

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

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: **001-38242**

OrthoPediatrics Corp.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

26-1761833

(I.R.S. Employer Identification Number)

**2850 Frontier Drive
Warsaw, IN 46582**

(Address of principal executive offices, including zip code)

(574) 268-6379

(Registrant's telephone number, including area code)

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.00025 par value per share	KIDS	Nasdaq Global Market

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

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

As of October 28, 2022, the registrant had 22,891,500 outstanding shares of common stock, \$0.00025 par value per share.

OrthoPediatrics Corp.
Form 10-Q
For the Quarterly Period Ended September 30, 2022

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements, other than statements of historical facts, contained in this quarterly report, including statements regarding our business, operations and financial performance and condition, as well as our plans, objectives and expectations for our business, operations and financial performance and condition, are forward-looking statements. You can often identify forward-looking statements by words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "target," "ongoing," "plan," "potential," "predict," "project," "should," "will" or "would," or the negative of these terms or other terms. Forward-looking statements involve known and unknown risks, uncertainties and other factors, such as the impact of the COVID-19 pandemic, that may cause our results, activity levels, performance or achievements to be materially different from the information expressed or implied by the forward-looking statements. Forward-looking statements may include, among other things, statements relating to:

- our ability to achieve or sustain profitability in the future;
- our ability to raise additional capital to fund our existing commercial operations, develop and commercialize new products and expand our operations;
- our ability to commercialize our products in development and to develop and commercialize additional products through our research and development efforts, and if we fail to do so we may be unable to compete effectively;
- our ability to generate sufficient revenue from the commercialization of our products to achieve and sustain profitability;
- our ability to comply with extensive government regulation and oversight both in the United States and abroad;
- our ability to maintain and expand our network of third-party independent sales agencies and distributors to market and distribute our products; and
- our ability to protect our intellectual property rights or if we are accused of infringing on the intellectual property rights of others;

We cannot assure you that forward-looking statements will prove to be accurate, and you are encouraged not to place undue reliance on forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations expressed or implied by the forward-looking statements. You are urged to carefully review and consider the various disclosures made by us in this quarterly report, in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 3, 2022 and in other reports filed with the SEC that discuss the risks and factors that may affect our business. Other than as required by law, we undertake no obligation to update or revise any forward-looking statements to reflect new information, events or circumstances occurring after the date of this quarterly report.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**ORTHOPEDIATRICS CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In Thousands, Except Share Data)**

ASSETS	September 30, 2022	December 31, 2021
Current assets:		
Cash	\$ 35,423	\$ 7,641
Restricted cash	1,449	1,365
Short term investments	84,710	45,902
Accounts receivable - trade, less allowance for doubtful accounts of \$608 and \$347, respectively	26,184	17,942
Inventories, net	74,041	57,569
Prepaid expenses and other current assets	2,751	3,229
Total current assets	224,558	133,648
Property and equipment, net	36,313	28,515
Other assets:		
Amortizable intangible assets, net	66,285	55,494
Goodwill	88,044	72,349
Other intangible assets	14,854	14,268
Total other assets	169,183	142,111
Total assets	\$ 430,054	\$ 304,274
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	\$ 10,881	\$ 9,325
Accrued compensation and benefits	6,323	5,351
Current portion of long-term debt with affiliate	143	137
Current portion of acquisition installment payable	7,630	12,862
Other current liabilities	3,769	2,040
Total current liabilities	28,746	29,715
Long-term liabilities:		
Long-term debt with affiliate, net of current portion	799	907
Acquisition installment payable, net of current portion	7,822	14,309
Contingent consideration	3,460	28,910
Deferred income taxes	5,457	4,771
Other long-term liabilities	440	293
Total long-term liabilities	17,978	49,190
Total liabilities	46,724	78,905
Stockholders' equity:		
Common stock, \$0.00025 par value; 50,000,000 shares authorized; 22,896,031 shares and 19,677,214 shares issued as of September 30, 2022 (unaudited) and December 31, 2021, respectively	6	5
Additional paid-in capital	559,339	394,899
Accumulated deficit	(168,920)	(178,026)
Accumulated other comprehensive income (loss)	(7,095)	8,491
Total stockholders' equity	383,330	225,369
Total liabilities and stockholders' equity	\$ 430,054	\$ 304,274

See notes to condensed consolidated financial statements.

ORTHOPEDIATRICS CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In Thousands, Except Share and Per Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net revenue	\$ 34,950	\$ 25,079	\$ 91,295	\$ 73,236
Cost of revenue	9,061	6,525	21,859	17,914
Gross profit	25,889	18,554	69,436	55,322
Operating expenses:				
Sales and marketing	11,919	9,862	34,108	29,687
General and administrative	15,116	11,034	42,829	34,163
Trademark impairment	3,609	—	3,609	—
Research and development	2,206	1,302	5,980	3,935
Total operating expenses	32,850	22,198	86,526	67,785
Operating loss	(6,961)	(3,644)	(17,090)	(12,463)
Other expenses (income):				
Interest expense, net	708	542	2,485	1,851
Fair value adjustment of contingent consideration	(23,010)	(1,430)	(25,450)	3,710
Other expense (income)	945	(267)	1,668	(802)
Total other expenses (income)	(21,357)	(1,155)	(21,297)	4,759
Income (loss) before income taxes	\$ 14,396	\$ (2,489)	\$ 4,207	\$ (17,222)
Provision for income taxes (benefit)	(4,143)	(292)	(4,899)	(890)
Net income (loss)	\$ 18,539	\$ (2,197)	\$ 9,106	\$ (16,332)
Weighted average shares outstanding				
Basic	21,150,219	19,291,374	20,703,883	19,256,128
Diluted	21,295,323	19,291,374	20,958,503	19,256,128
Net income (loss) per share				
Basic	\$ 0.88	\$ (0.11)	\$ 0.44	\$ (0.85)
Diluted	\$ 0.87	\$ (0.11)	\$ 0.43	\$ (0.85)

See notes to condensed consolidated financial statements.

ORTHOPEDIATRICS CORP.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income (loss)	\$ 18,539	\$ (2,197)	\$ 9,106	\$ (16,332)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(4,164)	288	(15,661)	(1,343)
Unrealized loss on short-term investments	(452)	(88)	(1,130)	(282)
Adjustment for realized loss on securities	1,205	—	1,205	—
Other comprehensive income (loss), net of tax	(3,411)	200	(15,586)	(1,625)
Comprehensive income (loss)	\$ 15,128	\$ (1,997)	\$ (6,480)	\$ (17,957)

See notes to condensed consolidated financial statements.

ORTHOPEDIATRICS CORP.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(In Thousands, Except Share Data)

Three and Nine Months Ended September 30, 2022

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Value				
Balance at January 1, 2022	19,677,214	\$ 5	\$ 394,899	\$ (178,026)	\$ 8,491	\$ 225,369
Net loss	—	—	—	(9,100)	—	(9,100)
Other comprehensive loss	—	—	—	—	(2,751)	(2,751)
Restricted stock	144,084	—	1,526	—	—	1,526
Balance at March 31, 2022	19,821,298	\$ 5	\$ 396,425	\$ (187,126)	\$ 5,740	\$ 215,044
Net loss	—	—	—	(333)	—	(333)
Other comprehensive loss	—	—	—	—	(9,424)	(9,424)
Stock option exercise	1,340	—	42	—	—	42
Restricted stock	57,180	—	1,770	—	—	1,770
Consideration for MD Ortho acquisition	173,241	—	9,707	—	—	9,707
Stock portion of ApiFix anniversary installment payment	185,811	—	10,410	—	—	10,410
Balance at June 30, 2022	20,238,870	\$ 5	\$ 418,354	\$ (187,459)	\$ (3,684)	\$ 227,216
Net income	—	—	—	18,539	—	18,539
Other comprehensive loss	—	—	—	—	(3,411)	(3,411)
Stock option exercise	670	—	21	—	—	21
Restricted stock	5,342	—	1,682	—	—	1,682
Issuance of common stock, net of issuance cost	2,616,250	1	139,282	—	—	139,283
Issuance of unregistered shares	34,899	—	—	—	—	—
Balance at September 30, 2022	22,896,031	\$ 6	\$ 559,339	\$ (168,920)	\$ (7,095)	\$ 383,330

ORTHOPEDIATRICS CORP.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(In Thousands, Except Share Data)

Three and Nine Months Ended September 30, 2021

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Value				
Balance at January 1, 2021	19,560,291	\$ 5	\$ 388,622	\$ (161,766)	\$ 7,907	\$ 234,768
Net loss	—	—	—	(10,379)	—	(10,379)
Other comprehensive loss	—	—	—	—	(3,622)	(3,622)
Stock option exercise	2,010	—	62	—	—	62
Restricted stock	97,111	—	1,316	—	—	1,316
Balance at March 31, 2021	19,659,412	\$ 5	\$ 390,000	\$ (172,145)	\$ 4,285	\$ 222,145
Net loss	—	—	—	(3,756)	—	(3,756)
Other comprehensive income	—	—	—	—	1,797	1,797
Restricted stock	10,632	—	1,415	—	—	1,415
Balance at June 30, 2021	19,670,044	\$ 5	\$ 391,415	\$ (175,901)	\$ 6,082	\$ 221,601
Net loss	—	—	—	(2,197)	—	(2,197)
Other comprehensive income	—	—	—	—	200	200
Stock option exercise	2,412	—	75	—	—	75
Restricted stock	(294)	—	1,439	—	—	1,439
Balance at September 30, 2021	19,672,162	\$ 5	\$ 392,929	\$ (178,098)	\$ 6,282	\$ 221,118

See notes to condensed consolidated financial statements.

ORTHOPEDIATRICS CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In Thousands)

	Nine Months Ended September 30,	
	2022	2021
OPERATING ACTIVITIES		
Net income (loss)	\$ 9,106	\$ (16,332)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	9,579	7,870
Stock-based compensation	4,978	4,170
Trademark impairment	3,609	—
Fair value adjustment of contingent consideration	(25,450)	3,710
Acquisition installment payable	1,926	1,701
Deferred income taxes	(4,804)	(890)
Changes in certain current assets and liabilities:		
Accounts receivable - trade	(5,567)	(716)
Inventories	(14,812)	(3,244)
Prepaid expenses and other current assets	696	(138)
Accounts payable - trade	(389)	(956)
Accrued legal settlements	—	(6,342)
Accrued expenses and other liabilities	1,800	(168)
Other	903	(493)
Net cash used in operating activities	(18,425)	(11,828)
INVESTING ACTIVITIES		
Acquisition of MD Ortho, net of cash acquired	(8,360)	—
Acquisition of Pega, net of cash acquired	(31,730)	—
Sale of short-term marketable securities	45,529	4,000
Purchases of licenses	—	(7,908)
Purchase of short-term marketable securities	(85,029)	—
Purchases of property and equipment	(10,554)	(6,468)
Net cash used in investing activities	(90,144)	(10,376)
FINANCING ACTIVITIES		
Proceeds from issuance of debt with affiliate	31,000	—
Payments on debt with affiliate	(31,000)	—
Installment payment for ApiFix	(3,234)	—
Proceeds from issuance of common stock, net of issuance costs	139,282	—
Proceeds from exercise of stock options	63	137
Payments on mortgage notes	(102)	(97)
Net cash provided by financing activities	136,009	40
Effect of exchange rate changes on cash	426	(266)
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	27,866	(22,430)
Cash and restricted cash, beginning of year	\$ 9,006	\$ 30,132
Cash and restricted cash, end of period	<u>\$ 36,872</u>	<u>\$ 7,702</u>

SUPPLEMENTAL DISCLOSURES

Cash paid for interest	\$	512	\$	43
Transfer of instruments from property and equipment to inventory	\$	(193)	\$	80
Issuance of common shares to acquire MD Ortho	\$	9,707	\$	—
Issuance of common shares for ApiFix acquisition installment	\$	10,410	\$	—

See notes to condensed consolidated financial statements.

ORTHOPEDIATRICS CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(Dollars In Thousands, Except Share and Per Share data)

NOTE 1 – BUSINESS

OrthoPediatrics Corp., a Delaware corporation, is a medical device company committed to designing, developing and marketing anatomically appropriate implants, instruments and braces for children with orthopedic conditions, giving pediatric orthopedic surgeons and caregivers the ability to treat children with technologies specifically designed to meet their needs. We sell our specialized products, including PediLoc[®], PediPlates[®], Cannulated Screws, PediFlex[™] nail, PediNail[™], PediLoc[®] Tibia, ACL Reconstruction System, Locking Cannulated Blade, Locking Proximal Femur, Spica Tables, RESPONSE[™] Spine, BandLoc[™], Pediatric Nailing Platform | Femur, Devise Rail, Orthex, Cerament[®] and ApiFix[®] Mid-C System, to various hospitals and medical facilities throughout the United States and various international markets. We currently use a contract manufacturing model for the manufacturing of implants and related surgical instrumentation.

