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, 2018

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	**26-1761833**
(State or other jurisdiction of incorporation or organization)	(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)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ☐
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ☐
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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. x
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No x
As of October 29, 2018, there were 12,811,450 outstanding shares of common stock, $0.00025 par value per share, of OrthoPediatrics Corp.

OrthoPediatrics Corp.
Form 10-Q
For the Quarterly Period Ended September 30, 2018

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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 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 15, 2018 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
(In Thousands, Except Share Data)

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash	$ 24,463	$ 42,582
Accounts receivable - trade, less allowance for doubtful accounts of $131 and $143, respectively	9,456	5,603
Inventories, net	26,646	19,498
Inventories held by international distributors, net	234	1,047
Prepaid expenses and other current assets	1,045	831
Total current assets	61,844	69,561
Property and equipment, net	12,774	10,391
Other assets:		
Amortizable intangible assets, net	2,000	2,089
Other intangible assets	260	260
Total other assets	2,260	2,349
Total assets	$ 76,878	$ 82,301
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	$ 5,903	$ 5,495
Accrued compensation and benefits	3,302	2,905
Current portion of long-term debt with affiliate	117	113
Other current liabilities	1,594	954
Total current liabilities	10,916	9,467
Long-term liabilities:		
Long-term debt with affiliate, net of current portion	21,330	21,418
Revolving credit facility with affiliate	3,947	3,921
Total long-term liabilities	25,277	25,339
Total liabilities	36,193	34,806
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, $0.00025 par value; 50,000,000 shares authorized; 12,807,520 shares and 12,621,781 shares issued and outstanding as of September 30, 2018 and December 31, 2017	2	2
Additional paid-in capital	153,649	150,424
Accumulated deficit	(112,623)	(103,066)
Accumulated other comprehensive (loss) income	(343)	135
Total stockholders' equity	40,685	47,495
Total liabilities and stockholders' equity	$ 76,878	$ 82,301

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,	
	2018	2017	2018	2017
Net revenue	$ 15,820	$ 12,375	$ 42,991	$ 33,939
Cost of revenue	3,843	2,884	10,825	8,321
Gross profit	11,977	9,491	32,166	25,618
Operating expenses:				
Sales and marketing	7,150	5,633	20,005	15,122
General and administrative	4,877	3,487	16,393	10,282
Research and development	1,122	1,127	3,455	2,482
Total operating expenses	13,149	10,247	39,853	27,886
Operating loss	(1,172)	(756)	(7,687)	(2,268)
Other expenses:				
Interest expense, net	608	761	1,722	1,857
Other expense (income)	85	20	148	(38)
Total other expenses	693	781	1,870	1,819
Net loss	$ (1,865)	$ (1,537)	$ (9,557)	$ (4,087)
Net loss attributable to common stockholders	$ (1,865)	$ (3,021)	$ (9,557)	$ (8,451)
Weighted average common stock - basic and diluted	12,624,858	1,773,385	12,417,972	1,754,576
Net loss per share attributable to common stockholders - basic and diluted	$ (0.15)	$ (1.70)	$ (0.77)	$ (4.82)

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$ (1,865)	$ (1,537)	$ (9,557)	$ (4,087)
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(100)	121	(478)	193
Other comprehensive (loss) income	(100)	121	(478)	193
Comprehensive loss	$ (1,965)	$ (1,416)	$ (10,035)	$ (3,894)

See notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Value	Capital	Deficit	Income (loss)	Equity
Balance at January 1, 2018	12,621,781	$ 2	$ 150,424	$ (103,066)	$ 135	$ 47,495
Net loss	—	—	—	(9,557)	—	(9,557)
Other comprehensive loss	—	—	—	—	(478)	(478)
Stock option exercise	11,533	—	326	—	—	326
Restricted stock	174,206	—	2,899	—	—	2,899
Balance at September 30, 2018	12,807,520	$ 2	$ 153,649	$ (112,623)	$ (343)	$ 40,685

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2018	2017
OPERATING ACTIVITIES		
Net loss	$ (9,557)	$ (4,087)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,177	1,748
Stock-based compensation	2,899	1,081
Changes in certain current assets and liabilities:		
Accounts receivable - trade	(4,077)	(1,588)
Inventories	(6,087)	(3,276)
Inventories held by international distributors	813	345
Prepaid expenses and other current assets	(214)	(382)
Accounts payable - trade	408	1,559
Accrued expenses and other liabilities	798	513
Other	(15)	193
Net cash used in operating activities	(12,855)	(3,894)
INVESTING ACTIVITIES		
Purchases of licenses	(195)	(1,337)
Purchases of property and equipment	(5,311)	(3,949)
Net cash used in investing activities	(5,506)	(5,286)
FINANCING ACTIVITIES		
Proceeds from issuance of debt with affiliate	—	10,139
Payments on mortgage notes	(84)	(80)
Proceeds from exercise of stock options	326	—
Payments of deferred offering costs	—	(250)
Net cash provided by financing activities	242	9,809
NET (DECREASE) INCREASE IN CASH	(18,119)	629
Cash, beginning of year	42,582	1,609
Cash, end of period	$ 24,463	$ 2,238
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	$ 1,722	$ 1,856
Accretion of redeemable convertible preferred stock	$ —	$ 4,364
Transfer of instruments from property and equipment to inventory	$ 1,061	$ 1,196

See notes to condensed consolidated financial statements.

ORTHOPEDIATRICS CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(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 and devices 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, Pediguard and Pediatric Nailing Platform | Femur, 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.

In 2017, we expanded operations and established legal entities in the United Kingdom, Australia and New Zealand permitting us to sell under an agency model direct to local hospitals in these countries. Operations began in the United Kingdom on April 3, 2017, in Australia on May 1, 2017 and in New Zealand on July 1, 2017. In September 2018, we further expanded operations in Canada selling direct to local hospitals.

On October 12, 2017, we completed an initial public offering ("IPO") of our common stock, in which we issued and sold 4,600,000 shares of common stock at a public offering price of $13.00 per share for aggregate gross proceeds of $59,800. We received approximately $46,900 in net proceeds after deducting $4,200 of underwriting discounts and commissions, paying approximately $2,700 of offering costs and paying approximately $6,000 of Series B dividends.

