Tax effect	**(0.1)**	(0.1)	0.3
Defined benefit pension plans, net of tax	**0.4**	0.2	(1.1)
Cash flow hedges	**—**	(0.1)	—
Tax effect	**—**	—	—
Cash flow hedges, net of tax	**—**	(0.1)	—
Change in AOCI	**$ (5.7)**	$ 3.9	$ 1.7

Note 12. Stock-Based Compensation

The Avanos Medical, Inc. Long Term Incentive Plan and the Avanos Medical, Inc. Outside Directors' Compensation Plan (together, the "Equity Plans") provide for awards of stock options, stock appreciation rights, restricted stock (and in certain limited cases, unrestricted stock), restricted stock units, performance units and cash awards to eligible employees (including officers who are employees), directors, advisors and consultants of Avanos or its subsidiaries. A maximum of 3.9 million shares of Avanos common stock may be issued under the Equity Plans, and there were 1.2 million shares remaining available for issuance as of December 31, 2021.

The Avanos Medical, Inc. Employee Stock Purchase Plan ("ESPP") allows for employee contributions to purchase shares of the Company's common stock at a 15% discount off the closing price at the end of each offering period. The ESPP is available to all employees meeting the eligibility requirements defined in the ESPP. Offering periods will generally be six month periods ending on June 30 and December 31 of each year. Employees may contribute up to 25% of their compensation, subject to a maximum of $25,000 into the ESPP each year. A maximum of 1 million common shares may be issued under the ESPP, and there were 0.9 million shares remaining available as of December 31, 2021.

Stock-based compensation expense is included in "Cost of products sold," "Research and development," and "Sales and general expenses." Stock-based compensation expense for the years ended December 31, 2021, 2020 and 2019 is shown in the table below (in millions):

	Year Ended December 31,		
	2021	**2020**	**2019**
Stock options	**$ 1.9**	$ 2.7	$ 2.9
Time-based restricted share units	**8.9**	6.3	3.7
Performance-based restricted share units	**2.1**	2.8	3.8
Employee stock purchase plan	**0.3**	0.3	0.1
Total stock-based compensation	**$ 13.2**	$ 12.1	$ 10.5

Stock Options

Stock options are granted at an exercise price equal to the fair market value of our common stock on the date of grant. Stock options are generally subject to graded vesting whereby options vest 30% at the end of each of the first two 12-month periods following the grant and 40% at the end of the third 12-month period and have a term of 10 years.

The fair value of stock option awards was determined using a Black-Scholes option-pricing model utilizing a range of assumptions related to volatility, risk-free interest rate, expected term and dividend yield. Expected volatility was based on historical weekly closing stock price volatility for a peer group of companies. The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant. The expected term was based on historical observed settlement behavior. The dividend yield was based on the expectation that no dividends are expected to be paid on our common stock.

There were no options awarded in the year ended December 31, 2021. The weighted-average fair value of options granted in 2020 and 2019 was $9.82 and $11.60, respectively, based on the following assumptions:

	Year Ended December 31,	
	2020	**2019**
Volatility	41%	30%
Risk-free rate	0.3%	2.3%
Expected term (Years)	4	4
Dividend Yield	0%	0%

A summary of stock option activity is presented below:

	Shares (in thousands)	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (Years)**	**Aggregate Intrinsic Value (in millions)**
Outstanding at December 31, 2020	1,473	$ 39.24		
Exercises	(130)	36.76		
Forfeitures	(53)	41.46		
Outstanding at December 31, 2021	1,290	$ 39.40	5.2	$ 2.1
Vested and exercisable at December 31, 2021	1,036	$ 41.03	4.5	$ 1.0

The following table summarizes information about options outstanding as of December 31, 2021:

Range of Exercise Prices	Options Outstanding		Options Exercisable	
	Shares (in thousands)	Weighted-Average Remaining Contractual Term (Years)	Shares (in thousands)	Weighted-Average Exercise Price
$25.00 to $35.00	390	6.8	203	$ 29.55
$35.00 to $45.00	535	5.0	468	39.99
$45.00+	365	3.8	365	48.74
	1,290	5.2	1,036	$ 41.03

Options with aggregate intrinsic values of $1.6 million, $0.7 million and $1.4 million were exercised in the years ending December 31, 2021, 2020 and 2019, respectively. The tax benefits from exercises were not material in 2021, 2020 or 2019. For stock options outstanding at December 31, 2021, we expect to recognize an additional $1.4 million of expense over the remaining average service period of less than one year.