We are the only global medical device company focused exclusively on providing a comprehensive trauma and deformity correction, scoliosis and sports medicine product offering to the pediatric orthopedic market in order to improve the lives of children with orthopedic conditions. Since inception we have impacted the lives of over 613,000 children. We design, develop and commercialize innovative orthopedic implants and instruments to meet the specialized needs of pediatric surgeons and their patients, who we believe have been largely neglected by the orthopedic industry. We currently serve three of the largest categories in this market. We estimate that the portion of this market that we currently serve represents a \$3,300,000 opportunity globally, including over \$1,500,000 in the United States.

Our largest investor is Squadron Capital LLC, or Squadron, a private investment firm based in Granby, Connecticut.

A novel strain of the coronavirus disease was first identified in Wuhan, China in December 2019, and the related outbreak was subsequently declared a pandemic by the World Health Organization and a national emergency by the President of the United States. Since then, the pandemic has presented a significant public health and economic challenge around the world and has adversely impacted our business. Specifically, we have seen surgeons and their patients deferring elective procedures in which our products would have otherwise been used. The volatility in COVID cases and hospitalizations, including the impacts of the Delta variant in the third quarter of 2021 and the current hospital support staffing shortages in certain geographies, continue to drive volatility into our business. We continue to closely monitor developments related to the pandemic and the related staffing shortages and our decisions will continue to focus on the safety and security of our employees, distributors, surgeons and their patients while maintaining operations to support our customers. The full extent of the impact of the pandemic on our business is uncertain and cannot be accurately predicted and will depend on future developments that are also uncertain and cannot be predicted.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of OrthoPediatrics Corp. and its wholly-owned subsidiaries, OrthoPediatrics US Distribution Corp., OrthoPediatrics EU Limited, OrthoPediatrics AUS PTY LTD, OrthoPediatrics NZ Limited, OP EU B.V., OP Netherlands B.V., Orthex, LLC, Telos Partners, LLC, ApiFix, Ltd., OrthoPediatrics Iowa Holdco, Inc., MD Orthopaedics, Inc.,

MD International Inc., OrthoPediatics GmbH, OrthoPediatics GP LLC, OrthoPediatics US L.P. and OrthoPediatics Canada ULC doing business as Pega Medical (collectively, the "Company," "we," "our" or "us"). All intercompany balances and transactions have been eliminated.

Unaudited Interim Condensed Consolidated Financial Statements

We have prepared the accompanying condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The accompanying condensed consolidated balance sheets as of September 30, 2022 and December 31, 2021, the condensed consolidated statements of operations for the three and nine months ended September 30, 2022 and 2021, the condensed consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2022 and 2021, the condensed consolidated statements of stockholders' equity for the three and nine months ended September 30, 2022 and 2021 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2022 and 2021 are unaudited and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2021 and related notes thereto contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 3, 2022. The financial data and other financial information disclosed in the notes to the accompanying condensed consolidated financial statements are also unaudited. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to applicable rules and regulations thereunder.

The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements as of and for the year ended December 31, 2021 and, in management's opinion, include all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of the financial statements for the interim periods. The results of operations for the three and nine months ended September 30, 2022 are not necessarily indicative of the results to be expected for the full fiscal year or for any other period.

The accompanying condensed consolidated financial statements have been prepared assuming our Company will continue as a going concern. We have experienced recurring losses from operations since our inception and had an accumulated deficit of \$168,920 and \$178,026 as of September 30, 2022 and December 31, 2021, respectively. Management continues to monitor cash flows and liquidity on a regular basis. We believe that our cash balance, including short term investments, at September 30, 2022 and expected cash flows from operations for the next twelve months subsequent to the issuance of the accompanying condensed consolidated financial statements, are sufficient to enable us to maintain current and essential planned operations for more than the next twelve months.

On August 15, 2022, we completed a public offering of our common stock, in which we issued 1,091,250 shares of common stock at a public offering price of \$55.00 per share and 1,525,000 pre-funded warrants to Squadron. The purchase price of each warrant was equal to the price per share at which the common shares were sold to the public, minus \$0.00025, which was the exercise price of each warrant. The aggregate gross proceeds for both the warrants and common shares were \$143,894. The total net proceeds from the offering were \$139,282, after deducting \$4,318 of underwriting discounts and commissions and paying \$294 in offering costs. The Company has used \$31,000 of the net proceeds to pay off the outstanding debt on the line of credit with Squadron. On September 20, 2022, the Company issued an aggregate of 1,525,000 shares of common stock to Squadron upon exercise of the pre-funded warrants.

Use of Estimates

Preparation of our condensed consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as of the date of the condensed consolidated financial statements. By their nature, these judgments are subject to an

inherent degree of uncertainty. We use historical experience and other assumptions as the basis for our judgments and estimates. Because future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Any changes in these estimates will be reflected in our consolidated financial statements.

Foreign Currency Transactions

We currently bill our international stocking distributors in U.S. dollars, resulting in minimal foreign exchange transaction expense.

Beginning in early 2017 and continuing through 2022, we expanded operations and established legal entities outside the United States, permitting us to sell under an agency model direct to local hospitals internationally. The countries we serve under the agency model include the United Kingdom, Ireland, Australia, New Zealand, Canada, Belgium, the Netherlands, Poland, Italy, Israel, Germany, Switzerland, and Austria. Additionally, in July 2022, we established an operating company in Germany and in March 2019, we established an operating company in the Netherlands in order to enhance our operations in Europe. The financial statements of our foreign subsidiaries are accounted for in local functional currencies and have been translated into U.S. dollars using end-of-period exchange rates for assets and liabilities and average exchange rates during each reporting period for results of operations. Foreign currency translation adjustments have been recorded as a separate component of the consolidated statements of comprehensive loss.

Revenue from Contracts with Customers

In accordance with ASC 606, "*Revenue from Contracts with Customers*," revenue is recognized when our performance obligations under the terms of a contract with our customer are satisfied. This typically occurs when we transfer control of our products to the customers, generally upon implantation or when title passes upon shipment. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services, and excludes any sales incentives or taxes collected from a customer which are subsequently remitted to government authorities.

Revenue Recognition – United States

Revenue in the United States is generated primarily from the sale of our implants and, to a much lesser extent, from the sale of our instruments. Sales in the United States are primarily to hospital accounts through independent sales agencies. We recognize revenue when our performance obligations under the terms of a contract with our customer are satisfied. The products are generally consigned to our independent sales agencies, and revenue is recognized when the products are used by or shipped to the customer for surgeries or other treatment on a case by case basis. On rare occasions, hospitals purchase product for their own inventory, and revenue is recognized when the products are shipped and the title and risk of loss passes to the customer. Pricing for each customer is dictated by a unique pricing agreement.

Revenue Recognition – International

Outside of the United States, we sell our products directly to hospitals through independent sales agencies or to independent stocking distributors. Generally, the distributors are allowed to return products, and some are thinly capitalized. Based on a history of reliable collections, we have concluded that a contract exists and revenue should be recognized when we transfer control of our products to the customer, generally when title passes upon shipment. Additionally, based on our history of immaterial returns from international customers, we have historically estimated no reserve for returns.

Beginning in early 2017 and continuing through 2022, we expanded operations and established legal entities outside the United States, permitting us to sell under an agency model direct to local hospitals internationally. The products are generally consigned to our independent sales agencies, and revenue is recognized when the products are used by or shipped to the hospital for surgeries on a case by case basis. On rare occasions, hospitals purchase products for their own inventory, and revenue is recognized when title passes upon shipment. Pricing for each customer is dictated by a unique pricing agreement.

Cash, Cash Equivalents and Short Term Investments

We maintain cash in bank deposit accounts which, at times, may exceed federally insured limits. To date, we have not experienced any loss in such accounts. We consider all highly liquid investments with original maturity of three months or less at inception to be cash equivalents. The carrying amounts reported in the balance sheets for cash are valued at cost, which approximates fair value.

The Company invests in available-for-sale short term investments. The Company has the ability, if necessary, to liquidate without penalty any of its short term investments to meet its liquidity needs in the next twelve months. As such, those investments with contractual maturities greater than one year from the date of purchase are classified as short-term on the accompanying Consolidated Balance Sheets. The company includes unrealized gains or losses in stockholders' equity. If the adjustment to fair value reflects a decline in the value of the investment, the Company considers available information to determine whether the decline is "other than temporary" and, if so, reflects the change on the Consolidated Statements of Operations.

Restricted Cash

In conjunction with the sale of Vilex, \$1,250 was placed into a separate escrow account. This cash is reported as restricted cash on the September 30, 2022 and December 31, 2021 condensed consolidated balance sheets. These funds were to remain restricted until August 31, 2021, at which time, they were to be released to the Company subject to no claims related to the purchase being asserted; however, due to the pending IMED Surgical litigation, the cash remains reported as restricted until the conclusion of the legal matter (see "Legal Proceedings" under Note 13 – Commitments and Contingencies for additional information). The Company also maintains restricted cash of 200 Euro at its Netherlands entity for potential Italian tenders.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are uncollateralized customer obligations due under normal trade terms, generally requiring payment within 30 days from the invoice date. Account balances with invoices over 30 days past due are considered delinquent. No interest is charged on past due accounts. Payments of accounts receivable are applied to the specific invoices identified on the customer's remittance advice or, if unspecified, to the customer's account as an unapplied credit.

The carrying amount of accounts receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected, determined principally on the basis of historical experience, management's assessment of the collectability of specific customer accounts and the aging of the accounts receivable. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts.

Fair Value of Financial Instruments

The accounting standards related to fair value measurements define fair value and provide a consistent framework for measuring fair value under the authoritative literature. Valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect market assumptions. This guidance only applies when other

standards require or permit the fair value measurement of assets and liabilities. The guidance does not expand the use of fair value measurements. A fair value hierarchy was established, which prioritizes the inputs used in measuring fair value into three broad levels.

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data; and

Level 3 – Significant unobservable inputs that are not corroborated by market data. Generally, these fair value measures are model-based valuation techniques such as discounted cash flows, and are based on the best information available, including our own data.

The Company's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable, acquisition installment payables, contingent consideration and long-term debt. The carrying amounts of accounts receivable, accounts payable, acquisition installment payables and long-term debt approximate the fair value due to the short-term nature or market rates of these instruments. The company bases the fair value of short-term investments on quoted market prices for identical or comparable assets except for investments classified as asset backed securities which we identify as Level 2. These securities are predominately priced by third parties, either a pricing vendor or dealer. When a quoted price in an active market for an identical security is not available these third parties will utilize an alternative market approach, such as a recent trade or matrix pricing, or an income approach, such as a discounted cash flow pricing model that calculates values from observable inputs such as quoted interest rates, yield curves and other observable market information. Contingent consideration represents the system sales payment the Company is obligated to make. The fair value of the contingent consideration payment is considered a Level 3 fair value measurement and was determined with the assistance of an independent valuation specialist at the original issuance date and as of the balance sheet date. See Note 5 for further discussion of financial instruments that carried a fair value on a recurring and nonrecurring basis.

Inventories, net

Inventories are stated at the lower of cost or net realizable value, with cost determined using the first-in-first-out method. Inventories purchased from third parties, which consist of implants and instruments held in our warehouse or with third-party independent sales agencies or distributors, are considered finished goods.

We evaluate the carrying value of our inventories in relation to the estimated forecast of product demand, which takes into consideration the life cycle of the product. A significant decrease in demand could result in an increase in the amount of excess inventory on hand, which could lead to additional charges for excess and obsolete inventory.

The need to maintain substantial levels of inventory impacts our estimates for excess and obsolete inventory. Each of our implant systems are designed to include implantable products that come in different sizes and shapes to accommodate the surgeon's needs. Typically, a small number of the set components are used in each surgical procedure. Certain components within each set may become obsolete before other components based on the usage patterns. We adjust inventory values, as needed, to reflect these usage patterns and life cycle.

In addition, we continue to introduce new products, which may require us to take additional charges for excess and obsolete inventory in the future.

Property and Equipment, net

Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the assets. When assets are retired or otherwise disposed of, costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations for the period. Maintenance and repairs that prolong or extend the useful life are capitalized, whereas standard maintenance, replacements, and repair costs are expensed as incurred.

Instruments are hand-held devices, specifically designed for use with our implants and are used by surgeons during surgery. Instruments deployed within the United States, United Kingdom, Australia, New Zealand, Canada, Belgium, the Netherlands, Italy, Germany, Switzerland and Austria are carried at cost less accumulated depreciation and are recorded in property and equipment, net on the condensed consolidated balance sheets.