Our largest investor is Squadron Capital LLC (“Squadron”), a family office firm headquartered near Hartford, Connecticut.

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 and OrthoPediatrics NZ Limited (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, 2018 and December 31, 2017, the condensed consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017, the condensed consolidated statements of comprehensive loss for the three and nine months ended September 30, 2018 and 2017, the condensed consolidated statement of stockholders’ equity for the nine months ended September 30, 2018 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017 are unaudited and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2017 and related notes thereto contained in our Annual Report on Form 10-K filed with the Securities and

Exchange Commission ("SEC") on March 15, 2018. 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, 2017 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, 2018 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 $112,623 and $103,066 as of September 30, 2018 and December 31, 2017, respectively. Effective December 31, 2017, we entered into an amended loan agreement with Squadron to consolidate a majority of our term note into a $20,000 term loan, reestablished a $15,000 revolving credit facility, changed the interest rate and extended the loan period through January 31, 2023. Management continues to monitor cash flows and liquidity on a regular basis. We believe that our cash balance at September 30, 2018, expected cash flows from operations for the next twelve months subsequent to the issuance of the condensed consolidated financial statements and the availability under the revolving credit facility are sufficient to enable us to maintain current and essential planned operations for more than the next twelve months subsequent to the issuance of the condensed consolidated financial statements.

Use of Estimates

Preparation of the 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 the condensed consolidated financial statements.

Foreign Currency Transactions

We currently bill our international distributors in United States ("U.S.") dollars, resulting in minimal foreign exchange transaction expense.

Beginning in the second quarter of 2017, we began selling direct within the United Kingdom, Ireland, Australia and New Zealand and billing using the local currency for each country. In September 2018, we began selling direct in Canada. The financial statements of our foreign subsidiaries are accounted for 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 condensed consolidated statements of comprehensive loss.

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.

We do not have any assets or liabilities that are measured on a recurring basis under the presented fair value hierarchy.

Revenue from Contracts with Customers

The Company adopted ASC 606, "*Revenue From Contracts With Customers* (ASC 606)", on January 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption. The adoption of ASC 606 did not have any impact on the Company's consolidated historical financial statements. The reported results for 2018 reflect the application of ASC 606 guidance while the reported results for 2017 were prepared under the guidance of "ASC 605, *Revenue Recognition* (ASC 605)." In accordance with ASC 606, revenue is recognized when a customer obtains control of promised goods or services. 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. This typically occurs when we transfer control of our products to the customer, generally upon implantation or when title passes upon shipment. 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 the hospital obtains control of the product, typically either upon shipment or delivery of the product dependent on the terms of the contract. Pricing for each customer is dictated by a unique pricing agreement, which does not generally include rebates or discounts.

Revenue Recognition – International

Outside of the United States, we primarily sell our products through independent stocking distributors. Generally, the distributors are allowed to return products, and some are thinly capitalized. Based on our history of collections and returns from international customers, we have concluded that collectability is not reasonably assured at the time of delivery for certain customers who have not evidenced a consistent pattern of timely payment. Accordingly, we do not recognize international revenue and associated cost of revenue at the time title transfers for these customers for whom collectibility has not been deemed probable based on the customer's history and ability to pay, but rather when cash has been received. Until such payment, cost of revenue is recorded as inventories held by international distributors, net of adjustment for estimated unreturnable inventory, on our condensed consolidated balance sheets.

For international independent stocking distributors for whom we have determined collectability is probable, 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 upon implantation or when title passes upon shipment.

In early 2017, we expanded operations and established legal entities in the United Kingdom, Australia and New Zealand permitting us to sell under an agency model direct to local hospitals in these countries. Additionally, in September 2018 we began selling in Canada utilizing the subject agency model. 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 the hospital obtains control of the product, typically either upon shipment or delivery of the product dependent on the terms of the contract.. Pricing for each customer is dictated by a unique pricing agreement, which does not generally include rebates or discounts.

Cash and Cash Equivalents

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 sheet for cash are valued at cost, which approximates fair value.

Accounts Receivable

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.

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, which consist of implants and instruments held in our warehouse or with third-party independent sales agencies or distributors, are considered finished goods and are purchased from third parties.

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 and Canada 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. Amortization is calculated on a straight-line basis over the estimated useful life of the patents and licenses. Amortization for patents and licenses commences at the time of patent approval and market launch, respectively. Intangible assets are amortized over a 3 to 20 year period.

Amortizable intangible assets are assessed for impairment annually 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 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 assets. No impairment charges were recorded in any of the periods presented.

Other Intangible Assets

We have indefinite lived tradename assets that are reviewed for impairment by performing a quantitative analysis, which occurs annually in the fourth quarter 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 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 assets. No impairment charges were recorded in any of the periods presented.

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.

Research and development costs were $1,122 and $1,127 for the three months ended September 30, 2018 and 2017, respectively, and $3,455 and $2,482 for the nine months ended September 30, 2018 and 2017, respectively.

Stock-Based Compensation

Prior to our IPO, we maintained an Amended and Restated 2007 Equity Incentive Plan (the “2007 Plan”) that provided for grants of options and restricted stock to employees, directors and associated third-party representatives of the Company as determined by the Board of Directors. The 2007 Plan had authorized 1,585,000 shares for award.

Immediately prior to our IPO, we adopted our 2017 Incentive Award Plan (the "2017 Plan") which replaced the 2007 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 1,789,647 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. The restricted stock that had been granted under the 2007 Plan had restriction periods that generally last 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 estimate the fair value of stock options and restricted stock at the grant date. Stock-based compensation is recognized ratably over the requisite service period, which is generally the vesting period for stock options and the restriction period for restricted stock.

Calculating the fair value of stock-based awards requires that we make highly subjective assumptions. We use the Black-Scholes option pricing model to value our stock options. Use of the valuation methodology requires that we make assumptions as to the volatility of our common stock, the expected term of our stock options and the risk free rate of return for a period that approximates the expected term of our stock options. Because we were a privately-held company with a limited operating history, we utilized the historical stock price volatility from a representative group of comparable industry competitors to estimate expected stock price volatility.