Restricted Share Units

Restricted shares, time-vested restricted share units and performance-based restricted share units granted to employees and directors are valued at the closing market price of our common stock on the grant date with vesting conditions determined upon approval of the award. Time-vested restricted share units are subject to a minimum service period of generally three years.

A summary of time-vested restricted share unit activity is presented below:

	Shares (in thousands)	Weighted Average Fair Value
Outstanding at December 31, 2020	722	$ 34.99
Granted	335	42.16
Vested	(127)	39.58
Forfeited	(90)	37.94
Outstanding at December 31, 2021	840	$ 36.84

For time-vested restricted share units outstanding at December 31, 2021, we expect to recognize an additional $15.3 million of expense over the remaining average service period of two years.

Performance-based restricted share units are subject to achievement of certain service and performance targets over a restricted period of three years. A summary of performance-based restricted share unit activity is presented below:

	Shares (in thousands)	Weighted Average Fair Value
Outstanding at December 31, 2020	—	$ —
Granted	63	47.94
Forfeited	(7)	47.94
Outstanding at December 31, 2021	56	$ 47.94

For performance-based restricted share units outstanding at December 31, 2021, we expect to recognize an additional $2.0 million of expense over the remaining average service period of two years.

We issued restricted share units for which vesting is conditioned on meeting a defined measure of total shareholder return ("TSR units") over a restricted period of three years. Total shareholder return is measured as our stock price performance over the restricted period compared to defined group of peer companies. The expense recognition for TSR units differs from awards with service or performance conditions in that the expense is recognized over the restricted period regardless of whether the total shareholder return target is met or not, while expense for awards with service and performance conditions is recognized based on the number of awards expected to vest. The fair value of TSR units were determined using a Monte Carlo simulation with a volatility assumption based on our average stock-price volatility over the restricted period. No TSR units were awarded in the years ended December 31, 2021 or 2020. The volatility assumption was 29% and the weighted average fair value was $52.36 for awards granted in 2019.

A summary of TSR unit activity is presented below.

	Shares (in thousands)	Weighted Average Fair Value
Outstanding at December 31, 2020	173	$ 59.61
Forfeited	(84)	67.27
Outstanding at December 31, 2021	89	$ 52.36

For TSR units outstanding at December 31, 2021, we expect to recognize an additional $0.5 million of expense over the weighted average remaining restricted period of less than one year.

Note 13. Commitments and Contingencies

Legal Matters

We are subject to various legal proceedings, claims and governmental inspections, audits or investigations pertaining to issues such as contract disputes, product liability, tax matters, patents and trademarks, advertising, governmental regulations, employment and other matters. Under the terms of the distribution agreement we entered into with Kimberly-Clark Corporation ("Kimberly-Clark") prior to our 2014 spin-off from Kimberly-Clark, legal proceedings, claims and other liabilities that are primarily related to our business are our responsibility and we are obligated to indemnify and hold Kimberly-Clark harmless for such matters. For the year ended December 31, 2021, we incurred $15.0 million with respect to such indemnification-related matters, compared to $27.5 million and $22.5 million in the years ended December 31, 2020 and 2019, respectively. Expenses incurred are included in "Other expense, net."

Government Investigation

In June 2015, we were served with a subpoena from the Department of Veterans Affairs Office of the Inspector General ("VA OIG") seeking information related to the design, manufacture, testing, sale and promotion of MicroCool and other surgical gowns produced by the Company. In July 2015, we became aware that the VA OIG subpoena and an earlier VA OIG subpoena served on Kimberly-Clark requesting information about gown sales to the federal government were related to a United States Department of Justice ("DOJ") investigation. In May 2016, April 2017 and September 2018, we received additional subpoenas from the DOJ seeking further information related to the Company's surgical gowns.

On July 6, 2021, we entered into a Deferred Prosecution Agreement ("DPA") with the DOJ that resolved their criminal investigation related to our MicroCool surgical gowns. Pursuant to the terms of the DPA, in July 2021 the Company made a payment of $22.2 million. We continue to comply with the terms of the DPA.

Patent Litigation

We operate in an industry characterized by extensive patent litigation. Competitors may claim that our products infringe upon their intellectual property. Resolution of patent litigation or other intellectual property claims is typically time consuming and costly and can result in significant damage awards and injunctions that could prevent the manufacture and sale of the affected products or require us to make significant royalty payments in order to continue selling the affected products.