Sample inventory consists of our implants and instruments, and is maintained to market and promote our products. Sample inventory is carried at cost less accumulated depreciation.

Depreciable lives are generally as follows:

Building and building improvements	25 to 30 years
Furniture and fixtures	5 to 7 years
Computer equipment	3 to 5 years
Business software	3 years
Office and other equipment	5 to 7 years
Instruments	5 years
Sample inventory	2 years

Amortizable Intangible Assets, net

Amortizable intangible assets include fees necessary to secure various patents and licenses (including those acquired in the Band-Lok, MD Ortho and Pega transactions), the value of internally developed software (including by Orthex), and the value of acquired customer relationships and non-competition agreements (including in the Orthex, Telos, ApiFix, MD Ortho and Pega transactions, as applicable). Amortization is calculated on a straight-line basis over the estimated useful life of the asset. Amortization for patents and licenses commences at the time of patent approval, and for licenses upon market launch, respectively. Amortization for assets acquired commences upon acquisition. Intangible assets are amortized over a 3 to 20 year period.

Amortizable intangible assets are assessed for impairment upon triggering events that indicate that the carrying value of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to future net undiscounted cash flows expected to be generated by the associated asset. If such assets are determined to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair market value of the intangible assets. No impairment charges were recorded in any of the periods presented.

Goodwill and Other Intangible Assets

Our goodwill represents the excess of the cost over the fair value of net assets acquired. The determination of the value of goodwill and intangible assets arising from acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of net tangible and intangible assets acquired. Goodwill is not amortized and is assessed for impairment using fair value measurement techniques on an annual basis or more frequently if facts and circumstances warrant such

a review. The goodwill is considered to be impaired if we determine that the carrying value of our one reporting unit exceeds its respective fair value. No goodwill impairment charges were recorded in any period presented.

The Company tests goodwill for impairment by either performing a qualitative evaluation or a quantitative test. The quantitative assessment for goodwill requires us to estimate the fair value of our one reporting unit using either an income or market approach or a combination thereof.

We have indefinite lived trademark assets that are reviewed for impairment by performing a quantitative analysis, which occurs annually in the fourth quarter, utilizing balances as of October 1, or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to future net discounted cash flows expected to be generated by the associated asset. During the three months ended September 30, 2022, management determined that a triggering event occurred, indicating that it was more likely than not the fair value of the ApiFix trademark asset was less than the carrying value. As such, the company completed a quantitative analysis whereby we determined the fair value of the trademark asset associated with our ApiFix acquisition was below the carrying value. We recorded a \$3,609 impairment charge in the three months ended September 30, 2022. No impairment charges were recorded in any other period presented.

Acquisition Payable and Contingent Consideration

Upon the completion of an acquisition, the Company may record an acquisition installment payable, contingent consideration or both. Acquisition installment payables, which are fixed future payments, are recorded at their net present value, and contingent consideration is recorded at fair value as determined by management with the assistance of an independent valuation specialist at the original issuance date and is marked to fair value on a recurring basis. Accretion of interest expense attributable to the acquisition installment payable is recorded as a component of interest expense, net. Changes in the fair value of the contingent consideration are included in fair value adjustments of contingent consideration on the condensed consolidated statement of operations. The amount of expense related to acquisition installment payables recorded in interest expense, net for the three and nine months ended September 30, 2022 were \$381 and \$1,926, respectively, and \$489 and \$1,701, respectively, for the same periods last year. The fair value adjustments of contingent consideration for the three and nine months ended September 30, 2022 were income adjustments of \$23,010 and \$25,450, respectively, and for the same periods last year, were an income adjustment of \$1,430 and an expense adjustment of \$3,710, respectively.

Cost of Revenue

Cost of revenue consists primarily of products purchased from third-party suppliers, excess and obsolete inventory adjustments, inbound freight, and royalties. Our implants and instruments are manufactured to our specifications by third-party suppliers who meet our manufacturer qualifications standards. Our third-party manufacturers are required to meet the standards of the Food and Drug Administration (the "FDA"), and the International Organization for Standardization, as well as other country-specific quality standards. The majority of our implants and instruments are produced in the United States.

Sales and Marketing Expenses

Sales and marketing expenses primarily consist of commissions to our domestic and select international independent sales agencies and consignment distributors, as well as compensation, commissions, benefits and other related costs for personnel we employ. Commissions and bonuses are generally based on a percentage of sales. Our international independent stocking distributors purchase instrument sets and replenishment stock for resale, and we do not pay commissions or any other sales related costs for international sales to distributors.

Advertising Costs

Advertising costs consist primarily of print advertising, trade shows, and other related expenses. Advertising costs are expensed as incurred and are recorded as a component of sales and marketing expense.

Research and Development Costs

Research and development costs are expensed as incurred. Our research and development expenses primarily consist of costs associated with engineering, product development, consulting services, outside prototyping services, outside research activities, materials, development and protection of our intellectual property portfolio, as well as other costs associated with development of our products. Research and development costs also include related personnel and consultants' compensation expense.

Stock-Based Compensation

Immediately prior to our IPO, we adopted our 2017 Incentive Award Plan (the "2017 Plan"). The 2017 Plan provides for grants of options and restricted stock to officers, employees, consultants or directors of our Company. The 2017 Plan has authorized 1,832,460 shares for award.

Options holders, upon vesting, may purchase common stock at the exercise price, which is the estimated fair value of our common stock on the date of grant. Option grants generally vest immediately or over three years. No stock options were granted in any of the periods presented.

Restricted stock may not be transferred prior to the expiration of the restricted period, which is typically three years. The restricted stock that had been granted under the 2007 Plan had restriction periods that generally lasted until the earlier of six years from the date of grant, or an IPO or change in control, as defined in the 2007 Plan. All restricted stock granted prior to May 2014 vested upon our IPO and the remaining grants under the 2007 Plan vested six months after the IPO. We recognize the reversal of stock compensation expense when a restricted stock forfeiture occurs as opposed to estimating future forfeitures.

We record the fair value of restricted stock at the grant date. Stock-based compensation is recognized ratably over the requisite service period, which is generally the restriction period for restricted stock.

Litigation and Contingencies

Accruals for litigation and contingencies are reflected in the condensed consolidated financial statements based on management's assessment, including advice of legal counsel, of the expected outcome of litigation or other dispute resolution proceedings and/or the expected resolution of contingencies. Liabilities for estimated losses are accrued if the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated. Significant judgment is required in both the determination of probability of loss and the determination as to whether the amount is reasonably estimable. Accruals are based only on information available at the time of the assessment due to the uncertain nature of such matters. As additional information becomes available, management reassesses potential liabilities related to pending claims and litigation and may revise its previous estimates, which could materially affect the Company's results of operations in a given period.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income (loss) includes foreign currency translation adjustments and unrealized gain (loss) on our short term investments.

Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the condensed consolidated financial statements. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence. If we determine that we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, we would make an adjustment to the valuation allowance.

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

Leases

At the inception of a contractual arrangement, the Company determines whether the contract contains a lease by assessing whether there is an identified asset and whether the contract conveys the right to control the use of the identified asset in exchange for consideration over a period of time. If both criteria are met, the Company calculates the associated lease liability and corresponding right-of-use asset upon lease commencement using a discount rate based on a borrowing rate commensurate with the term of the lease.

The Company records lease liabilities within current liabilities or long-term liabilities based upon the length of time associated with the lease payments. The Company records its operating lease right-of-use assets as long-term assets.

"Emerging Growth Company" and "Smaller Reporting Company" Reporting Requirements

We qualify as an "emerging growth company" as defined in the JOBS Act. "Emerging growth companies" may take advantage of specified reduced reporting and other regulatory requirements that are generally unavailable to other public companies. Among other things, we are not required to provide an auditor attestation report on the assessment of the internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act of 2002. Our status as an emerging growth company will remain until December 31, 2022. As such, our external auditors for the fiscal year ending December 31, 2022 will be required to provide an attestation over the operating effectiveness of our internal controls under Section 404(b) of the Sarbanes-Oxley Act.

Section 107 of the JOBS Act also provides that an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we have been and will continue to be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

We also qualify as a "smaller reporting company," as such term is defined in Rule 12b-2 under the Exchange Act. To the extent that we continue to qualify as a smaller reporting company, after we cease to

qualify as an emerging growth company, certain of the exemptions available to us as an emerging growth company may continue to be available to us as a smaller reporting company.

Recent Accounting Pronouncements

In October 2021, the FASB issued ASU No. 2021-08 *"Business Combinations (Topic 805)-Accounting for Contract Assets and Contract Liabilities from Contracts with Customers"*. The amendments in this Update address diversity and inconsistency related to the recognition and measurement of contract assets and contract liabilities acquired in a business combination. The amendments in this Update require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The amendments in this Update should be applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the amendments is permitted, including adoption in an interim period. An entity that early adopts in an interim period should apply the amendments (1) retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of early application and (2) prospectively to all business combinations that occur on or after the date of initial application. The Company is currently evaluating the impact of adopting ASU 2021-08 on its consolidated financial statements.

In May 2021, the FASB issued ASU No. 2021-04 *"Earnings Per Share (Topic 260), Debt-Modifications and Extinguishments (Subtopic 470-50), Compensation-Stock Compensation (Topic 718), and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options (a consensus of the FASB Emerging Issues Task Force)"*. This ASU is intended to clarify and reduce diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after modification or exchange. The guidance clarifies whether an issuer should account for a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange as (1) an adjustment to equity and, if so, the related earnings per share effects, if any, or (2) an expense and, if so, the manner and pattern of recognition. The amendments in this ASU affect all entities that issue freestanding written call options that are classified in equity. The amendments do not apply to modifications or exchanges of financial instruments that are within the scope of another Topic and do not affect a holder's accounting for freestanding call options. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. An entity should apply the amendments prospectively to modifications or exchanges occurring on or after the effective date of the amendments. Early adoption is permitted for all entities, including adoption in an interim period. The Company adopted this guidance effective January 1, 2022. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13 *"Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"*. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets including trade receivables held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Based on ASU 2019-10 and our status as a smaller reporting company, the Company will adopt ASU 2016-13 effective January 1, 2023. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements and related disclosures.

NOTE 3 – BUSINESS COMBINATIONS

Pega Medical

On July 1, 2022, the Company, along with its newly-formed, indirect wholly-owned subsidiary OrthoPediatrics Canada ULC, purchased all of the issued and outstanding share capital of Pega Medical Inc., a corporation incorporated under the Canada Business Corporations Act (“Pega Medical”). Pega Medical has developed and sells a portfolio of trauma and deformity correction devices for children, including the Fassier-Duval Telescopic Intramedullary System, a well-recognized, innovative implant designed to treat bony deformities in children with osteogenesis imperfecta without disrupting their normal growth. Pega's product portfolio increases our total systems and increases the percentage of total trauma and deformity cases we can treat.

The Company acquired Pega Medical for approximately \$32,045, comprised of \$32,042 in cash and \$3 in stock, representing the repurchase right price to be paid by the Company in the event a selling shareholder leaves employment with Pega Medical for certain reasons during the three-year period following the closing. Approximately \$1,052 of the cash consideration was deposited into escrow and will be held for a period of up to eighteen (18) months to cover certain indemnification obligations of the selling shareholders of Pega Medical. Final purchase consideration is subject to certain working capital adjustments yet to be finalized. Additionally, 34,899 shares of unregistered common stock, \$0.00025 par value per share, of the Company, representing approximately \$1,497 (based on the July 1, 2022 closing share price of \$42.90) were issued to the selling shareholders. The common stock issued to the selling shareholders, excluding the value attributable to the repurchase right, is not considered part of the purchase consideration and is subject to a repurchase right previously mentioned. The Company will recognize expense over the three-year service period at which point the right to repurchase will expire. In the event the repurchase right is triggered, the Company will have the right to repurchase the shares of common stock issued to such selling shareholder at a price of \$0.10 per share. Pursuant to the terms of the transaction, the Company also issued \$499 in restricted stock units to employees of Pega Medical, which are subject to an approximate three-year vesting schedule. The restricted stock units are not considered part of the purchase consideration.

The following table summarizes the total consideration paid for Pega Medical and the preliminary allocation of purchase price to the estimated fair value of the assets acquired and liabilities assumed at the acquisition date:

Fair value of estimated total acquisition consideration	\$	32,045
Assets		
Cash		312
Accounts receivable-trade		2,100
Inventories		4,876
Prepaid expenses and other current assets		360
Property and equipment		604
Amortizable intangible assets		10,362
Other intangible assets		3,040
Total assets		21,654
Liabilities		
Accounts payable and accrued liabilities		2,527
Other current liabilities		160
Deferred tax liability		3,305
Total liabilities		5,992
Less: total net assets		15,662
Goodwill	\$	16,383

The fair value of identifiable intangible assets was based on preliminary valuations using a combination of the income and cost approach, inputs which would be considered Level 3 under the fair value hierarchy. The estimated fair value and useful life of identifiable intangible assets are as follows:

	Amount	Remaining Economic Useful Life
Trademarks / Names	\$ 3,040	Indefinite
Patents	3,141	10 years
Customer Relationships & Other	7,221	15 years
	\$ 13,402	

The fair value estimates and purchase price allocation included above are preliminary while the Company finalizes fair value estimates of the acquired intangible assets and related tax considerations.