Prior to the IPO, in determining the fair value of our common stock at the grant date, which is the basis for the fair value of stock based awards, we used the market approach, which was based on the assumption that the value of an asset is equal to the value of a substitute asset with the same characteristics. In using the market approach, we consider both the guideline public company method and the precedent transaction method. Given the absence of a public trading market for our common stock prior to our IPO, we exercised reasonable judgment and considered a number of objective and subjective factors to determine the best estimate of the fair value of our common stock, including: the preferences and dividends of our redeemable convertible preferred stock relative to those of our common stock; our operating results and financial conditions, including our level of available capital resources; equity market conditions affecting comparable public companies; general U.S. market conditions; and the lack of marketability of our common stock. Prior to our IPO, for restricted stock awards we applied a discount for lack of marketability to the fair value of common stock to estimate the impact of valuing a minority interest in our Company as a closely held, non-public company with no liquid market for its shares. Following the IPO, we value restricted stock awards using the market value on the grant date.

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.

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 their 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.

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

We qualify as an “emerging growth company” as defined in the Jumpstart Our Business Startups Act (the “JOBS Act”). 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. 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 and our disclosure obligations regarding executive compensation may be reduced. We may take advantage of these provisions until the last day of our fiscal year following the fifth anniversary of our initial public offering, or December 31, 2022. However, if certain events occur prior to the end of such five-year period, including if we become a "large accelerated filer," our annual gross revenue exceeds $1.07 billion or we issue more than $1.0 billion of non-convertible debt in any three-year period, we will cease to be an emerging growth company prior to the end of such five-year period.

Following the recent SEC amendment raising the financial thresholds for a "smaller reporting company," as such term is defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we qualify as a smaller reporting company effective with the filing of this quarterly report. As a result, many of the same exemptions from reporting requirements available to us as an emerging growth company are also available to us as a smaller reporting company, including not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act and reduced disclosure obligations regarding executive compensation. To the extent that we continue to qualify as a smaller reporting company, after we cease to qualify as an emerging growth company, those exemptions may continue to be available to us.

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 are subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers,” on the recognition of revenue for all contracts with customers designed to improve comparability and enhance financial statement disclosures. The underlying principle of this comprehensive model is that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the payment to which the company expects to be entitled in exchange for those goods or services. It also requires enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively, and improves guidance for multiple-element arrangements. The FASB subsequently issued amendments to ASU No. 2014-09 that have the same effective date and transition date. These standards became effective for us on January 1, 2018. We elected to apply the modified retrospective approach, and we have not identified any accounting changes that would materially impact the amount of reported revenues and did not record any adjustments on January 1, 2018, related to this new guidance.

In February 2016, the FASB issued ASU 2016-02 “*Leases,*” which outlines a comprehensive lease accounting model and supersedes the current lease guidance. The new standard requires lessees to

recognize lease liabilities and corresponding right-of-use assets for all leases with lease terms of greater than twelve months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. In July 2018, the FASB issued ASU No. 2018-11 "*Leases (Topic 842): Targeted Improvements,"* which provides an alternative modified retrospective transition method. Under this method, the cumulative-effect adjustment to the opening balance of retained earnings is reocognized on the date of adoption. The new standard will be effective starting in the first quarter of 2019. Early adoption is permitted. We are currently evaluating the impact of this standard, but we do not believe this guidance will have a material effect on our financial position, results of operations or cash flows.

In August 2016, the FASB issued ASU No. 2016-15 *"Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments"* which provides guidance intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. We adopted ASU 2016-15 effective January 1, 2018. The adoption did not have any impact on our consolidated financial position, results of operations and cash flows.

In March 2018, the FASB issued ASU 2018-05 "*Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 ("SAB No. 118"), to state the income tax accounting implications of the Tax Cuts and Jobs Act ("New Tax Act")"* which clarifies the measurement period time frame, changes in subsequent reporting periods and reporting requirements as a result of the New Tax Act of 2017. In accordance with SAB No. 118, a company must reflect the income tax effects of those aspects of the New Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the New Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the New Tax Act. SAB No. 118 provides a measurement period that should not extend beyond one year and it begins in the period that includes the enactment date which was December 22, 2017. We have not completed the accounting for the income tax effects of certain elements of the New Tax Act. When additional guidance and regulations enable us to finalize certain tax positions, we will reflect the impact of this ASU 2018-05 on the tax provision and deferred tax calculation as of December 31, 2018.

NOTE 3 - DEBT AND CREDIT ARRANGEMENTS

Long-term debt consisted of the following:

	September 30, 2018	December 31, 2017
Note payable to Squadron	$ 20,000	$ 20,000
Revolving credit facility with Squadron	3,947	3,921
Mortgage payable to affiliate	1,447	1,531
Total debt	25,394	25,452
Less: current maturities	117	113
Long-term debt, net of current maturities	$ 25,277	$ 25,339

In May 2014, we entered into the Second Amended and Restated Loan and Security Agreement with Squadron in connection with a restructuring of our debt and equity. The terms of this agreement required monthly interest only payments computed at 10% per annum with all principal and unpaid interest due at maturity in May 2017 or earlier upon a change of control event, as defined in the agreement. The note payable was secured by substantially all of our assets. In November 2015, this agreement was amended to provide a revolving loan commitment of an additional $7,000. The revolving loan commitment was structured under the same terms and conditions with interest payable monthly computed at 10% per

annum and principal due at maturity in May 2017 or earlier upon a change of control event, as defined in the agreement.

In April 2017, we entered into the Third Amended and Restated Loan and Security Agreement with Squadron to provide an additional $16,000 revolving loan commitment and extend the maturity date on the note payable and revolving credit facility to May 31, 2019 with an automatic extension to May 31, 2020 if we meet certain revenue goals. The agreement was structured similarly to previous amendments with interest payable monthly computed at 11.0% per annum and included a $1,000 extension fee payable in three installments on the anniversary date of the agreement. The extension fee was recorded in full upon closing as a deferred financing cost within long-term debt with affiliate, net of current portion, and was to be recognized ratably over the term of the agreement as deferred financing charges within interest expense on the consolidated statements of operations assuming an IPO did not happen.