At any given time, we may be involved as either a plaintiff or a defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time.

On November 4, 2019, we filed the matter styled *Avanos Medical Sales LLC v Medtronic Sofamor Danek USA, Inc., et al.* (No. 2:19-cv-02754-JPM-TMP (W.D. Tenn.)), alleging that Medtronic's manufacture, marketing, sale and importation of the Accurian cooled radiofrequency ablation system infringes certain claims of U.S. Patent 8,822,755. On June 1, 2020, Medtronic petitioned the U.S. Patent and Trademark Office ("USPTO") for an inter partes review ("IPR") of the patent at issue in the litigation. On October 23, 2020, the USPTO instituted an IPR. On August 27, 2021, the USPTO issued a Final Written Decision upholding the patentability of our patent.

On October 15, 2021, the parties resolved the dispute between them by signing a settlement and license agreement ("Medtronic Settlement Agreement"). Pursuant to the Medtronic Settlement Agreement, Medtronic paid Avanos an undisclosed amount and the parties dismissed the pending actions between them related to U.S. Patent 8,822,755.

General

While we maintain general and professional liability, product liability and other insurance, our insurance policies may not cover all of these matters and may not fully cover liabilities arising out of these matters. In addition, we may be obligated to indemnify our directors and officers against these matters.

We record provisions in the consolidated financial statements for pending litigation when we determine that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. For any matters that are reasonably possible to result in loss and for which no possible loss or range of loss is disclosed in this report, management has determined that it is

unable to estimate the possible loss or range of loss because, in each case, at least the following facts applied: (a) the matter is at an early stage of the proceedings; (b) the damages are indeterminate, unspecified or determined to be immaterial; and (c) significant factual issues have yet to be resolved. At present, although the results of litigation and claims cannot be predicted with certainty, we believe that the ultimate resolution of any pending legal proceeding to which we are a party will not have a material adverse effect on our business, financial condition, results of operations or liquidity.

Environmental Compliance

We are subject to federal, state and local environmental protection laws and regulations with respect to our business operations. We believe we are operating in compliance with, or are taking action aimed at ensuring compliance with, these laws and regulations. None of our compliance obligations with environmental protection laws and regulations, individually or in the aggregate, is expected to have a material adverse effect on our business, financial condition, results of operations or liquidity.

Note 14. Earnings Per Share ("EPS")

Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during each period. Diluted earnings per share is calculated by dividing net income by the number of common shares outstanding and the effect of all dilutive common stock equivalents outstanding during each period, as determined using the treasury stock method. The calculation of basic and diluted EPS for each of the three years ended December 31, 2021, 2020 and 2019 is set forth in the following table (in millions, except per share amounts):

	Year Ended December 31,		
	2021	**2020**	**2019**
Net income (loss)	**$ 5.2**	$ (27.2)	$ (45.9)
Weighted Average Shares Outstanding:			
Basic weighted average shares outstanding	**48.1**	47.8	47.6
Dilutive effect of stock options and restricted share unit awards	**0.5**	—	—
Diluted weighted average shares outstanding	**48.6**	47.8	47.6
Earnings (Loss) Per Share:			
Basic Earnings (Loss) Per Share	**$ 0.11**	$ (0.57)	$ (0.96)
Diluted Earnings (Loss) Per Share	**$ 0.11**	$ (0.57)	$ (0.96)

Restricted share units ("RSUs") contain provisions allowing for the equivalent of any dividends paid on common stock during the restricted period to be reinvested into additional RSUs at the then fair market value of the common stock on the date dividends are paid. Such awards are to be included in the EPS calculation under the two-class method. Currently we do not anticipate any cash dividends for the foreseeable future and our outstanding RSU awards are not material in comparison to our weighted average shares outstanding. Accordingly, all EPS amounts reflect shares as if they were fully vested and the disclosures associated with the two-class method are not presented herein.

For the year ended December 31, 2021, 1.4 million of potentially dilutive stock options and restricted share unit awards were excluded from the computation of earnings per share as their effect would have been anti-dilutive.

Note 15. Business and Products Information

We conduct our business in one operating and reportable segment that provides our medical device products to healthcare providers and patients in more than 90 countries with manufacturing facilities in the United States and Mexico.