MD Orthopaedics

On April 1, 2022, OrthoPediatics Iowa Holdco, Inc., a newly-formed, wholly-owned subsidiary of the Company, merged with and into MD Orthopaedics, Inc., an Iowa corporation ("MD Ortho"). MD Ortho has developed and manufactures a portfolio of orthopedic clubfoot products. The acquisition expands our total addressable market, serving as a specialty bracing platform company within our Trauma and Deformity business.

Under the terms of the related merger agreement, the Company paid to the indirect, sole shareholder of MD Ortho consideration of (a) \$8,781 in cash, after adjusting for closing net working capital, and (b) 173,241 shares of unregistered common stock, \$0.00025 par value per share, of the Company, representing approximately \$9,707 (based on the April 1, 2022 closing share price of \$56.03). The Company incurred approximately \$381 of acquisition-related costs, that are included in general and administrative expenses on the consolidated statement of operations for the nine months ended September 30, 2022.

The following table summarizes the total consideration paid for MD Ortho and the preliminary allocation of purchase price to the estimated fair value of the assets acquired and liabilities assumed at the acquisition date:

Fair value of estimated total acquisition consideration	\$	18,487
Assets		
Cash		420
Accounts receivable-trade		1,062
Inventories		1,126
Prepaid expenses and other current assets		100
Property and equipment		2,444
Amortizable intangible assets		9,120
Other intangible assets		2,410
Total assets		16,682
Liabilities		
Accounts payable and accrued liabilities		45
Other current liabilities		586
Deferred tax liability		3,014
Total liabilities		3,645
Less: total net assets		13,037
Goodwill	\$	5,450

The fair value of identifiable intangible assets was based on preliminary valuations using a combination of the income and cost approach, inputs which would be considered Level 3 under the fair value hierarchy. The estimated fair value and useful life of identifiable intangible assets are as follows:

	Amount	Remaining Economic Useful Life
Trademarks / Names	\$ 2,410	Indefinite
Patents	2,660	10 years
Customer Relationships	6,460	15 years
	\$ 11,530	

The fair value estimates and purchase price allocation included above are preliminary while the Company finalizes fair value estimates of the acquired intangible assets and related tax considerations. During the third quarter ended September 30, 2022, the Company increased the deferred tax liability recorded as a result of the acquisition of MD Ortho based on newly obtained prior year tax information. This resulted in an increase to goodwill.

The following table represents the pro forma net revenue and net loss assuming the acquisitions of MD Ortho and Pega Medical occurred on January 1, 2021.

From the date of acquisition through September 30, 2022, combined revenue for the acquisitions was approximately \$7,006 and combined net income was approximately \$1,145.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net Revenue	\$ 34,950	\$ 29,680	\$ 98,779	\$ 86,544
Net income (loss)	\$ 18,539	\$ (1,859)	\$ 10,013	\$ (13,576)

NOTE 4 - GOODWILL AND INTANGIBLE ASSETS

Goodwill

Changes in the carrying amount of goodwill for the nine months ended September 30, 2022 were as follows:

	Total
Goodwill at January 1, 2022	\$ 72,349
MD Ortho acquisition	5,450
Pega Medical acquisition	16,383
Foreign currency translation impact	(6,138)
Goodwill at September 30, 2022	\$ 88,044

Intangible Assets

As of September 30, 2022, the balances of intangible assets were as follows:

Amortizable intangible assets	Weighted-Average Amortization Period	Gross Intangible Assets	Accumulated Amortization	Impairment	Net Intangible Assets
Patents	12.2 years	\$ 45,763	\$ (7,334)	\$ —	\$ 38,429
License Agreements	4.9 years	10,697	(3,342)	—	7,355
Customer Relationships & Other	13.6 years	17,170	(1,271)	—	15,899
Intellectual Property	10.0 years	5,859	(1,257)	—	4,602
Total amortizable assets		\$ 79,489	\$ (13,204)	\$ —	\$ 66,285
Other intangible assets					
Trademark assets	Indefinite	\$ 18,463	\$ —	\$ (3,609)	\$ 14,854

As of December 31, 2021, the balances of amortizable intangible assets were as follows:

	Weighted-Average Amortization Period	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Patents	13.7 years	\$ 44,493	\$ (5,664)	\$ 38,829
Intellectual Property	10.1 years	9,847	(1,408)	8,439
License Agreements	5.5 years	10,674	(2,448)	8,226
Total amortizable assets		\$ 65,014	\$ (9,520)	\$ 55,494

Licenses are tied to product launches and do not begin amortizing until the product is launched to the market.

Trademarks are non-amortizing intangible assets and are recorded in Other intangible assets on the condensed consolidated balance sheets.

During the three months ended September 30, 2022, management determined that a triggering event occurred, indicating that it was more likely than not the fair value of the trademark assets is less than the carrying value. As such, the company completed a quantitative analysis whereby we determined the fair value of the trademark asset associated with our ApiFix acquisition was below the carrying value. The primary reason for the impairment is the lower forecasted revenue of our ApiFix product than previously expected and the subsequent impact to the discounted cash flow model utilized to calculate the fair value. We recorded a \$3,609 impairment charge in the three months ended September 30, 2022 to reduce the carrying amount of the intangible asset to its estimated fair value. Following the impairment, the newly calculated fair value becomes the new accounting basis and carrying value of the trademark. No impairment charges were recorded in any other period presented. The following table represents the significant unobservable inputs utilized in the calculation of estimated fair value associated with the ApiFix trademark asset:

	September 30, 2022
Discount rate	28.0 %
Estimated royalty rate	5.0 %
Long term growth rate	3.0 %

Changes in the carrying amount of trademark assets for the nine months ended September 30, 2022 were as follows:

	Total
Trademark assets at January 1, 2022	\$ 14,268
MD Ortho Acquisition	2,410
Pega Medical Acquisition	3,040
Trademark impairment	(3,609)
Foreign currency translation impact	(1,255)
Trademark assets at September 30, 2022	\$ 14,854

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company measures certain financial assets and liabilities at fair value. The accounting standards related to fair value measurements define fair value and provide a consistent framework for measuring fair value under the authoritative literature. A fair value hierarchy was established, which prioritizes the inputs used in measuring fair value into three broad levels.

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data; and

Level 3 – Significant unobservable inputs that are not corroborated by market data. Generally, these fair value measures are model-based valuation techniques such as discounted cash flows, and are based on the best information available, including our own data.

The following table summarizes the assets and liabilities measured at fair value on a recurring basis as of September 30, 2022 and December 31, 2021.

	September 30, 2022			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash Equivalents	\$ —	\$ —	\$ —	\$ —
Short term investments				
Exchange Trade Mutual Funds	\$ 42,634	\$ —	\$ —	\$ 42,634
Corporate Bonds	\$ 9,680	\$ —	\$ —	\$ 9,680
Treasury Bonds	\$ 32,396	\$ —	\$ —	\$ 32,396
Asset Backed Securities	\$ —	\$ —	\$ —	\$ —
Other	\$ —	\$ —	\$ —	\$ —
Financial Liabilities				
Contingent Consideration	\$ —	\$ —	\$ 3,460	\$ 3,460
	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash Equivalents	\$ —	\$ —	\$ —	\$ —
Short term investments				
Exchange Trade Mutual Funds	\$ —	\$ —	\$ —	\$ —
Corporate Bonds	\$ 22,476	\$ —	\$ —	\$ 22,476
Treasury Bonds	\$ 14,317	\$ —	\$ —	\$ 14,317
Asset Backed Securities	\$ —	\$ 8,272	\$ —	\$ 8,272
Other	\$ 837	\$ —	\$ —	\$ 837
Financial Liabilities				
Contingent Consideration	\$ —	\$ —	\$ 28,910	\$ 28,910

The Company's level 1 assets consist of short term investments which are comprised of exchange traded mutual funds and marketable securities with a maturity date greater than 3 months.

The fair value of the contingent consideration payment is considered a Level 3 fair value measurement and was determined with the assistance of an independent valuation specialist at the original issuance date using an option pricing model and a Monte Carlo simulation based on forecasted annual revenue, expected volatility and discount rates. The fair value of contingent consideration liabilities assumed in business combinations is recorded as part of the purchase price consideration of the acquisition and is determined using a discounted cash flow model or probability simulation model. The significant inputs of such models are not always observable in the market, such as certain financial metric growth rates, volatility rates, projections associated with the applicable milestone, the interest rate, and the related probabilities and payment structure in the contingent consideration arrangement. The adjustments in the fair value of the contingent consideration payments included an income adjustment of \$23,010 and \$1,430 for the three month periods ended September 30, 2022 and September 30, 2021, respectively, and an income adjustment of \$25,450 and an expense adjustment of \$3,710 for the nine month periods ended September 30, 2022 and September 30, 2021, respectively, in other expenses on the condensed consolidated statements of operations. For both the three and nine months ended September 30, 2022, the significant factor driving the reported fair value adjustment is the reduction in forecasted revenue which subsequently reduces the final expected payment.

The following table summarizes the change in fair value of Level 3 instruments in 2022:

	Total	
Balance at January 1, 2022	\$	28,910
Change in fair value of contingent consideration		(25,450)
Balance at September 30, 2022	\$	3,460

The recurring Level 3 fair value measurements of contingent consideration liabilities associated with commercial sales milestones include the following significant unobservable inputs as of September 30, 2022 and December 31, 2021:

	September 30, 2022	December 31, 2021
Valuation techniques	Discounted cash flow, Monte Carlo	
Present value discount rate ⁽¹⁾	16.2 %	18.4 %
Volatility factor	46.5 %	50.3 %
Expected years	1.6 years	2.4 years

(1) The present value discount rate includes estimated risk premium.

The estimated fair value reflects assumptions made by management as of September 30, 2022; however, the actual amount ultimately paid could be higher or lower than the fair value of the remaining contingent consideration.

NOTE 6 - DEBT AND CREDIT ARRANGEMENTS

Long-term debt consisted of the following:

	September 30, 2022		December 31, 2021	
Mortgage payable to affiliate	\$	942	\$	1,044
Less: current maturities		143		137
Long-term debt with affiliate, net of current maturities	\$	799	\$	907

On June 13, 2022, the Company entered into a Fourth Amendment (the "Fourth Amendment") to its Fourth Amended and Restated Loan and Security Agreement with Squadron Capital LLC, or Squadron (as so amended, the "Loan Agreement"). The Fourth Amendment increased the amount available under the revolving credit facility from \$25,000 to \$50,000 in anticipation of using the facility to fund the cash portion of the Company's July 1, 2022 acquisition of Pega Medical Inc. After borrowing \$31,000 under the Loan Agreement in June 2022 to fund such acquisition, the Company repaid the entire amount on August 15, 2022 with proceeds from a public offering of securities. See Note 3 – Business Combinations for information relating to the acquisition and Note 8 – Stockholders' Equity for information relating to the public offering.

The Loan Agreement provides a revolving credit facility, with interest only payments, at an annual interest rate equal to the greater of (a) six month SOFR plus 8.69% and (b) 10.0%. Prior to December 31, 2021, the interest rate on the facility had been equal to the greater of (a) three month LIBOR plus 8.61% and (b) 10.0%. The Company pays Squadron an unused commitment fee in an amount equal to the per annum rate of 0.50% (computed on the basis of a year of 360 days and the actual number of days elapsed) times the daily unused portion of the revolving credit commitment. The unused commitment fee is payable quarterly in arrears.

Borrowings under the revolving credit facility are made under a Second Amended and Restated Revolving Note, dated June 13, 2022 (the "Amended Revolving Note"), payable, jointly and severally, by the Company and each of its subsidiaries party thereto. The Amended Revolving Note will mature at the

earlier of: (i) the date on which any person or persons acquire (x) capital stock of the Company possessing the voting power to elect a majority of the Company's Board of Directors (whether by merger, consolidation, reorganization, combination, sale or transfer), or (y) all or substantially all of the Company's assets, determined on a consolidated basis; and (ii) January 1, 2024.

Borrowings under the Loan Agreement are secured by substantially all of the Company's assets and are unconditionally guaranteed by each of its subsidiaries with the exception of Vilex. There are no traditional financial covenants associated with the Loan Agreement. However, there are negative covenants that prohibit us from, among other things, transferring any of our material assets, merging with or acquiring another entity, entering into a transaction that would result in a change of control, incurring additional indebtedness, creating any lien on our property, making investments in third parties and redeeming stock or paying dividends, in each case subject to certain exceptions.