Effective December 31, 2017, we entered into a Fourth Amended and Restated Loan and Security Agreement, or the Loan Agreement, with Squadron. Pursuant to the Loan Agreement, we have consolidated a majority of the term loan amounts into a $20,000 term note and reestablished a $15,000 revolving credit facility. Also, $667 of the extension fee was cancelled as of the completion of our IPO in October 2017. Both facilities include interest only payments and will have an interest rate equal to the greater of (a) three month LIBOR plus 8.61%, or (b) 10.0%. The Loan Agreement also extended the maturity date to January 31, 2023. Borrowings under the Loan Agreement are secured by substantially all of our assets and are unconditionally guaranteed by each of our subsidiaries.

The fair value of our note payable to Squadron was estimated based on prices for the same or similar issues and the current interest rates offered for the debt of the same remaining maturities, which are considered level 2 inputs in accordance with ASC Topic 820, “*Fair Value Measurements and Disclosures*.” At September 30, 2018, the fair value approximated the carrying value.

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 December 31, 2017, the mortgage balance was $1,531 of which current principal due of $113 was included in current portion of long-term debt. At September 30, 2018, the mortgage balance was $1,447 of which current principal due of $117 was included in current portion of long-term debt.

Interest expense relating to notes payable to Squadron and Tawani was $608 and $761 for the three months ended September 30, 2018 and 2017, respectively, and $1,722 and $1,857 for the nine months ended September 30, 2018 and 2017, respectively.

NOTE 4 - STRATEGIC ARRANGEMENTS

Effective December 1, 2007, we entered into a ten-year agreement with Case Western Reserve University (“CASE”) to assist in certain aspects of our research and development. Effective August 2, 2017, we entered into an Amended and Restated License Agreement to account for additional licensed product and extend the agreement for another ten years. The main focus of this research and development involves leveraging our exclusive rights to the Hamann-Todd Collection of the Cleveland National History Museum, the world's largest pediatric osteological collection, to assist in the design of implants which match pediatric bone curvature and structure.

In exchange for services, CASE receives certain royalties and up-front fees. The royalties and certain fees are contingent upon our obtaining FDA approval and the launch of our products into the marketplace. CASE receives a minimum annual royalty of $10 or a royalty of 3% of net sales on products, whichever is

greater. Additionally, for each new product developed, CASE will receive milestone payments of $5 for FDA approval to sell our products within the United States and $10 for general product launch. Additionally, CASE receives a royalty of 3% of net sales on products fully developed and being sold in the marketplace.

The royalty expense recognized related to the CASE agreement is recorded as a component of cost of revenue and was $37 and $38 for the three months ended September 30, 2018 and 2017, respectively, and $108 and $111 for the nine months ended September 30, 2018 and 2017, respectively. At September 30, 2018 and December 31, 2017, $37 and $37, respectively, was due to CASE.

NOTE 5 - INCOME TAXES

For the three and nine month periods ended September 30, 2018 and 2017, we calculated the provision of income taxes by applying an estimate of the annual effective tax rate for the full fiscal year to the ordinary loss for the reporting period resulting in a zero tax provision consistent with prior periods.

The deferred tax assets were fully offset by a valuation allowance at September 30, 2018 and December 31, 2017, and no income tax benefit has been recognized in our condensed consolidated statements of operations for any of the periods presented. At December 31, 2017, we had available federal and state tax loss carryforwards of $70,335 and tax credits for federal and state tax purposes of $335 which begin to expire in 2028. Any losses incurred in 2018 and beyond do not expire. 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 $16,200 in losses generated prior to the ownership change date will be subject to potential limitation. The estimated annual limitation is $1,062, which is increased by $2,302 over the first five years as a result of an unrealized built in gain. The Section 382 ownership change analysis will be re–evaluated prior to release of the year-ending December 31, 2018 financial statements to account for equity ownership changes that occur during 2018.

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 December 31, 2017 and through September 30, 2018. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth.

NOTE 6 - 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, 2018	176,959	$ 29.42	2.0
Exercised	(11,533)	29.29	
Forfeited or expired	(50,652)	27.61	
Outstanding at September 30, 2018	114,774	$ 30.33	2.1

Options generally include a time-based vesting schedule permitting the options to vest ratably over no years. At September 30, 2018 and December 31, 2017, all options were fully vested.

There was no stock-based compensation expense on stock options for the three and nine month periods ended September 30, 2018 and 2017, respectively.

Restricted Stock

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

	Restricted Stock	Weighted-Average Remaining Contractual Terms (in Years)
Outstanding at January 1, 2018	548,005	0.3
Granted	175,541	
Forfeited	(1,335)	
Vested	(547,670)	
Outstanding at September 30, 2018	174,541	2.4
Restricted stock exercisable at September 30, 2018	—	

At September 30, 2018, there was $2,951 of unrecognized compensation expense remaining related to our service-based restricted stock awards. The unrecognized compensation cost was expected to be recognized over a weighted-average period of 2.4 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 $267 and $354 for the three months ended September 30, 2018 and 2017, respectively, and $2,899 and $1,081 for the nine months ended September 30, 2018 and 2017, respectively. Due to our limited operating history and lack of marketability before the IPO, a discount of 15% was applied when estimating the stock-based compensation expense on restricted stock granted in 2017.

Total stock-based compensation expense is included as a component of general and administrative expenses in our condensed consolidated statement of operations and was $267 and $354 for the three months ended September 30, 2018 and 2017, respectively, and $2,899 and $1,081 for the nine months ended September 30, 2018 and 2017, respectively.

Warrants

Our warrant activity and related information are summarized as follows:

	Warrants	Weighted-Average Exercise Price
Outstanding at January 1, 2018	44,101	$ 27.03
Forfeited or expired	(25,535)	26.55
Outstanding at September 30, 2018	18,566	$ 27.69

For all periods presented, the warrants were issued at exercise prices ranging from $26.27 to $30.97 per share. The warrants generally have a ten-year term. At September 30, 2018, no warrants had been exercised. At inception, no fair value was assigned to the warrants.