We provide a portfolio of innovative product offerings focused on pain management and chronic care to improve patient outcomes and reduce the cost of care. Our management evaluates net sales by product category within our single reportable segment as follows (in millions):

	Year Ended December 31,		
	2021	2020	2019
Chronic Care:			
Digestive health	**$ 322.2**	$ 294.1	$ 266.9
Respiratory health	**157.6**	177.1	146.8
Total Chronic Care	**479.8**	471.2	413.7
Pain Management:			
Acute pain	**162.7**	157.4	184.0
Interventional pain	**102.1**	86.2	99.9
Total Pain Management	**264.8**	243.6	283.9
Total Net Sales	**$ 744.6**	$ 714.8	$ 697.6

Chronic care is a portfolio of products that include the following:

- Digestive health products such as our Mic-Key enteral feeding tubes, Corpak patient feeding solutions and NeoMed neonatal and pediatric feeding solutions. In the years ended December 31, 2021 and 2020, our legacy enteral feeding tubes, which includes our Mic-Key enteral feeding tubes, and our Corpak feeding solutions each accounted for more than 10% of our consolidated net sales. In the year ended December 31, 2019, only our legacy digestive health products accounted for more than 10% of our consolidated net sales.
- Respiratory health products such as our closed airway suction systems and other airway management devices under the Ballard, Microcuff and Endoclear brands. In the years ended December 31, 2021, 2020 and 2019, our closed airway suction systems accounted for more than 10% of our consolidated net sales.

Pain management is a portfolio of non-opioid pain solutions including:

- Acute pain products such as On-Q and ambIT surgical pain pumps and Game Ready cold and compression therapy systems. In the years ended December 31, 2021, 2020 and 2019, our surgical pain products, which includes both On-Q and ambIT pumps, accounted for more than 10% of our consolidated net sales.
- Interventional pain solutions, which provide minimally invasive pain relief therapies, such as our Coolief pain therapy. In the years ended December 31, 2021, 2020 and 2019, products associated with our Coolief pain therapy accounted for more than 10% of our consolidated net sales.

Liabilities for estimated returns, rebates and incentives as of December 31, 2021 and 2020 are presented in the table below (in millions):

	As of December 31,	
	2021	2020
Accrued rebates	**$ 14.3**	$ 8.9
Accrued incentives	**10.2**	13.6
Accrued rebates and incentives (See Note 1)	**24.5**	22.5
Accrued sales returns[(a)]	**0.1**	0.1
Total estimated liabilities	**$ 24.6**	$ 22.6

(a) Accrued sales returns are included in "Other" in the accrued expenses table in "Supplemental Balance Sheet Information" in Note 4.

For the year ended December 31, 2021, 2020 and 2019, net sales to external customers in the United States were $521.6 million, $481.6 million and $481.2 million, respectively. Globally, three customers accounted for 10% or more of our consolidated net sales in the year ended December 31, 2021. Globally, two customers accounted for 10% or more of our consolidated net sales in the year ended December 31, 2020. No customers accounted for more than 10% of our consolidated net sales in 2019.

Due to the nature of our business, we receive purchase orders for products under supply agreements which are normally fulfilled within three to four weeks. Our performance obligations under purchase orders are satisfied and revenue is recognized at a point in time, which is upon shipment or upon delivery of our products, depending on shipping terms. Accordingly, we normally do not have transactions that give rise to material unfulfilled performance obligations.

Property, plant and equipment held domestically and in foreign countries is as follows (in millions):

	As of December 31,	
	2021	2020
Domestic	**$ 101.4**	$ 110.0
Foreign	**66.7**	65.3
Total Property, Plant and Equipment	**$ 168.1**	$ 175.3

Note 16. Share Repurchase Program

On December 15, 2021, we announced that our Board of Directors had approved a share repurchase program authorizing us to repurchase up to $30 million of our common stock. We established a pre-arranged trading plan in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The Rule 10b5-1 trading plan permits common stock to be repurchased over a twelve-month period. The Rule10b5-1 plan is administered by an independent broker and is subject to the preset price, volume and timing restrictions set forth in the plan.

Purchases of common stock under the 10b5-1 trading plan through December 31, 2021 are summarized in the table below:

Shares Repurchased		Aggregate Purchase Price (in millions)	Average Price per Share	Amount Remaining in Program for Purchase (in millions)
Fourth Quarter 2021	Program to Date			
323,140	323,140	$ 10.7	$ 33.04	$ 19.3

From January 1, 2022 to January 28, 2022, we repurchased 588,293 shares of our common stock for $19.3 million, or $32.85 per share.