In connection with the purchase of our office and warehouse space in Warsaw, Indiana in August 2013, we entered into a mortgage note payable to Tawani Enterprises Inc., an affiliate of Squadron. Pursuant to the terms of the mortgage note, we pay Tawani Enterprises Inc. monthly principal and interest installments of \$16 with interest compounded at 5% until maturity in 2028, at which time a final payment of remaining principal and interest is due. The mortgage is secured by the related real estate and building. At September 30, 2022 the mortgage balance was \$942 of which current principal of \$143 was included in the current portion of long-term debt. As of December 31, 2021, the mortgage balance was \$1,044 of which current principal due of \$137 was included in the current portion of long-term debt.

The aggregate interest expense relating to the notes payable to Squadron and the mortgage note payable to Tawani was \$12 and \$14 for the three months ended September 30, 2022 and 2021, respectively, and \$512 and \$42 for the nine months ended September 30, 2022 and 2021, respectively. The unused commitment fee paid to Squadron was \$44 and \$32 for the three months ended September 30, 2022 and 2021, respectively, and \$111 and \$95 for the nine months ended September 30, 2022 and 2021, respectively.

NOTE 7 - INCOME TAXES

The Company utilizes an estimated annual effective tax rate to determine its provision or benefit for income taxes for interim periods. The income tax provision or benefit is computed by multiplying the estimated annual effective tax rate by the year-to-date pre-tax book income (loss).

For the nine months ended September 30, 2022, the income tax benefit was \$4,899 compared to \$890 for the nine months ended September 30, 2021. Our effective income tax (benefit) rate was (116.5)% and 5.2% for the nine months ended September 30, 2022 and 2021, respectively.

The deferred tax assets were fully offset by a valuation allowance at September 30, 2022 and December 31, 2021, with the exception of certain deferred tax liabilities recognized in a foreign jurisdiction as a result of fair value adjustments recorded upon the acquisition of ApiFix and Pega Medical. The company has recorded a tax benefit during the period ended September 30, 2022 for losses generated in the foreign jurisdiction. As of December 31, 2021, we had available federal, state and foreign tax loss carryforwards of \$114,008, \$73,997 and \$22,671, respectively. We had available federal tax credits of \$176. Net operating losses generated prior to December 31, 2017 will begin to expire in 2028. Federal net operating losses generated after January 1, 2018 will have an indefinite carryforward period. An ownership change under Section 382 of the Internal Revenue Code was deemed to occur on May 30, 2014. Given the limitation calculation, we anticipate approximately \$23,920 in losses generated prior to the ownership change date will be subject to potential limitation. The estimated annual limitation is \$1,062. A second ownership change under Section 382 was deemed to occur on December 11, 2018. The estimated annual limitation is \$9,736, which is increased by \$22,430 annually over the first five years as a result of an unrealized built in gain. NOLs sustained prior to May 30, 2014 will still be constrained by the lower limitation.

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended September 30, 2022. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth.

Management has reviewed the tax implications of the MD Ortho purchase accounting and recorded approximately \$3,010 of deferred tax liabilities. This resulted in a decrease to the overall net US deferred tax assets, thereby causing a remeasurement of the valuation allowance during the quarter ended September 30, 2022, such that an approximately \$3,010 of tax benefit was recorded for the reversal of the valuation allowance.

NOTE 8 - STOCKHOLDERS' EQUITY

Stock Options

The fair value for options granted at the time of issuance were estimated at the date of grant using a Black-Scholes options pricing model. Significant assumptions included in the option value model include the fair value of our common stock at the grant date, weighted average volatility, risk-free interest rate, dividend yield and the forfeiture rate. There were no stock options granted in any of the periods presented.

Our stock option activity and related information are summarized as follows:

	Options	Weighted-Average Exercise Price	Contractual Terms in Years
Outstanding at January 1, 2022	6,638	\$ 30.97	1.3
Exercised	(2,010)	30.97	
Forfeited or expired	(1,072)	—	
Outstanding at September 30, 2022	<u>3,556</u>	\$ 30.97	0.9

Options generally include a time-based vesting schedule permitting the options to vest ratably over three years. At September 30, 2022 and December 31, 2021, all options were fully vested.

There was no stock-based compensation expense on stock options for the three and nine months ended September 30, 2022 and 2021, respectively.

Restricted Stock Awards & Restricted Stock Units

Our restricted stock activity and related information are summarized as follows:

	Restricted Stock Awards	Weighted-Average Remaining Contractual Terms in Years	Restricted Stock Units	Weighted-Average Remaining Contractual Terms in Years
Outstanding at January 1, 2022	368,446	1.1	—	—
Granted	216,631		11,634	
Forfeited	(10,025)		—	
Vested	(150,067)		—	
Outstanding at September 30, 2022	<u>424,985</u>	1.7	<u>11,634</u>	2.8
Restricted stock exercisable at September 30, 2022	—		—	

At September 30, 2022, there was \$12,374 of unrecognized compensation expense remaining related to our service-based restricted stock awards and stock units. The unrecognized compensation cost was expected to be recognized over a weighted-average period of 1.7 years or earlier upon an elimination of the restriction period as a result of a change in control event.

Stock-based compensation expense on restricted stock amounted to \$1,682 and \$1,440 for the three months ended September 30, 2022 and 2021, respectively, and \$4,978 and \$4,170 for the nine months ended September 30, 2022 and 2021, respectively. The increase in the stock compensation for the three and nine months ended September 30, 2022 is primarily due to increase in plan participants from acquired businesses and newly hired employees to support the continued expansion of our business.

During the three months ended September 30, 2022 the Company purchased all of the issued and outstanding share capital of Pega Medical Inc. See Note 3 - Business Combinations for additional detail. As a component of that acquisition, the Company issued 34,899 shares of unregistered common stock. The Company determined that these shares were not part of the purchase consideration and would recognize expense over three years. During the three months ended September 30, 2022 the Company recognized expense of \$133 associated with these shares.

During the three months ended September 30, 2022 the Company completed a following-on offering in which we issued 1,525,000 of pre-funded warrants to Squadron. The warrants had an exercise price of \$0.00025. All warrants issued in the quarter were exercised and included in our outstanding common stock as of and during the three months ended September 30, 2022. As of September 30, 2022 and 2021 the Company had no warrants outstanding.

NOTE 9 – NET LOSS PER SHARE

The following is a reconciliation of basic and diluted net loss per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income (loss)	\$ 18,539	\$ (2,197)	\$ 9,106	\$ (16,332)
Less: Earnings allocated to participating securities	353	—	174	—
Net income available to common shareholders	<u>18,186</u>	<u>(2,197)</u>	<u>8,932</u>	<u>(16,332)</u>
Denominator for basic and diluted net income (loss) per share:				
Weighted average shares outstanding for basic	<u>21,150,219</u>	<u>19,291,374</u>	<u>20,703,883</u>	<u>19,256,128</u>
Weighted average shares outstanding for diluted	<u>21,295,323</u>	<u>19,291,374</u>	<u>20,958,503</u>	<u>19,256,128</u>
Earnings (loss) per share:				
Basic	\$ 0.88	\$ (0.11)	\$ 0.44	\$ (0.85)
Diluted	\$ 0.87	\$ (0.11)	\$ 0.43	\$ (0.85)

Our basic and diluted net loss per share is computed using the two-class method. For purposes of our equity disclosures and calculation of weighted average shares for basic earnings per share calculations, the two-class method is an earnings allocation that determines net income per share for each class of common stock and participating securities according to their participation rights in dividends and undistributed earnings or losses. Non-vested restricted stock that includes non-forfeitable rights to dividends are considered participating securities. For the periods presented with a net loss the weighted average shares outstanding remains consistent between basic and diluted as the effect would have been anti-dilutive.

The following table shows the contingently issuable and convertible equity shares that were excluded from the calculation of diluted net earnings (loss) per share because their effect would have been anti-dilutive:

	Nine Months Ended September 30,	
	2022	2021
Restricted stock	—	375,915
Stock options	—	6,638
Total shares	—	382,553

NOTE 10 – BUSINESS SEGMENT

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. We have one operating and reporting segment, OrthoPediatrics Corp., which designs, develops and markets anatomically appropriate implants and devices for children with orthopedic problems. Our chief operating decision-maker, our Chief Executive Officer, reviews financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance, accompanied by disaggregated revenue information by product category. We determined that disaggregating revenue into these categories achieves the disclosure objective of illustrating the differences in the nature, timing and uncertainty of our revenue streams. We do not assess the performance of our individual product categories on measures of profit or loss, or other asset-based metrics. Therefore, the information below is presented only for revenue by category and geography.

Product sales attributed to a country or region includes product sales to hospitals, physicians and distributors and is based on the final destination where the products are sold. No customers accounted for more than 10% of total product sales for the three and nine months ended September 30, 2022 or 2021. No customer accounted for more than 10% of consolidated accounts receivable as of September 30, 2022 and December 31, 2021.

Product sales by source were as follows:

Product sales by geographic location:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
U.S.	\$ 26,539	\$ 19,354	\$ 69,687	\$ 57,930
International	8,411	5,725	21,608	15,306
Total	\$ 34,950	\$ 25,079	\$ 91,295	\$ 73,236

Product sales by category:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Trauma and deformity	\$ 23,892	\$ 16,817	\$ 62,976	\$ 49,302
Scoliosis	9,979	7,266	25,383	20,874
Sports medicine/other	1,079	996	2,936	3,060
Total	\$ 34,950	\$ 25,079	\$ 91,295	\$ 73,236

No individual country with sales originating outside of the United States accounted for more than 10% of consolidated revenue for the three and nine months ended September 30, 2022 and 2021.

NOTE 11 - RELATED PARTY TRANSACTIONS

In addition to the debt and credit agreements and mortgage with Squadron and its affiliate (see Note 6), we currently use Structure Medical, LLC ("Structure Medical") as one of our suppliers. Structure Medical is affiliated with Squadron and a supplier with which we maintain certain long-term agreements. We made aggregate payments to Structure Medical for inventory purchases of \$218 and \$173 for the three months ended September 30, 2022 and 2021, respectively, and \$768 and \$441 for the nine months ended September 30, 2022 and 2021, respectively.

On December 31, 2019, the Company divested Vilex for \$25,000 to an affiliate of Squadron. In conjunction with the divestiture, the Company also entered into an exclusive perpetual license agreement to permit the purchasers of Vilex the ability to access intellectual property and sell products using the external fixation technology of Orthex, LLC to non-pediatric accounts. We had sales and payments related to inventory purchases to Squadron's affiliate, now known as Vilex, LLC, of \$51 and \$7, respectively, for the three months ended September 30, 2022, and sales and payments of \$111 and \$39, respectively, for the nine months ended September 30, 2022. We had sales and payments related to inventory purchases to Vilex, LLC of \$45 and \$150, respectively, for the three months ended September 30, 2021, and sales and payments of \$200 and \$675, respectively, for the nine months ended September 30, 2021.

NOTE 12 - EMPLOYEE BENEFIT PLAN

We have a defined-contribution plan, OrthoPediatics 401(k) Retirement Plan (the "401(k) Plan"), which includes a cash or deferral (Section 401(k)) arrangement. The 401(k) Plan covers those employees who meet certain eligibility requirements and elect to participate. Employee contributions are limited to the annual amounts permitted under the Internal Revenue Code. The 401(k) Plan allows us to make a discretionary matching contribution. Discretionary matching contributions are determined annually by management. We have elected to match our employees' 401(k) contributions up to 4% of employees' salary. Additionally, employees of MD Ortho receive contribution matches up to 3% of their salary.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Leases

As of September 30, 2022, the Company has recorded a lease liability of \$303 and corresponding right-of-use-asset of \$304 on its condensed consolidated balance sheet.

Legal Proceedings

From time to time, we are involved in various legal proceedings arising in the ordinary course of our business.

IMED Surgical - Software Ownership Dispute

On October 16, 2020, the Company, its wholly-owned subsidiary, Orthex, LLC ("Orthex"), the Company's largest investor, Squadron Capital, LLC ("Squadron"), and certain other defendants, were named in a lawsuit filed by IMED Surgical, LLC, a New Jersey company (the "Plaintiff"), in Broward County, Florida Circuit Court. In the lawsuit, the Plaintiff claims, among other things, that it is the rightful owner of certain patented point-and-click planning software being used by the Company, Orthex and Squadron (specifically, U.S. Patent No. 10,258,377 (titled "Point and click alignment method for orthopedic

surgeons, and surgical and clinical accessories and devices,” issued on April 16, 2019) (hereinafter, the “’377 Patent”).