NOTE 7 – NET LOSS PER SHARE

The following is a reconciliation of basic and diluted net loss per share attributable to common stockholders:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$ (1,865)	$ (1,537)	$ (9,557)	$ (4,087)
Accretion of cumulative dividends of redeemable preferred stock to redemption value	—	(1,484)	—	(4,364)
Net loss attributable to common stockholders - basic and diluted	$ (1,865)	$ (3,021)	$ (9,557)	$ (8,451)
Weighted average number of shares - basic and diluted	12,624,858	1,773,385	12,417,972	1,754,576
Net loss per share attributable to common stockholders - basic and diluted	$ (0.15)	$ (1.70)	$ (0.77)	$ (4.82)

Our basic and diluted net loss per share is computed using the two-class method. 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.

Prior to the completion of our IPO on October 12, 2017, we had authorized 7,000,000 shares of redeemable convertible preferred stock, of which 3,649,475 were outstanding as of September 30, 2017, designated in series, with the rights and preferences of each series determined by the Board of Directors. Upon completion of our IPO, all of our previously outstanding shares of Series A and B Preferred Stock were converted into common stock on a 1:1 conversion ratio. As of September 30, 2018 and December 31, 2017, there are no redeemable convertible preferred shares outstanding. Series A and B preferred stock include rights to participate in dividends and distributions to common stockholders on an if-converted basis, and accordingly are also considered participating securities. During periods of undistributed losses however, no effect is given to our participating securities since they are not contractually obligated to share in the losses.

We have incurred a net loss for all periods presented, such that diluted net loss per common stock is the same as basic net loss per common stock. The following contingently issuable and convertible equity shares were excluded from the calculation of diluted net loss per share because their effect would have been anti-dilutive for all periods presented (shares for the redeemable convertible preferred shares for the nine months ended September 30, 2017 were determined based on the applicable conversion ratio of 1:1):

	As of September 30,	
	2018	2017
Redeemable convertible preferred stock - Series A	—	670,000
Redeemable convertible preferred stock - Series B	—	2,979,475
Restricted stock	174,541	704,770
Stock options	114,774	177,763
Warrants	18,566	44,101
	307,881	4,576,109

NOTE 8 – 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 disaggregate revenue from contracts with customers by operating segment. 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 individual customer accounted for more than 10% of total product sales for the three and nine months ended September 30, 2018 or 2017. No customer accounted for more than 10% of consolidated accounts receivable as of September 30, 2018 and December 31, 2017.

Product sales by source were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Product sales by geographic location:	2018	2017	2018	2017
U.S.	$ 12,421	$ 9,556	$ 32,532	$ 26,085
International	3,399	2,819	10,459	7,854
Total	$ 15,820	$ 12,375	$ 42,991	$ 33,939

	Three Months Ended September 30,		Nine Months Ended September 30,	
Product sales by category:	2018	2017	2018	2017
Trauma and deformity	$ 10,562	$ 8,730	$ 29,545	$ 24,339
Scoliosis	5,027	3,299	12,609	8,652
Sports medicine/other	231	346	837	948
Total	$ 15,820	$ 12,375	$ 42,991	$ 33,939

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, 2018 and 2017.

NOTE 9 - RELATED PARTY TRANSACTIONS

In addition to the debt and credit agreements and mortgage with Squadron and its affiliate (see Note 3), we currently use FMI Hansa Medical Products, LLC (“FMI”) and Structure Medical, LLC (“Structure Medical”) as two of our suppliers. Each of these entities is affiliated with Squadron. In 2017, FMI merged with and into Structure Medical. We do not have long-term contracts with either supplier. We made aggregate payments to Structure and FMI of $738 and $757 for the three months ended September 30, 2018 and 2017, respectively, and $3,004 and $1,862 for the nine months ended September 30, 2018 and 2017, respectively.

NOTE 10 - EMPLOYEE BENEFIT PLAN

We have a defined-contribution plan, OrthoPediatrics 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. Effective January 1, 2018, we have elected to match our employees' 401(k) contributions up to 3% of employees' salary.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

We are involved with various legal actions arising in the ordinary course of our activities. We accrue for those cases where the potential liability is estimable and probable. From time to time, we are involved in various legal proceedings arising in the ordinary course of our business. On January 20, 2017, K2M, Inc. filed suit against us in the United States District Court for the District of Delaware (K2M, Inc. v. OrthoPediatrics Corp. et al., Case No. 1:17-cv-0061) seeking unspecified damages for alleged infringement of U.S. Patent No. 9,532,816. The complaint was amended on August 21, 2017 to add, among other things, a claim of patent infringement regarding U.S. Patent No. 9,655,664. These patents relate to certain instruments used in our RESPONSE spine systems, which represent a portion of our total scoliosis portfolio. We have denied these claims and responded with counterclaims seeking declaratory relief that the patents in question are both invalid and not infringed. The parties attended a court-ordered mediation on October 24, 2017, which did not resolve the dispute, but as we move forward with this matter we welcome constructive discussions on a negotiated settlement. Nevertheless, we view our case as particularly strong and will continue to vigorously defend this matter. On January 8 and 22, 2018, we filed our first and second petitions for inter partes review ("IPR") with the United States Patent and Trademark Office's Patent Trial and Appeal Board ("PTAB") to challenge the patentability of U.S. Patent No. 9,532,816 (OrthoPediatrics Corp., v. K2M, Inc., Inter Partes Case Nos. IPR2018-00429 and IPR2018-00521). On June 28, 2018, the PTAB instituted the subject IPRs and set a trial date of February 20, 2019 for both IPRs. Additionally, the parties have agreed to stay the above-referenced district court proceedings pending the outcome of the subject IPR proceedings. The Court ordered the stay on July 10, 2018. Moreover, on August 21, 2018, we filed three petitions with PTAB to challenge the patentability of the above-referenced U.S. Patent No. 9,655,664 (OrthoPediatrics Corp., v. K2M, Inc., Inter Partes Case Nos. IPR2018-01546, IPR2018-01547, and IPR2018-01548). Although we believe that the K2M lawsuit is without merit and we will vigorously defend the claims asserted against us, intellectual property litigation can involve complex factual and legal questions, and an adverse resolution of this proceeding could have a material 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.