In addition to the share repurchase program, we withheld 25,705 shares of common stock for $0.8 million in taxes associated with stock-based compensation transactions in the year ended December 31, 2021.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Avanos Medical, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Avanos Medical, Inc. and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive (loss) income, stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2021, and the related notes (collectively, the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2022, expressed an unqualified opinion on the Company's internal control over financial reporting.

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 PCAOB and are required to be independent with respect to the Company in accordance with the US 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. 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. 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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Net Sales/Accrued Expenses - Refer to Notes 1 and 15 to the consolidated financial statements

Critical Audit Matter Description

The Company generally distributes its products through wholesale distributors, and in many cases, discounts to the net selling prices are determined based on the contractual arrangements that the Company has with its end user groups' purchasing organizations. The Company's contracts provide for variable consideration, including rebates. Sales are reported net of distributor rebates that are estimated based on the historical difference between list prices and average end user contract prices and the quantity of products expected to be sold to end users. Total rebates due to customers that were not settled as of December 31, 2021, was $14.3 million and are included in accrued expenses as of December 31, 2021.

The Company must make certain judgments to estimate the liability for rebates as of the fiscal year end. The judgment of determining the liability includes estimating the quantity of products to be sold to end user customers and determining the difference in the product's list price and the average end user customers' prices. Due to the extent of subjectivity in management's estimation, our audit in this area involves especially subjective judgment and an increased extent of effort.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to management's estimates of rebates included the following, among others:

- We tested effectiveness of internal controls related to the accounting for rebates, including those over the estimates of quantity of products to be sold to end user customers and the difference in the product's list price and the average end user prices.
- We tested the accuracy and evaluated the relevance of the historical rebate data as an input to the estimated rebates by agreeing rebate rates to contractual arrangements.
- We conducted historical trend analysis of rebates paid as a percentage of gross sales.
- We performed a comparison of historical rebates paid compared to rebates recorded to evaluate management's historical estimates.
- We evaluated whether the estimated rebates were consistent with evidence obtained in other areas of the audit.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP

Atlanta, Georgia

February 23, 2022

We have served as the Company's auditor since 2013.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2021. The term "disclosure controls and procedures," as defined in Rule 13a-15 under the Securities Exchange Act of 1934, as amended (or the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on our evaluation, our chief executive officer and chief financial officer believe that, as of December 31, 2021, our disclosure controls and procedures were effective.

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2021. Management’s evaluation was based on the criteria related to internal control over financial reporting described in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2021.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Form 10-K, has issued a report, included herein, on the effectiveness of the Company's internal control over financial reporting as of December 31, 2021.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Avanos Medical, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Avanos Medical, Inc. and subsidiaries (the "Company") as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2021, of the Company and our report dated February 23, 2022, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP

Atlanta, Georgia

February 23, 2022

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following sections of our 2022 Proxy Statement for the Annual Meeting of Stockholders (the "2022 Proxy Statement") are incorporated in this Item 10 by reference:

- "The Nominees" and "Directors Continuing in Office" under "Proposal 1. Election of Directors," which identifies our directors and nominees for our Board of Directors.
- "Other Information—Section 16(a) Beneficial Ownership Reporting Compliance."
- "Corporate Governance—Other Corporate Governance Policies and Practices–Code of Conduct," which describes our Code of Conduct.
- "Other Information—Stockholder Nominations for Board of Directors," which describes the procedures by which stockholders may nominate candidates for election to our Board of Directors.
- "Corporate Governance—Board Committees–Audit Committee," which identifies members of the Audit Committee of our Board of Directors and an audit committee financial expert.

We believe we are in compliance with all applicable corporate governance requirements of the New York Stock Exchange, the Securities and Exchange Commission, the Sarbanes-Oxley Act of 2002 and the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 that have become effective as of the date of this Annual Report on Form 10-K.

The names and ages of our executive officers as of February 23, 2022, together with certain biographical information, are as follows:

Name	Position
Joseph F. Woody	Chief Executive Officer
Michael C. Greiner	Senior Vice President and Chief Financial Officer
David E. Ball	Senior Vice President - Global Supply Chain & Procurement
Arjun R. Sarker	Senior Vice President - International
William D. Haydon	Senior Vice President and General Manager, Pain Management
Kerr W. Holbrook	Senior Vice President and General Manager, Chronic Care
Mojirade James	Senior Vice President and General Counsel