In June 2019, the Company purchased all the issued and outstanding units of membership interests in Orthex, and all the issued and outstanding shares of stock of Vilex in Tennessee, Inc. for \$60,000 in total consideration. Vilex and Orthex are primarily manufacturers of foot and ankle surgical implants, including cannulated screws, fusion devices, surgical staples and bone plates, as well as the Orthex Hexapod technology, a system of rings, struts, implants, hardware accessories, and the Point & Click Software used to treat congenital deformities and limb length discrepancies. On December 31, 2019, the Company divested substantially all of the assets relating to Vilex’s adult product offerings to a wholly-owned subsidiary of Squadron, in exchange for a \$25,000 reduction in a term note owed to Squadron in connection with the initial acquisition. As part of the sale, the Company also executed an exclusive license arrangement with Squadron providing for perpetual access to certain intellectual property, including the ‘377 Patent. According to the lawsuit, the other defendants, who are unrelated to the Company, assigned the ‘377 Patent to Orthex in violation of certain agreements with the Plaintiff.

The Plaintiff, among other things, requests that the defendants be ordered to convey and assign to Plaintiff all of their rights, title and interests in and to the ‘377 Patent and seeks certain compensatory, consequential and unjust enrichment damages from Orthex and the unrelated defendants.

On May 13, 2021, the Court ordered the lawsuit stayed pending arbitration. To the extent the Plaintiff desires to further pursue the matter, it must first do so through a separate arbitration proceeding. In mid-November 2021, the Plaintiff initiated an arbitration proceeding; however, the Plaintiff failed to pay the fees it was required to pay for the arbitration to continue, resulting in the arbitration panel terminating the arbitration proceedings in mid-October 2022. In connection with the stay order, the Court also ordered the Company, Orthex and Squadron to give notice to the Plaintiff before any attempt to dispose, assign, sell or otherwise encumber the ‘377 Patent. The Company, Orthex and Squadron filed an appeal of this component of the order, but the appellate court affirmed the lower court’s decision. The Company, Orthex and Squadron have not sought to further pursue an appeal of the subject order.

Although we believe the IMED lawsuit is without merit and will vigorously defend the claims asserted against us, arbitration and litigation can involve complex factual and legal questions, and an adverse resolution of such proceedings could have a material adverse effect on our business, operating results and financial condition.

Wishbone Medical, Inc. – Patent Infringement Litigation

On October 30, 2020, OrthoPediatics, along with its wholly-owned subsidiary, Orthex, LLC, filed a lawsuit in federal district court (N.D. Indiana, South Bend Division, Case No. 3:20-cv-00929) against Wishbone Medical, Inc. and Nick A. Deeter (collectively “Wishbone”), claiming infringement of ‘377 Patent, unfair competition, false advertising, breach of contract, defamation per se, tortious interference with contractual relationships, and tortious interference with prospective contractual relationships. In early January 2021, OrthoPediatics amended its lawsuit by adding a declaratory judgment claim of infringement of the ‘377 Patent against Wishbone.

Thereafter, in January 2021, Wishbone filed a motion to dismiss all OrthoPediatics’ causes of action. In late August 2021, the Court denied Wishbone’s motion to dismiss with respect to OrthoPediatics’ infringement and breach of contract claims and dismissed OrthoPediatics’ remaining causes of action. In late September 2021, Wishbone filed its answer and counterclaims, in part, seeking declaratory judgment of non-infringement and invalidity of the ‘377 Patent, and alleging OrthoPediatics patent infringement claim(s) against Wishbone was made in bad faith. In mid-October 2021, OrthoPediatics filed its answer to Wishbone’s counterclaims, denying all of them. Although we believe Wishbone’s counterclaims are

without merit and will vigorously defend the claims asserted against us, litigation can involve complex factual and legal questions, and an adverse resolution of this proceeding could have an adverse effect on our business, operating results and financial condition.

We are not presently a party to any other legal proceedings the outcome of which, if determined adversely to us, would individually or in the aggregate materially affect our financial position or results of operations or cash flows.

Purchase Obligations and Performance Requirements

As a result of entering into a license agreement for the exclusive distribution of the 7D Surgical FLASH™ Navigation platform, the Company has agreed to a minimum purchase commitment for the first twelve months of that agreement. As of September 30, 2022, the remaining purchase commitment under the agreement was \$0.

On July 20, 2021, we entered into an amended license agreement, resulting in a five-year extension of our exclusive distribution rights of the FIREFLY Technology. As a component of the agreement the Company is required to meet minimum performance metrics, measured by the number of spine procedures in the fiscal year which used the FIREFLY products against the annual requirement in the agreement. This includes any scheduled surgeries whereby the Company has committed to payment of the product. The number of required surgeries varies each year of the agreement. The Company analyzes its projected achievement of these performance metrics and accrues for any estimated shortfall. During the three and nine months ended September 30, 2022, the Company recorded an expense of \$101 and \$442, respectively. No expense was recorded for either the three or nine months ended September 30, 2021.

Royalties

As of September 30, 2022, we are contracted to pay royalties to individuals and entities that provide research and development services, which range from 0.5% to 20% of sales.

We have products in development that have milestone payments and royalty commitments. In any development project, there are significant variables that will affect the amount and timing of these payments and as of September 30, 2022, we have not been able to determine the amount and timing of payments. We do not anticipate these future payments will have a material impact on our financial results.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the condensed consolidated financial statements and related notes thereto contained elsewhere in this quarterly report, as well as the information under "Note Regarding Forward-Looking Statements."

The description of our business included in this quarterly report is summary in nature and only includes material developments that have occurred since the latest full description. The full description of the history and general development of our business is included in "Item 1. Description of Business" section of the Company's Annual Report on Form 10-K filed with the SEC on March 3, 2022, which section is incorporated herein by reference.

Overview

We are the only global medical device company focused exclusively on providing a comprehensive trauma and deformity correction, scoliosis and sports medicine product offering to the pediatric orthopedic market in order to improve the lives of children with orthopedic conditions. We design, develop and commercialize innovative orthopedic implants and instruments to meet the specialized needs of pediatric surgeons and their patients, who we believe have been largely neglected by the orthopedic industry. We currently serve three of the largest categories in this market. We estimate that the portion of this market that we currently serve represents a \$3.3 billion opportunity globally, including over \$1.5 billion in the United States.

We sell implants, instruments and braces to our customers for use by pediatric orthopedic surgeons to treat orthopedic conditions in children. We provide our implants in sets that consist of a range of implant sizes and include the instruments necessary to perform the surgical procedure. In the United States and a few selected international markets, our customers typically expect us to have full sets of implants and instruments on site at each hospital but do not purchase the implants until they are used in surgery. Accordingly, we must make an up-front investment in inventory of consigned implants and instruments before we can generate revenue from a particular hospital and we maintain substantial levels of inventory at any given time. In the international markets, we also sell to stocking distributors, where we transfer control of our products to the distributor when title passes upon shipment.

We currently market 46 surgical systems that serve three of the largest categories within the pediatric orthopedic market: (i) trauma and deformity, (ii) scoliosis and (iii) sports medicine/other. We primarily rely on a broad network of third parties to manufacture the components of our products, which we then inspect and package. We believe our innovative products promote improved surgical accuracy, increase consistency of outcomes and enhance surgeon confidence in achieving high standards of care. In the future, we expect to expand our product offering within these categories, as well as to address additional categories of the pediatric orthopedic market.

The majority of our revenue has been generated in the United States, where we sell our products through a network of 41 independent sales agencies employing more than 201 sales representatives specifically focused on pediatrics. These independent sales agents are trained by us, distribute our products and are compensated through sales-based commissions and performance bonuses. We do not sell our products through or participate in physician-owned distributorships, or PODs.

We market and sell our products internationally in over 70 countries, through independent stocking distributors and sales agencies. Our independent distributors manage the billing relationship with each hospital in their respective territories and are responsible for servicing the product needs of their surgeon customers. In 2017, we began to supplement our international stocking distributors with sales agencies using direct sales programs in the United Kingdom, Ireland, Australia and New Zealand where we sell directly to the hospitals. We began selling direct to Canada in September 2018, Belgium and the Netherlands in January 2019, Italy in March 2020 and Germany, Switzerland and Austria in January 2021. Additionally, in July 2022, we established an operating company in Germany and in March 2019, we established an operating company in the Netherlands in order to enhance our operations in Europe. In these markets, we work through sales agencies that are paid a commission, similar to our U.S. sales model. We expect these arrangements to generate an increase in revenue and gross margin.

We believe there are significant opportunities for us to strengthen our position in U.S. and international markets by increasing investments in consigned implant and instrument sets, strengthening our global sales and distribution infrastructure and expanding our product offering. For example, on April 1, 2022, the Company acquired MD Orthopaedics, Inc., a developer and manufacturer of a portfolio of orthopedic clubfoot products. Also, on July 1, 2022, the Company, along with its newly-formed, indirect wholly-owned subsidiary OrthoPediatrics Canada ULC, purchased all of the issued and outstanding share capital of Pega Medical Inc., which has developed and sells a portfolio of trauma and deformity correction devices for children, including the Fassier-Duval Telescopic Intramedullary System, a well-recognized, innovative

implant designed to treat bony deformities in children with osteogenesis imperfecta without disrupting their normal growth.

Environmental, Social and Governance ("ESG") Activities

OrthoPediatrics was founded on the cause of impacting the lives of children with orthopedic conditions. Since inception we have impacted the lives of over 613,000 children, including MD Ortho. We believe we should continue to expand our social efforts while minimizing our impact to the environment and ensuring corporate governance. In 2021, we created an internal ESG team, which reports directly to our Board's Governance and Nominating Committee, to identify ESG topics for disclosure by assessing both the impact on our business and the importance to our stakeholders.

We encourage you to review our ESG page under the "About" section of our corporate website for more detailed information regarding our ESG efforts and current initiatives. On our website, among other information, are the following highlights:

- OrthoPediatrics cares about our environmental impact while working in a highly regulated industry and we are certified according to ISO 13485. Our team in Warsaw recently implemented an enhanced recycling program.
- The Company and its associates regularly participate in philanthropic causes important to our local communities. We also partner with charitable organizations that provide pediatric orthopedic care around the world. In 2020 we were named as "Corporate Partner of the Year" by the World Pediatric Project - with whom we work to provide access to medical care for children in developing countries.
- We are committed to fostering an environment that is respectful, compassionate, and inclusive of everyone in our community.
- The Board of Directors understands the value of diversity and will increase the diversity of the Board over the next 12 months. The Governance and Nominating Committee engaged a global recruiting firm to assist in adding two diverse Board candidates.

We believe effectively managing our priorities, as well as increasing our transparency related to ESG programs, will help create long-term value for our stakeholders. We expect to increase our disclosures and communicate our ESG efforts in future SEC filings.

Nothing on our website shall be deemed part of or incorporated by reference into this Quarterly Report on Form 10-Q.

Impact of COVID-19 on our Business

As a result of the COVID-19 pandemic ("COVID-19" or the "pandemic"), we have experienced significant business disruption. Elective procedures are delayed in some cases as hospitals continue to struggle with adequate staffing levels. As a majority of our products are utilized in elective surgeries or procedures, the deferrals of such surgeries and procedures have had, and may continue to have, a significant negative impact on our business and results of operations. Throughout the pandemic, we have taken a variety of steps to address the impact. We continue to monitor the impact of the pandemic on our employees and customers and the markets in which we operate and will take further actions that are considered prudent to address the pandemic. We cannot accurately predict with certainty the full extent to which the pandemic will impact demand for our products in the future. Accordingly, the COVID-19 pandemic could have a material adverse impact on our results of operations, financial condition and capital resources. We encourage the readers of this document to read our risk factors in their entirety contained in Item 1A "Risk Factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the

"SEC") on March 3, 2022 and in other reports filed with the SEC that discuss the risks and factors that may affect our business.

Despite the impact COVID-19 has had on our business, we continue to invest in research and development, invest in our people, and take steps to position ourselves for long-term success.

Other Trends and Uncertainties

From time to time we acquire, make investments in or license other technologies, products and business that may enhance our capabilities, complement our current products or expand the breadth of our markets or customer base. As a result of these transactions, we may record certain intangible assets, including goodwill and trademarks, which are subject to annual impairment testing. Fair value is based on our current assessment of the expected future cash flows based on recent results and other specific market factors. During the third quarter ended September 30, 2022, we determined that a triggering event had occurred indicating it was more likely than not the fair value of an acquired trademark was less than the associated carrying value. Subsequently, the company completed a quantitative analysis and concluded that the fair value was in fact less than the carrying value and an impairment loss was recorded in the period. We believe that the expected future cash flows in the most recent calculations represent management's best estimate; however, if actual results differ materially from these estimates, we could record an additional impairment charge which could be material to our consolidated financial statements and have an adverse impact on our results of operations.