As of September 30, 2018, 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. Additionally, we have minimum royalty commitments of $500 annually through 2026.

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, 2018, 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."

Overview

We are the only medical device company focused exclusively on providing a comprehensive 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 $2.5 billion opportunity globally, including over $1.1 billion in the United States.

We sell implants and instruments 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, 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.

We currently market 25 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 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 33 independent sales agencies employing more than 130 sales representatives specifically focused on pediatrics, 86 of whom were full-time equivalents devoted to our sales activities. 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 38 countries, primarily through independent stocking distributors. 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 April 2017, we began to supplement our use of independent distributors with direct sales programs in the United Kingdom, Ireland, Australia and New Zealand and further expanded to Canada in September 2018. 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.

Emerging Growth Company and Smaller Reporting Company Status

The condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and reflect the financial position, results of operations, and cash flows of OrthoPediatrics Corp (the "Company," “we,” "our" or "us"). We qualify as an “emerging growth company” as defined in the Jumpstart Our Business Startups Act (the “JOBS Act”). 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, 2018 and 2017

The following table sets forth our results of operations for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	Increase (Decrease)	%	2018	2017	Increase	%
Net revenue	$ 15,820	$ 12,375	$ 3,445	28 %	$ 42,991	$ 33,939	$ 9,052	27 %
Cost of revenue	3,843	2,884	959	33 %	10,825	8,321	2,504	30 %
Sales and marketing expenses	7,150	5,633	1,517	27 %	20,005	15,122	4,883	32 %
General and administrative expenses	4,877	3,487	1,390	40 %	16,393	10,282	6,111	59 %
Research and development expenses	1,122	1,127	(5)	—%	3,455	2,482	973	39 %
Other expenses	693	781	(88)	(11)%	1,870	1,819	51	3 %
Net loss	$ (1,865)	$ (1,537)	$ 328	21 %	$ (9,557)	$ (4,087)	$ 5,470	134 %

Net Revenue

The following tables set forth our net revenue by geography and product category for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Product sales by geographic location:	2018	2017	2018	2017
U.S.	$ 12,421	$ 9,556	$ 32,532	$ 26,085
International	3,399	2,819	10,459	7,854
Total	$ 15,820	$ 12,375	$ 42,991	$ 33,939

	Three Months Ended September 30,		Nine Months Ended September 30,	
Product sales by category:	2018	2017	2018	2017
Trauma and deformity	$ 10,562	$ 8,730	$ 29,545	$ 24,339
Scoliosis	5,027	3,299	12,609	8,652
Sports medicine/other	231	346	837	948
Total	$ 15,820	$ 12,375	$ 42,991	$ 33,939

Net revenue increased $3.4 million, or 28%, from $12.4 million for the three months ended September 30, 2017 to $15.8 million for the three months ended September 30, 2018. The increase was due to trauma and deformity sales growth of $1.8 million, or 21%, primarily driven by sales of our PediNail and PediPlate products and scoliosis sales growth of $1.7 million, or 52%, primarily driven by sales of our RESPONSE and FIREFLY® Pedicle Screw Navigation Guides products, offset by a reduction in sports medicine/other sales of $0.1 million, or 33%. Nearly all the change in each category was due to an increase in the unit volume sold and not a result of price changes.

Net revenue increased $9.1 million, or 27%, from $33.9 million for the nine months ended September 30, 2017 to $43.0 million for the nine months ended September 30, 2018. The increase was due to trauma and deformity sales growth of $5.2 million, or 21%, primarily driven by sales of our PediNail, PediLoc, PediFrag and Locking Proximal Femur products, scoliosis sales growth of $4.0 million, or 46%, primarily driven by sales of our RESPONSE, FIREFLY® Pedicle Screw Navigation Guides and BandLoc products, offset by a reduction in sports medicine/other sales of $0.1 million, or 12%. Nearly all the increase in each category was due to an increase in the unit volume sold and not a result of price changes.

Cost of Revenue and Gross Margin

Cost of revenue increased $1.0 million, or 33%, from $2.9 million for the three months ended September 30, 2017 to $3.8 million for the three months ended September 30, 2018. The increase was due primarily to increased revenue volume as well as international sales, including sets. Gross margin was 77% for the three months ended September 30, 2017 and 76% for the three months ended September 30, 2018. The decrease was due primarily to a higher percentage of international sales, including sets.

Cost of revenue increased $2.5 million, or 30%, from $8.3 million for the nine months ended September 30, 2017 to $10.8 million for the nine months ended September 30, 2018. The increase was due primarily to increased revenue volume as well as international sales, including sets. Gross margin was 75% for the nine months ended September 30, 2017 and 75% for the nine months ended September 30, 2018.

Sales and Marketing Expenses

Sales and marketing expenses increased $1.5 million, or 27%, from $5.6 million for the three months ended September 30, 2017 to $7.2 million for the three months ended September 30, 2018. Sales and marketing expenses increased $4.9 million, or 32%, from $15.1 million for the nine months ended September 30, 2017 to $20.0 million for the nine months ended September 30, 2018. The increase was due primarily to increased sales commission expenses, driven by the increase in unit volume sold, the addition of commission expense for United Kingdom, Australia and New Zealand as well as marketing expenses.