Joseph F. Woody, age 56, was appointed as Chief Executive Officer on June 26, 2017. Mr. Woody has more than 20 years of experience in the healthcare sector. Prior to joining the Company, Mr. Woody served as Director, President and Chief Executive Officer of Acelity Holdings, Inc. ("Acelity"), a global advanced wound care and regenerative medicine company, from August 2015 until April 2017. Prior to that, Mr. Woody served as President and Chief Executive Officer for the combined organization of Kinetic Concepts, Inc. ("KCI"), LifeCell Corporation ("LifeCell"), and Systagenix Wound Management B.V., which became Acelity, from September 2013 until August 2015. Prior to that, Mr. Woody served in leadership roles at KCI and LifeCell from November 2011 until September 2013, having been promoted to President and Chief Executive Officer of KCI in January 2012 and interim Chief Executive Officer of LifeCell in April 2013. Previously, Mr. Woody served as global president of Vascular Therapies for Covidien plc, and global president for Smith & Nephew Advanced Wound Management, and he held other leadership positions at Alliance Imaging, Inc., Acuson and GE Medical Systems.

Michael C. Greiner, age 49, was appointed as Senior Vice President and Chief Financial Officer on January 1, 2020. Mr. Greiner brings to Avanos more than 20 years of experience in corporate finance, accounting, treasury, and M&A strategy development and execution. He most recently served as Executive Vice President and CFO for AngioDynamics, Inc., a publicly listed medical device company (NASDAQ: ANGO), where he played an integral role in transforming and optimizing its product portfolio through both internal development and M&A. Prior to that, Mr. Greiner was the CFO at Extreme Reach, Inc., a cloud-based enterprise platform for brand advertising, responsible for all finance and human resource operations. Earlier in his career, Mr. Greiner held several senior executive roles, including Senior Vice President corporate finance and Chief Accounting Officer at Cimpress N.V. (formerly known as Vistaprint N.V.), global controller for GE's Water and Processing Technologies division, as well as leadership roles at Bausch & Lomb and Wyeth.

David E. Ball, age 63, was appointed as Senior Vice President, Global Supply Chain & Procurement on December 17, 2018. His significant operations and R&D leadership experience includes more than 30 years in a variety of manufacturing, service, engineering, and quality positions within GE Healthcare, GE Transportation Systems, Hill-Rom, as well as Harris Corp.'s Communications and Aerospace Systems divisions. Prior to joining Avanos, Dave served as Senior Vice President of Operations for Acelity, where he led the company's global manufacturing operations and oversaw its inventory, supply chain, procurement and facilities functions. In that role, he was instrumental in optimizing Acelity's cost structure and sustaining the savings throughout the company's expansion.

Arjun R. Sarker, age 56, was appointed as Senior Vice President - International as of April 2, 2018. Mr. Sarker joined the Company in January 2017 as Vice President and General Manager of the Company's Asia-Pacific business. Prior to joining the Company, from 2007 to 2017, he held various leadership roles in general management and finance at Medtronic/Covidien. Prior to that, he worked at Honeywell in its specialty materials portfolio, at a British distribution group and at a public accounting firm. He is a former member of the advisory board of CFO Asia magazine, a regular panelist at Economist CFO roundtables and was co-chairman of the Medical Devices committee in AMCHAM India.

William D. Haydon, age 55, was appointed as Senior Vice President and General Manager, Pain Management on August 31, 2020. Mr. Haydon brings to Avanos over 25 years of experience in finance, global marketing, and strategic business development. He most recently served as Senior Vice President and General Manager for Cantel, a publicly listed medical device company, where he played an integral role in restructuring of the sales organization, and in global strategic planning. Prior to that, Mr. Haydon held leadership positions in several medical device and medical technology companies including Bayer Healthcare, AGA Medical Corporation, ev3, Inc., and Boston Scientific Corporation.

Kerr W. Holbrook, age 55, was appointed as Senior Vice President and General Manager, Chronic Care in May 2019. Mr. Holbrook has more than 25 years of experience in the medical device, pharmaceutical and biotechnology industries. From March 2015 to November 2018, Mr. Holbrook served as Chief Commercial Officer for AlloSource, a biologics and regenerative medicine business focused on the spine, sports and orthopedics markets. Prior to AlloSource, Mr. Holbrook held executive positions, including Group Vice President, Strategy, Portfolio Management & Business Development, with Covidien, now part of Medtronic's minimally invasive therapies group. Mr. Holbrook started his career with Eli Lilly & Company and subsequently led marketing and business development functions for McKesson Corporation.