In the three-month period ended September 30, 2022, there has been a significant and unprecedented increase in cases of respiratory syncytial virus, or RSV, and other respiratory illnesses. RSV is a common respiratory virus that follows a seasonal pattern. The typical season shows an increase in mid-September, peaks in late December and drops around mid-April; however, in 2022 the United States has experienced a significant increase during the summer months. The volume of elective procedures utilizing our products were negatively impacted as a significant percent of hospital capacity was absorbed to cover the increase in RSV-related hospitalizations. This has had a negative impact on our sales volume and may continue to do so into the future. We are unable to accurately determine exactly how this will impact us in the future, but we will continue to monitor this dynamic as we get closer to the traditional peak of RSV season.

Emerging Growth Company and Smaller Reporting Company Status

We will qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act (the "JOBS Act") until December 31, 2022. For as long as a company is deemed to be an emerging growth company, it may take advantage of specified reduced reporting and other regulatory requirements that are generally unavailable to other public companies. We also qualify as a "smaller reporting company," as such term is defined in Rule 12b-2 under the Exchange Act. To the extent that we continue to qualify as a smaller reporting company, after we cease to qualify as an emerging growth company, certain of the exemptions available to us as an emerging growth company may continue to be available to us as a smaller reporting company. The JOBS Act also provides that an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we are subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Summary of Statements of Operations for the Three and Nine Months Ended September 30, 2022 and 2021

The following table sets forth our results of operations for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Increase (Decrease)	%	2022	2021	Increase (Decrease)	%
Net revenue	\$ 34,950	\$ 25,079	\$ 9,871	39 %	\$ 91,295	\$ 73,236	\$ 18,059	25 %
Cost of revenue	9,061	6,525	2,536	39 %	21,859	17,914	3,945	22 %
Sales and marketing expenses	11,919	9,862	2,057	21 %	34,108	29,687	4,421	15 %
General and administrative expenses	15,116	11,034	4,082	37 %	42,829	34,163	8,666	25 %
Trademark impairment	3,609	—	3,609	100 %	3,609	—	3,609	100 %
Research and development expenses	2,206	1,302	904	69 %	5,980	3,935	2,045	52 %
Total other expenses (income)	(21,357)	(1,155)	(20,202)	1749 %	(21,297)	4,759	(26,056)	(548)%
Provision for income taxes (benefit)	(4,143)	(292)	(3,851)	(1319)%	(4,899)	(890)	(4,009)	(450)%
Net income (loss)	\$ 18,539	\$ (2,197)	\$ (20,736)	(944)%	\$ 9,106	\$ (16,332)	\$ (25,438)	(156)%

Net Revenue

The following tables set forth our net revenue by geography and product category for the three and nine months ended September 30, 2022 and 2021:

Product sales by geographic location:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
U.S.	\$ 26,539	\$ 19,354	\$ 69,687	\$ 57,930
International	8,411	5,725	21,608	15,306
Total	\$ 34,950	\$ 25,079	\$ 91,295	\$ 73,236

Product sales by category:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Trauma and deformity	\$ 23,892	\$ 16,817	\$ 62,976	\$ 49,302
Scoliosis	9,979	7,266	25,383	20,874
Sports medicine/other	1,079	996	2,936	3,060
Total	\$ 34,950	\$ 25,079	\$ 91,295	\$ 73,236

Net revenue increased \$9.9 million, or 39%, from \$25.1 million for the three months ended September 30, 2021 to \$35.0 million for the three months ended September 30, 2022 and increased \$18.1 million, or 25%, from \$73.2 million for the nine months ended September 30, 2021 to \$91.3 million for the nine months ended September 30, 2022. The increase during the three and nine months ended September 30, 2022 was driven primarily by increased usage of Orthex Ex-Fix, RESPONSE and ApiFix Scoliosis, PNP Femur as well as cannulated screw systems. Additionally, growth from acquisitions for the three and nine months ended September 30, 2022 was \$4.4 million and \$7.0 million, respectively.

Trauma and deformity sales, which include the non-organic growth from acquisitions, increased \$7.1 million, or 42%, during the three months ended September 30, 2022, and increased \$13.7 million, or 28%, during the nine months ended September 30, 2022. In each case, the increase was primarily driven by strong trauma and deformity growth across numerous product lines, specifically external fixation, the PNP Femur system, and cannulated screws as well as the sales generated from acquired businesses. Scoliosis sales increased \$2.7 million, or 37%, during the three months ended September 30, 2022, and increased \$4.5 million, or 22%, during the nine months ended September 30, 2022. In each case, the growth was primarily driven by increased sales of our RESPONSE fusion systems and ApiFix non-fusion

system as well as set sales to international stocking distributors. Sports medicine / other increased \$0.1 million, or 8%, during the three months ended September 30, 2022, and decreased \$0.1 million, or 4%, during the nine months ended September 30, 2022. Nearly all the change in each category was due to an increase or decrease in the unit volume sold and not a result of price changes.

Cost of Revenue and Gross Margin

Cost of revenue increased \$2.5 million, or 39%, from \$6.5 million for the three months ended September 30, 2021 to \$9.1 million for the three months ended September 30, 2022. Cost of revenue increased \$3.9 million, or 22%, from \$17.9 million for the nine months ended September 30, 2021 to \$21.9 million for the nine months ended September 30, 2022. In both cases, the increase was due primarily to an increase in volumes sold. Gross margin was 74% for the three months ended September 30, 2021 and 74% for the three months ended September 30, 2022. Gross margin was 76% for the nine months ended September 30, 2022 and 76% for the nine months ended September 30, 2021.

Sales and Marketing Expenses

Sales and marketing expenses increased \$2.1 million, or 21%, to \$11.9 million for the three months ended September 30, 2022 from \$9.9 million for the three months ended September 30, 2021. Sales and marketing expenses increased \$4.4 million, or 15%, to \$34.1 million for the nine months ended September 30, 2022 from \$29.7 million for the nine months ended September 30, 2021. The changes in the three and nine month periods ended September 30, 2022 were due primarily to increased sales commission expenses, driven by increased unit volumes sold. This is partially offset by lower commission rates associated with the acquired businesses. Additionally, the Company has experienced higher expense of approximately \$0.6 million related to the businesses acquired in the current year, which were not present in the prior year.

General and Administrative Expenses

General and administrative expenses increased \$4.1 million, or 37%, from \$11.0 million for the three months ended September 30, 2021 to \$15.1 million for the three months ended September 30, 2022. General and administrative expenses increased \$8.7 million, or 25%, to \$42.8 million for the nine months ended September 30, 2022 from the \$34.2 million for the nine months ended September 30, 2021. The increases for the three and nine month periods ended September 30, 2022 were due primarily to the addition of personnel and resources to support the continued expansion of our business and an increase in legal expenses, driven by two recent acquisitions, and other professional service expenses. Additionally, the Company has experienced higher expense of approximately \$3.0 million related to the businesses acquired in the current year, which were not present in the prior year.

Depreciation and amortization expenses increased \$0.7 million, or 27%, from \$2.7 million for the three months ended September 30, 2021 to \$3.4 million for the three months ended September 30, 2022. Depreciation and amortization expenses increased \$1.7 million, or 22%, to \$9.6 million for the nine months ended September 30, 2022 from \$7.9 million for the nine months ended September 30, 2021. The increases for the three and nine month periods ended September 30, 2022 were primarily due to increases in depreciation from higher set deployments and the amortization of intangible assets, primarily those acquired with MD Ortho and Pega.

Additionally, the Company recorded an impairment charge associated with the ApiFix trademark. See Note 4 - Goodwill and Intangible Assets for further details.

Research and Development Expenses

Research and development expenses increased \$0.9 million, or 69%, from \$1.3 million for the three months ended September 30, 2021 to \$2.2 million for the three months ended September 30, 2022.

Research and development expenses increased \$2.0 million, or 52%, to \$6.0 million for the nine months ended September 30, 2022 from the \$3.9 million for the nine months ended September 30, 2021. The increases for the three and nine month periods ended September 30, 2022 were primarily due to incremental product development and the addition of personnel to support the future growth of the business. Additionally, the Company has experienced higher expense of approximately \$0.1 million related to the businesses acquired in the current year, which were not present in the prior year.

Total Other (Income) Expense

Total other income reflects income of \$21.4 million and \$1.2 million for the three months ended September 30, 2022 and 2021, respectively, an increase of \$20.2 million or 1,749%. Other expenses fluctuated \$26.1 million, or 548%, to income of \$21.3 million for the nine months ended September 30, 2022 from the \$4.8 million of expense for the nine months ended September 30, 2021. The change in total other income for the three and nine months ended September 30, 2022 was primarily due to the fair value adjustments of contingent consideration, which was driven by the valuation inputs, specifically a significant reduction in the forecasted ApiFix product sales. This was offset by additional interest expense of approximately \$0.7 million as the result of the finalization of the ApiFix installment paid in the second quarter and the accreted interest expense associated with the acquisition installment payables. The increased interest expense from the ApiFix installment payment was driven by the variance in our closing stock price on the payment date compared to the 30 day average used to calculate the number of shares paid, which increase was non-cash in nature.

Liquidity and Capital Resources

We have incurred operating losses since inception which resulted in negative cash flows for continuing operations from operating activities of \$18.4 million and \$11.8 million for the nine months ended September 30, 2022 and 2021, respectively. As of September 30, 2022, we had an accumulated deficit of \$168.9 million. We anticipate that our losses will continue in the near term as we continue to expand our product portfolio and invest in additional consigned implant and instrument sets to support our expansion into existing and new markets. Since inception, we have funded our operations primarily with proceeds from the sales of our common and preferred stock, convertible securities and debt, as well as through sales of our products. At September 30, 2022, we had cash, restricted cash and short term investments of \$121.6 million. We also currently have \$50 million available on our line of credit.

During the quarter ended September 30, 2022, we raised net proceeds of approximately \$139.3 million from a public offering of (a) 1,091,250 shares our common stock, and (b) pre-funded warrants exercisable for an aggregate of up to 1,525,000 shares of common stock to Squadron Capital LLC ("Squadron"), our largest investor. The net proceeds reflect the Company's payment of \$4.3 million in underwriting discounts and commissions and \$0.3 million in other offering costs. A portion of the net proceeds were used to repay \$31 million of borrowings previously outstanding under the Company's revolving credit facility with Squadron. On September 20, 2022, the Company issued an aggregate of 1,525,000 shares of common stock to Squadron upon exercise of the pre-funded warrants.

Cash Flows

The following table sets forth our cash flows from operating, investing and financing activities for the periods indicated:

	Nine Months Ended September 30,	
	2022	2021
Net cash used in operating activities	\$ (18,425)	\$ (11,828)
Net cash used in investing activities	(90,144)	(10,376)
Net cash provided financing activities	136,009	40
Effect of exchange rate changes on cash	426	(266)
Net increase (decrease) in cash	<u>\$ 27,866</u>	<u>\$ (22,430)</u>

Cash Used in Operating Activities

Net cash used in operating activities from continuing operations was \$18.4 million and \$11.8 million for the nine months ended September 30, 2022 and 2021, respectively. The primary use of this cash was to fund our operations related to the development and commercialization of our products in each of these periods. Net cash used for working capital was \$17.4 million for the nine months ended September 30, 2022 compared to a use of \$12.1 million for the nine months ended September 30, 2021. During the nine months ended September 30, 2022, the primary driver of working capital cash usage was the increase in inventory of \$14.8 million and trade receivables of \$5.6 million, offset by trade payables of \$0.4 million to support future sales growth. We also saw an increase in the sourcing of cash from other accrued expenses of \$1.8 million.

Cash Used in Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2022 was \$90.1 million compared to \$10.4 million for the nine months ended September 30, 2021. Net cash used in investing activities for the nine months ended September 30, 2022 consisted primarily of the sale of short-term marketable securities used to fund the acquisition of MD Ortho, acquisition of Pega and cash planning in association with the public offering. This was offset by the purchases of instrument sets of \$10.6 million, the cash consideration paid for acquisitions and the purchase of short-term marketable securities from the excess cash after the follow-on offering.

Cash Provided By Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2022 was \$136.0 million. Net cash used in financing activities for the nine months ended September 30, 2021 was not material to the results of our operations. Net cash provided by financing activities for the nine months ended September 30, 2022 consisted primarily of the proceeds from the \$31 million of debt incurred in connection with the acquisition of Pega Medical Inc., which was offset by an equal payment after the follow-on offering completed in August. The proceeds from issuance of common stock, net of issuance costs provided a source of cash in financing activities of \$139.3 million for the three and nine months ended September 30, 2022.