General and Administrative Expenses

General and administrative expenses increased $1.4 million, or 40%, from $3.5 million for the three months ended September 30, 2017 to $4.9 million for the three months ended September 30, 2018. General and administrative expenses increased $6.1 million, or 59%, from $10.3 million for the nine months ended September 30, 2017 to $16.4 million for the nine months ended September 30, 2018. The increase was due primarily to additional stock compensation expense associated with the accelerated vesting of our restricted stock following our IPO, increased legal expense and the addition of personnel and resources to support the growth of our business. Depreciation and amortization expenses increased $0.1 million, or 16%, from $0.7 million for the three months ended September 30, 2017 to $0.8 million for the three months ended September 30, 2018 and increased $0.4 million, or 21%, for the nine months ended September 30, 2017 from $1.7 million for the nine months ended September 30, 2017 to $2.1

million for the nine months ended September 30, 2018. The increase was primarily due to increased investments in consigned surgical instrument sets and amortization on intangible licenses.

Research and Development Expenses

Research and development expenses remained flat at $1.1 million for the three months ended September 30, 2017 and 2018. Research and development expenses increased $1.0 million, or 39%, from $2.5 million for the nine months endedSeptember 30, 2017 to $3.5 million for the nine months ended September 30, 2018. The increase was driven by incremental product development including the addition of personnel and the growth of our business.

Other Expenses

Other expenses were $0.7 million and $0.8 million for the three months ended September 30, 2018 and 2017, respectively, and other expenses were $1.9 million and $1.8 million for the nine months ended September 30, 2018 and 2017, respectively. Other expenses consist primarily of interest expense on our long-term debt.

Liquidity and Capital Resources

We have incurred operating losses since inception which resulted in negative cash flows from operating activities of $12.9 million and $3.9 million for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, we had an accumulated deficit of $112.6 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, 2018, we had cash and cash equivalents of $24.5 million.

We believe our existing cash and cash equivalents and amounts available under our revolving credit facility cash receipts from sales of our products will be sufficient to meet our anticipated cash requirements for more than the next twelve months.

Cash Flows

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

	For the Nine Months Ended September 30,	
	2018	2017
Net cash used in operating activities	$ (12,855)	$ (3,894)
Net cash used in investing activities	(5,506)	(5,286)
Net cash provided by financing activities	242	9,809
Net (decrease) increase in cash and cash equivalents	$ (18,119)	$ 629

Cash Used in Operating Activities

Net cash used in operating activities was $12.9 million and $3.9 million for the nine months ended September 30, 2018 and 2017, 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 years. Net cash used for working capital was $8.4 million and $2.6 million for the nine months ended September 30, 2018 and 2017, respectively. During the nine months ended September 30, 2018, the primary driver of working capital cash usage was the increase in inventory of $6.1 million and accounts receivable of $4.1 million.

Cash Used in Investing Activities

Net cash used in investing activities was $5.5 million and $5.3 million for the nine months ended September 30, 2018 and 2017, respectively. Net cash used in investing activities consisted primarily of purchases of instrument sets, which were consigned in the United States, United Kingdom, Australia and New Zealand, of $5.3 million and $3.9 million for the nine months ended September 30, 2018 and 2017, respectively. We also purchased an additional $0.2 million and $1.3 million in new product licenses during the nine months ended September 30, 2018 and 2017, respectively.

Cash Provided By Financing Activities

Net cash provided by financing activities was $0.2 million and $9.8 million for the nine months ended September 30, 2018 and 2017, respectively. Net cash provided by financing activities consisted primarily of the payment of $84 thousand and $80 thousand in mortgage payments in the nine months ended September 30, 2018 and 2017, respectively. During the nine months ended September 30, 2018, these payments were offset by $0.3 million of proceeds received from the exercise of stock options. During the nine months ended September 30, 2017, these payments were offset by net borrowings of $10.1 million on our revolving credit facility with an affiliate.

Indebtedness

Loan Agreement

Effective December 31, 2017, we entered into a Fourth Amended and Restated Loan and Security Agreement (the "Loan Agreement" with Squadron Capital LLC (the "Lender"). Under the terms of the Loan Agreement, the Lender has provided to us a term loan in the principal amount of $20.0 million and a revolving loan in an aggregate principal amount that will not exceed $15.0 million. Interest on the term loan and revolving loan will accrue at the greater of (a) three month LIBOR plus 8.61% or (b) 10.0% (the "Applicable Rate") and will be payable monthly by us. The Loan Agreement expires in January 2023.

The Loan Agreement amends and restates the Third Amended and Restated Loan and Security Agreement between the Lender and us, dated April 26, 2017, the Amended and Restated Term Note A, dated April 26, 2017 and the Term Note B, dated as of April 26, 2017, by (a) consolidating the prior term note amounts into a $20.0 million term note and reestablishing a $15.0 million revolving loan, (b) changing the interest rate on the term note and the revolving loan to the Applicable Rate (compared to the previous rate of 10.0% for the term note and 11.0% for the revolving credit facility), and (c) extending the loan period through January 31, 2023, except as accelerated pursuant to the Loan Agreement (compared to the previous maturity of May 31, 2019 or 2020 depending on revenue).

At September 30, 2018, we had approximately $23.9 million in outstanding indebtedness under the Loan Agreement. Borrowings under the Loan Agreement are secured by substantially all of our assets and are unconditionally guaranteed by each of our subsidiaries.

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 $250,000. The occurrence of a material adverse change could result in the acceleration of payment of the debt.

We are obligated to make monthly interest-only payments on the term loan facilities until the earlier of: (i) a transaction pursuant to which any person acquires (a) shares of our capital stock possessing the voting power to elect a majority of our board of directors or (b) all or substantially all of our assets on a consolidated basis; or (ii) January 31, 2023, at which point the term loan credit facilities, plus all accrued, unpaid interest thereon, will become due.

We may prepay the term loan facility in whole or in part without premium or penalty upon ten days' prior written notice to Squadron.

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 Managing Committee. Pursuant to the terms of the mortgage note, we pay Tawani Enterprises Inc. monthly principal and interest installments of $15,543, 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 $1.4 million and $1.5 million at September 30, 2018 and December 31, 2017, 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.

For further information regarding our critical accounting policies, see "Note 2 - Significant Accounting Policies" of notes to condensed consolidated financial statements and our critical accounting policies within the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Form 10-K filed with the SEC on March 15, 2018. There have been no material changes, other than the adoption of Accounting Standards Codification 606 "*Revenue from Contracts with Customers"* during the three and nine months ended September 30, 2018.