Mojirade James, age 55, was appointed as Senior Vice President and General Counsel in July 2021. Ms. James has more than 25 years of diversified legal experience, including vast experience supporting the development and commercialization of innovative drugs, biologics and vaccines. From September 2018 to June 2021, Ms. James held senior management positions, including Executive Vice President, Chief Legal and Compliance Officer, of Tmunity Therapeutics, a biotherapeutics company. Prior to that, from February 2012 to September 2017, she held senior management positions, including Senior Vice President, General Counsel and Corporate Secretary, of Iroko Pharmaceuticals, a global specialty pharmaceutical company. Her experience also includes working as an attorney at Wyeth and Pfizer and at the law firm Shearman & Sterling.

ITEM 11. EXECUTIVE COMPENSATION

The information in the sections of the 2022 Proxy Statement captioned "Compensation Discussion and Analysis," "Compensation Tables," "Director Compensation" and "Corporate Governance—Compensation Committee Interlocks and Insider Participation" is incorporated in this Item 11 by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information in the section of the 2022 Proxy Statement captioned "Other Information—Security Ownership Information" is incorporated in this Item 12 by reference.

Equity Compensation Plan Information

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of December 31, 2021.

	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (in thousands) (a)	Weighted average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (in thousands) (c)
Equity compensation plans approved by stockholders[1]	2,275[2]	$39.40	1,216

(1) Includes (i) the Halyard Health, Inc. Equity Participation Plan, effective November 1, 2014 (the "2014 Plan"), (ii) the Avanos Medical, Inc. 2021 Long Term Incentive Plan, effective April 29, 2021 (together with the 2014 Plan, the "Employee Plans"), and (iii) the Halyard Health, Inc. Outside Directors' Compensation Plan, effective November 1, 2014 (the "Director Plan").

(2) Includes 431 restricted share units granted under the Employee Plans (including shares that may be issued pursuant to outstanding performance-based restricted share units, assuming the target award is met; actual shares issued may vary, depending on actual performance). Upon vesting, a share of Avanos common stock is issued for each restricted share unit. Column (a) also includes 498 restricted share units granted under the Director Plan. Under the Director Plan, upon retirement from, or any other termination of service from the Board, a share of Avanos common stock is issued for each restricted share unit. Column (b) does not take these awards into account because they do not have an exercise price.

Avanos Medical, Inc. Outside Directors' Compensation Plan

In 2014, our Board of Directors and our stockholders approved the Director Plan. A maximum of 400,000 shares of our common stock is available for grant under this plan. The Board may grant awards in the form of stock options, stock appreciation rights, restricted stock, restricted share units or any combination of cash, stock options, stock appreciation rights, restricted stock or restricted share units under this plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information in the sections of the 2022 Proxy Statement captioned "Other Information—Transactions with Related Persons" and "Corporate Governance—Director Independence" is incorporated in this Item 13 by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information in the sections of the 2022 Proxy Statement captioned "Principal Accounting Firm Fees" and "Audit Committee Approval of Audit and Non-Audit Services" under "Proposal 2. Ratification of Auditors" is incorporated in this Item 14 by reference.

Deloitte & Touche LLP issued its audit report on the consolidated financial statements from Atlanta, Georgia. Deloitte & Touche LLP's PCAOB ID number is 34.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) **Documents filed as part of this report.**

1. Financial statements.

   The financial statements are set forth under Item 8 of this report on Form 10-K.

2. Financial statement schedules.

   The following information is filed as part of this Form 10-K and should be read in conjunction with the financial statements contained in Item 8:

   - Report of Independent Registered Public Accounting Firm

   All other schedules have been omitted because they were not applicable or because the required information has been included in the financial statements or notes thereto.