Indebtedness

Loan Agreement

On June 13, 2022, the Company entered into a Fourth Amendment (the "Fourth Amendment") to its Fourth Amended and Restated Loan and Security Agreement with Squadron (as so amended, the "Loan Agreement"). The Fourth Amendment increased the amount available under the revolving credit facility from \$25 million to \$50 million in anticipation of using the facility to fund the cash portion of the Company's July 1, 2022 acquisition of Pega Medical Inc. After borrowing \$31 million under the Loan

Agreement in June 2022 to fund such acquisition, the Company repaid the entire amount on August 15, 2022 with proceeds from a public offering of securities.

The Loan Agreement provides a revolving credit facility, with interest only payments, at an annual interest rate equal to the greater of (a) six month SOFR plus 8.69% and (b) 10.0%. Prior to December 31, 2021, the interest rate on the facility had been equal to the greater of (a) three month LIBOR plus 8.61% and (b) 10.0%. The Company pays Squadron an unused commitment fee in an amount equal to the per annum rate of 0.50% (computed on the basis of a year of 360 days and the actual number of days elapsed) times the daily unused portion of the revolving credit commitment. The unused commitment fee is payable quarterly in arrears.

Borrowings under the revolving credit facility are made under a Second Amended and Restated Revolving Note, dated June 13, 2022 (the "Amended Revolving Note"), payable, jointly and severally, by the Company and each of its subsidiaries party thereto. The Amended Revolving Note will mature at the earlier of: (i) the date on which any person or persons acquire (x) capital stock of the Company possessing the voting power to elect a majority of the Company's Board of Directors (whether by merger, consolidation, reorganization, combination, sale or transfer), or (y) all or substantially all of the Company's assets, determined on a consolidated basis; and (ii) January 1, 2024.

Borrowings under the Loan Agreement are secured by substantially all of the Company's assets and are unconditionally guaranteed by each of its subsidiaries with the exception of Vilex. There are no traditional financial covenants associated with the Loan Agreement. However, there are negative covenants that prohibit us from, among other things, transferring any of our material assets, merging with or acquiring another entity, entering into a transaction that would result in a change of control, incurring additional indebtedness, creating any lien on our property, making investments in third parties and redeeming stock or paying dividends, in each case subject to certain exceptions as further detailed in the Loan Agreement.

The Loan Agreement includes events of default, the occurrence and continuation of any of which provides Squadron with the right to exercise remedies against us and the collateral securing the loans, including cash. These events of default include, among other things, the failure to pay amounts due under the credit facilities, insolvency, the occurrence of a material adverse event, which includes a material adverse change in our business, operations or properties (financial or otherwise) or a material impairment of the prospect of repayment of any portion of the obligations, the occurrence of any default under certain other indebtedness and a final judgment against us in an amount greater than \$250 thousand. The occurrence of a material adverse change could result in the acceleration of payment of the debt.

As of September 30, 2022 and December 31, 2021 there was no outstanding debt on the line of credit. As a result, \$50 million is currently available for future borrowing.

Mortgage Note

In August 2013, pursuant to the purchase of our office and warehouse space, we entered into a mortgage note payable to Tawani Enterprises Inc., the owner of which is a member of Squadron's management committee. Pursuant to the terms of the mortgage note, we pay Tawani Enterprises Inc. monthly principal and interest installments of \$15 thousand, with interest compounded at 5% until maturity in August 2028, at which time a final payment of remaining principal and interest will become due. The mortgage is secured by the related real estate and building. The mortgage balance was \$0.9 million and \$1.0 million at September 30, 2022 and December 31, 2021, respectively.

Pediatric Orthopedic Business Seasonality

Our revenue is typically higher in the summer months and holiday periods, driven by higher sales of our trauma and deformity and scoliosis products, which is influenced by the higher incidence of pediatric surgeries during these periods due to recovery time provided by breaks in the school year. Additionally, our scoliosis patients tend to have additional health challenges that make scheduling their procedures variable in nature.

Critical Accounting Policies and Significant Judgments and Estimates

This management's discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue and expenses during the reporting periods. We monitor and analyze these items for changes in facts and circumstances, and material changes in these estimates could occur in the future. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ materially from these estimates under different assumptions or conditions. See additional detail regarding our Critical Accounting Policies in our Annual Report on Form 10-K filed with the SEC on March 3, 2022. There have been no material changes to these policies since the filing of our Annual Report on Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a "smaller reporting company," we are not required to provide the information required by this item.

ITEM 4. CONTROLS AND PROCEDURES

a. Evaluation of 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 defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) at the end of the period covered by this quarterly report.

Based on this evaluation, we concluded that, as of such date, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

We recognize that any controls system, no matter how well designed and operated, can provide only reasonable assurance of achieving its objectives, and our management necessarily applies its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

b. Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the period covered by this quarterly report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

In April 2022, we completed the acquisition of MD Ortho and in July 2022 we completed the acquisition of Pega Medical. We are currently integrating the acquired companies into our operations. The internal control over financial reporting of the acquired companies was excluded from the evaluation of the effectiveness of our internal controls. This exclusion is in accordance with the general guidance issued by the Staff of the SEC that an assessment of a recent business combination may be omitted from management's report on internal control over financial reporting during the first year following an acquisition while integrating the acquired company. The acquired companies constituted approximately 6.8% of our total assets as of September 30, 2022, including goodwill and intangible assets recorded as a part of our purchase price allocation, and approximately 7.7% of our net revenue for the nine months ended September 30, 2022.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in various legal proceedings arising in the ordinary course of our business.

A discussion of certain of those legal proceedings is contained in Note 13 – Commitments and Contingencies (under the heading “Legal Proceedings”) of the notes to the condensed consolidated financial statements included in Item 1. Financial Statements of Part I of this quarterly report on Form 10-Q, which discussion is incorporated herein by reference.

We are not presently a party to any other legal proceedings the outcome of which, if determined adversely to us, would individually or in the aggregate materially affect our financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this quarterly report, you should carefully consider the factors discussed in “Risk Factors” in our Annual Report on Form 10-K filed with the SEC on March 3, 2022. There have been no material changes to these Risk Factors since the filing of our Annual Report on Form 10-K.

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

a. Sale of Unregistered Securities.

On July 1, 2022, the Company issued 34,899 shares of its common stock, \$0.00025 par value per share, in connection with the purchase of all of the issued and outstanding shares of Pega Medical Inc. The purchase price also included \$32.0 million in cash. The shares were valued at \$42.90 per share on the date of issuance. The issuance of the common stock was made in reliance upon an exemption provided under Section 4(a)(2) of the Securities Act of 1933, as amended.

b. Use of Proceeds.

None.

c. Issuer Purchases of Equity Securities.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

a. Failure to file under Form 8-K.

None.

b. Modifications to nomination process.

None.

ITEM 6. EXHIBITS

The following exhibits are included within this Report or incorporated herein by reference.

Exhibit Number	Description
2.1w	Share Purchase Agreement, dated April 1, 2020, by and among OrthoPediatics Corp., ApiFix Ltd. ("ApiFix"), certain controlling shareholders of ApiFix, and the sellers' representative named therein (Incorporated by reference to Exhibit 2.1 of registrant's Form 8-K filed on April 1, 2020) (SEC File No. 001-38242)
2.2w	Agreement and Plan of Merger, dated April 1, 2022, by and among OrthoPediatics Corp., OrthoPediatics Iowa Holdco, Inc., Mitchell Designs, Inc. ("Designs"), and John Mitchell, the sole shareholder of Designs (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed on April 4, 2022) (SEC File No. 001-38242)
2.3w	Sale and Purchase Agreement, dated June 13, 2022, among OrthoPediatics Corp., OrthoPediatics Canada ULC, and the shareholders of Pega Medical Inc. (Incorporated by reference to Exhibit 2.1 of registrant's Form 8-K filed on June 14, 2022) (SEC File No. 001-38242)
3.1	Amended and Restated Certificate of Incorporation of OrthoPediatics Corp. (Incorporated by reference to Exhibit 3.1 of registrant's Form 8-K filed on October 16, 2017) (SEC File No. 001-38242)
3.2	Amended and Restated Bylaws of OrthoPediatics Corp. (Incorporated by reference to Exhibit 3.2 of registrant's Form 8-K filed on October 16, 2017) (SEC File No. 001-38242)
4.1	Specimen stock certificate evidencing the shares of common stock (Incorporated by reference to Exhibit 4.1 of registrant's Amendment No. 3 to Form S-1 filed on October 2, 2017) (SEC File No. 333-212076)
4.2	Registration Rights Agreement, by and between the registrant and Squadron, dated as of May 30, 2014 (Incorporated by reference to Exhibit 4.2 of registrant's Form S-1 filed on June 16, 2016) (SEC File No. 333-212076)
4.3	First Amendment to Registration Rights Agreement, by and between the registrant and Squadron, dated October 16, 2017 (Incorporated by reference to Exhibit 10.2 of registrant's Form 8-K filed on October 16, 2017) (SEC File No. 001-38242)
4.4	Stockholders Agreement, by and between the registrant and Squadron, dated October 16, 2017 (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed on October 16, 2017) (SEC File No. 001-38242)
4.5	Form of Pre-Funded Common Stock Purchase Warrant (Incorporated by reference to Exhibit 4.1 of registrant's Form 8-K filed on August 12, 2022) (SEC File No. 001-38242)
10.1	Fourth Amended and Restated Loan Agreement, by and among the registrant, its subsidiaries and Squadron, dated as of December 31, 2017 (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed on January 8, 2018) (SEC File No. 001-38242)
10.2	First Amendment to the Fourth Amended and Restated Loan Agreement, dated as of June 4, 2019, by and among OrthoPediatics Corp., its subsidiaries named therein and Squadron Capital LLC (Incorporated by reference to Exhibit 10.2 of registrant's Form 8-K filed on June 5, 2019) (SEC File No. 001-38242)
10.3	Second Amendment to the Fourth Amended and Restated Loan Agreement, dated as of August 4, 2020, by and among OrthoPediatics Corp., its subsidiaries named therein and Squadron Capital LLC (Incorporated by reference to Exhibit 10.3 of registrant's Form 10-Q filed on August 6, 2020) (SEC File No. 001-38242)
10.4	Third Amendment to the Fourth Amended and Restated Loan Agreement, dated as of December 31, 2021, by and among OrthoPediatics Corp., its subsidiaries named therein and Squadron Capital LLC (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed on January 6, 2022) (SEC File No. 001-38242)
10.5	Fourth Amendment to the Fourth Amended and Restated Loan Agreement, dated as of June 13, 2022, by and among OrthoPediatics Corp., its subsidiaries named therein and Squadron Capital LLC (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed on June 15, 2022) (SEC File No. 001-38242)
10.6	Second Amended and Restated Revolving Note, dated June 13, 2022, made payable, jointly and severally, by OrthoPediatics Corp. and each of its subsidiaries party thereto (Incorporated by reference to Exhibit 10.2 of registrant's Form 8-K filed on June 15, 2022) (SEC File No. 001-38242)
31.1	+ Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	+ Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	++ Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2	++	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	+	Inline XBRL Instance Document (The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.)
101.SCH	+	Inline XBRL Taxonomy Extension Schema Document
101.CAL	+	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	+	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	+	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	+	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104		Cover Page Interactive Data File (formatted as Inline XBRL and included in Exhibit 101)

W The schedules to the applicable agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a copy of any schedule omitted from such agreement to the SEC upon request.

* Exhibits that describe or evidence management contracts or compensatory plans or arrangements required to be filed as Exhibits to this Report.

+ Filed herewith.

++ Furnished herewith.

SIGNATURES

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

November 1, 2022

By: /s/ David R. Bailey
David R. Bailey
President and Chief Executive Officer

November 1, 2022

By: /s/ Fred L. Hite
Fred L. Hite
Chief Financial Officer and Chief Operating Officer

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David R. Bailey, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of OrthoPediatrics Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with general accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David R. Bailey

David R. Bailey
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 1, 2022

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Fred L. Hite, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of OrthoPediatrics Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with general accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Fred L. Hite

Fred L. Hite

Chief Financial Officer and Chief Operating Officer
(Principal Financial Officer)

Date: November 1, 2022

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of OrthoPediatics Corp. (the "Company") for the quarterly period ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, David R. Bailey, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Company.

This certificate is being furnished solely for purposes of Section 906 and is not being filed as part of the Report.

/s/ David R. Bailey

David R. Bailey

President and Chief Executive Officer
(Principal Executive Officer)

Date: November 1, 2022

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of OrthoPediatics Corp. (the "Company") for the quarterly period ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Fred L. Hite, Chief Financial Officer and Chief Operating Officer of the Company, hereby certifies, pursuant to 18 Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Company.

This certificate is being furnished solely for purposes of Section 906 and is not being filed as part of the Report.

/s/ Fred L. Hite

Fred L. Hite

Chief Financial Officer and Chief Operating Officer
(Principal Financial Officer)

Date: November 1, 2022