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).

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. On January 20, 2017, K2M, Inc. filed suit against us in the United States District Court for the District of Delaware (K2M, Inc. v. OrthoPediatrics Corp. et al., Case No. 1:17-cv-0061) seeking unspecified damages for alleged infringement of U.S. Patent No. 9,532,816. The complaint was amended on August 21, 2017 to add, among other things, a claim of patent infringement regarding U.S. Patent No. 9,655,664. These patents relate to certain instruments used in our RESPONSE spine systems, which represent a portion of our total scoliosis portfolio. We have denied these claims and responded with counterclaims seeking declaratory relief that the patents in question are both invalid and not infringed. The parties attended a court-ordered mediation on October 24, 2017, which did not resolve the dispute, but as we move forward with this matter we welcome constructive discussions on a negotiated settlement. Nevertheless, we view our case as particularly strong and will continue to vigorously defend this matter. On January 8 and 22, 2018, we filed our first and second petitions for inter partes review ("IPR") with the United States Patent and Trademark Office's Patent Trial and Appeal Board ("PTAB") to challenge the patentability of U.S. Patent No. 9,532,816 (OrthoPediatrics Corp., v. K2M, Inc., Inter Partes Case Nos. IPR2018-00429 and IPR2018-00521). On June 28, 2018, the PTAB instituted the subject IPRs and set a trial date of February 20, 2019 for both IPRs. Additionally, the parties have agreed to stay the above-referenced district court proceedings pending the outcome of the subject IPR proceedings. The Court ordered the stay on July 10, 2018. Moreover, on August 21, 2018, we filed three petitions with PTAB to challenge the patentability of the above-referenced U.S. Patent No. 9,655,664 (OrthoPediatrics Corp., v. K2M, Inc., Inter Partes Case Nos. IPR2018-01546, IPR2018-01547, and IPR2018-01548). Although we believe that the K2M lawsuit is without merit and we will vigorously defend the claims asserted against us, intellectual property litigation can involve complex factual and legal questions, and an adverse resolution of this proceeding could have a material adverse effect on our business, operating results and financial condition. See “Risk Factors — Risks Related to Intellectual Property — Litigation or other proceedings or third-party claims of intellectual property infringement could require us to spend significant time and money and could prevent us from selling our products or impact our stock price” within our Annual Report on Form 10-K filed with the SEC on March 15, 2018.

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 have a material adverse effect on our business, operating results or financial condition.

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 15, 2018. In connection with our status as a “smaller reporting company,” we are including a revised risk factor below, which updates and supersedes the corresponding risk factor relating to certain reduced disclosure requirements discussed in our Annual Report on Form 10-K (under “– Risks Related to Ownership of Our Common Stock”), and should be read in conjunction with the other “Risk Factors” discussed in such Annual Report.

We are an “emerging growth company” and a “smaller reporting company” and the reduced disclosure requirements applicable to us could make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act. We may remain an emerging growth company until as late as December 31, 2022, though we may cease to be an emerging growth company earlier under certain circumstances, including (i) if the market value of our common stock that is held by non-affiliates exceeds $700.0 million as of any June 30, in which case we would cease to be an emerging

growth company as of the following December 31, or (ii) if our gross revenue exceeds $1.07 billion in any fiscal year. “Emerging growth companies” may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies, including not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. Investors could find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

In addition, Section 102 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, for complying with new or revised accounting standards. An emerging growth company can therefore delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we have chosen to “opt out” of such extended transition period, and as a result, we comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

We are also a “smaller reporting company,” as such term is defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended. As a result, many of the same exemptions from reporting requirements available to us as an emerging growth company are also available to us as a smaller reporting company, including not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act and reduced disclosure obligations regarding executive compensation. To the extent that we continue to qualify as a smaller reporting company, after we cease to qualify as an emerging growth company, those exemptions may continue to be available to us. Some investors may find our common stock less attractive because we rely on these exemptions, there may be a less active trading market for our common stock and our stock price may be more volatile.

ITEM 6. EXHIBITS

The exhibits filed as part of this quarterly report are set forth on the Exhibit Index, which is incorporated herein by reference.

EXHIBIT INDEX

Exhibit Number		Description
3.1		Amended and Restated Certificate of Incorporation of OrthoPediatrics 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 OrthoPediatrics 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)
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		Second Amended and Restated Term Note A, by and among the registrant, its subsidiaries and Squadron, dated as of December 31, 2017 (Incorporated by reference to Exhibit 10.2 of registrant's Form 8-K filed on January 8, 2018) (SEC File No. 001-38242)
10.3		Revolving Note, by and among the registrant, its subsidiaries and Squadron, dated as of December 31, 2017 (Incorporated by reference to Exhibit 10.3 of registrant's Form 8-K filed on January 8, 2018) (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	++	XBRL Instance Document
101.SCH	++	XBRL Taxonomy Extension Schema Document
101.CAL	++	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	++	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	++	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	++	XBRL Taxonomy Extension Presentation Linkbase Document

+ Exhibits that are filed with this Report (other than through incorporation by reference to other disclosures or exhibits).

++ Furnished and not filed 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.

ORTHOPEDIATRICS CORP.

October 31, 2018

By: /s/ Mark C. Throdahl
Mark C. Throdahl
President and Chief Executive Officer

October 31, 2018

By: /s/ Fred L. Hite
Fred L. Hite
Chief Financial 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, Mark C. Throdahl, 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/ Mark C. Throdahl
Mark C. Throdahl
President and Chief Executive Officer
(Principal Executive Officer)

Date: October 31, 2018

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
(Principal Financial Officer)

Date: October 31, 2018

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 OrthoPediatrics Corp. (the "Company") for the quarterly period ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Mark C. Throdahl, President and 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/ Mark C. Throdahl
Mark C. Throdahl
President and Chief Executive Officer
(Principal Executive Officer)

Date: October 31, 2018

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 OrthoPediatrics Corp. (the "Company") for the period ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Fred L. Hite, Chief Financial 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
(Principal Financial Officer)

Date: October 31, 2018