3. Exhibits

Exhibit Number	Description
2.1	Distribution Agreement, dated October 31, 2014, by and between Halyard Health, Inc. and Kimberly-Clark Corporation, incorporated by reference to Exhibit 2.1 of our Current Report filed on November 4, 2014
2.2	Merger Agreement, dated December 13, 2021, by and among Avanos Medical, Inc., Avent, Inc., Orthogen Merger Sub, Inc. and OrthogenRx, Inc., incorporated by reference to Exhibit 2.1 of our Current Report filed on January 21, 2022
3.1	Second Amended and Restated Certificate of Incorporation of the Company, incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on May 6, 2020
3.2	Sixth Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.2 of our Current Report on Form 8-K filed on May 6, 2020
4.1	First Amendment to Amended and Restated Credit Agreement, dated as of December 22, 2021, by and among Avanos Medical, Inc. and Citibank N.A., as administrative agent, incorporated by reference to Exhibit 4.2 of our Current Report on Form 8-K filed on January 21, 2022
4.2	Incremental Agreement, dated December 22, 2021, by and among Avanos Medical, Inc., the guarantors party thereto, the lenders party thereto, Citibank N.A., as administrative agent, and J.P. Morgan Chase Bank N.A. and MUFG Bank, LTD, as joint lead arrangers, incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K filed on January 21, 2022
4.3	Description of Avanos Medical, Inc. Securities, incorporated by reference to Exhibit 4.4 to our Annual Report on Form 10-K filed on February 19, 2021
10.1	Deferred Prosecution Agreement dated July 6, 2021, incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on July 9, 2021
*10.2	Employment Offer Letter dated June 20, 2017 for Joseph Woody, incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 23, 2017
*10.3	Employment Offer Letter dated March 22, 2018 for Arjun Sarker, incorporated by reference to Exhibit 10.1(a) to our Quarterly Report on Form 10-Q filed on May 2, 2018
*10.4	Employment Offer Letter dated December 12, 2019 for Michael Greiner, incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on December 30, 2019
*10.5	Employment Offer Letter dated July 21, 2010 for William Haydon, incorporated by reference to Exhibit 10.1(a) to our Quarterly Report on Form 10-Q filed on November 3, 2020
*10.6	Employment Offer Letter dated dated May 21, 2021 for Mojirade James, incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on August 3. 2021
*10.7	Halyard Health, Inc. Equity Participation Plan, effective as of November 1, 2014, incorporated by reference to Exhibit 10.8 to our Current Report on Form 8-K filed on November 4, 2014
*10.8	Form of Award Agreement related to Halyard Health, Inc. Equity Participation Plan, incorporated by reference to Exhibit 10.9 to our Current Report on Form 8-K filed on November 4, 2014

Exhibit Number	Description
*10.9	Form of Award Agreements, as amended, related to Halyard Health, Inc. Equity Participation Plan, incorporated by reference to Exhibit 10.8 to our Annual Report on Form 10-K filed on February 19, 2021
*10.10	Halyard Health, Inc. Outside Directors' Compensation Plan, effective as of November 1, 2014, incorporated by reference to Exhibit 10.10 to our Current Report on Form 8-K filed on November 4, 2014
*10.11	Form of Terms and Conditions of Awards under the Halyard Health, Inc. Outside Directors' Compensation Plan, incorporated by reference to Exhibit 10.11 to our Current Report on Form 8-K filed on November 4, 2014
*10.12	Halyard Health, Inc. Amended and Restated Executive Severance Plan, incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on October 31, 2017
*10.13	Halyard Health, Inc. Amended and Restated Severance Pay Plan, incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on October 31, 2017
*10.14	Avanos Medical, Inc. Employee Stock Purchase Plan, incorporated by reference to Exhibit 99.1 to our Registration Statement on Form S-8 filed on August 7, 2019
*10.15	Avanos Medical, Inc. 2021 Long Term Incentive Plan, incorporated by reference to Exhibit 99.1 to our Registration Statement on Form S-8 filed on July 19, 2021
*10.16	Form of Award Agreements related to the Avanos Medical, Inc. 2021 Long Term Incentive Plan, incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q filed on August 3, 2021
21	Subsidiaries of the Corporation, filed herewith.
23	Consent of Independent Registered Public Accounting Firm, filed herewith.
24	Powers of Attorney, filed herewith.
31(a)	Section 302 CEO Certification, filed herewith.
31(b)	Section 302 CFO Certification, filed herewith.
32(a)	Section 906 CEO Certification, furnished herewith.
32(b)	Section 906 CFO Certification, furnished herewith.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

*Management contracts, compensatory plans or arrangements

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AVANOS MEDICAL, INC.

February 23, 2022

By: /s/ Michael C. Greiner
Michael C. Greiner
Senior Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Joseph F. Woody **Joseph F. Woody**	Chief Executive Officer and Director (principal executive officer)	February 23, 2022
/s/ Michael C. Greiner **Michael C. Greiner**	Senior Vice President and Chief Financial Officer (principal financial and accounting officer)	February 23, 2022

Directors

Gary D. Blackford
John P. Byrnes
Patrick J. O'Leary
Maria Sainz
Dr. Julie Shimer

By: /s/ Mojirade James
Mojirade James
Attorney-in-Fact

February 23, 2022